UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2022
OR

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

For the transition period from _________ to _________

ARMOUR RESIDENTIAL REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland	**001-34766**	**26-1908763**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

3001 Ocean Drive, Suite 201, Vero Beach, FL 32963

(Address of principal executive offices)(zip code)

(772) 617-4340

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading symbols	Name of Exchange on which registered
Preferred Stock, 7.00% Series C Cumulative Redeemable	ARR-PRC	New York Stock Exchange
Common Stock, $0.001 par value	ARR	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically 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, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by a 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 whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of outstanding shares of the Registrant's common stock as of April 26, 2022 was 103,170,033.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

ARMOUR Residential REIT, Inc.
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(in thousands, except per share)

	March 31, 2022	December 31, 2021
Assets		
Cash	$ 316,852	$ 337,664
Cash collateral posted to counterparties	9,297	18,552
Investments in securities, at fair value		
Agency Securities (including pledged securities of $5,554,860 at March 31, 2022 and $3,995,804 at December 31, 2021)	6,399,346	4,406,521
U.S. Treasury Securities (including pledged securities of $1,104,970 at March 31, 2022 and $98,859 at December 31, 2021)	1,258,020	198,833
Derivatives, at fair value	543,229	199,073
Accrued interest receivable	17,412	10,570
Prepaid and other	57,733	1,094
Subordinated loan to BUCKLER	105,000	105,000
Total Assets	$ 8,706,889	$ 5,277,307
Liabilities and Stockholders' Equity		
Liabilities:		
Repurchase agreements	$ 6,440,004	$ 3,948,037
Cash collateral posted by counterparties	549,658	171,060
Payable for unsettled purchases	687,250	—
Derivatives, at fair value	531	10,900
Accrued interest payable- repurchase agreements	964	944
Accounts payable and other accrued expenses	6,547	2,727
Total Liabilities	$ 7,684,954	$ 4,133,668
Commitments and contingencies (Note 8)		
Stockholders' Equity:		
Preferred stock, $0.001 par value, 50,000 shares authorized; 7.00% Series C Cumulative Preferred Stock; 6,847 shares issued and outstanding ($25.00 per share liquidation preference)	7	7
Common stock, $0.001 par value, 200,000 shares authorized; 100,361 shares and 94,152 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively.	100	94
Additional paid-in capital	3,458,492	3,403,127
Cumulative distributions to stockholders	(1,870,058)	(1,837,955)
Accumulated net loss	(595,041)	(528,607)
Accumulated other comprehensive income	28,435	106,973
Total Stockholders' Equity	$ 1,021,935	$ 1,143,639
Total Liabilities and Stockholders' Equity	$ 8,706,889	$ 5,277,307

See financial statement notes (unaudited).

ARMOUR Residential REIT, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share)

	For the Three Months Ended March 31,	
	2022	2021
Interest Income:		
Agency Securities, net of amortization of premium and fees	$ 27,681	$ 18,558
U.S. Treasury Securities	5,641	—
BUCKLER Subordinated loan	19	17
Total Interest Income	$ 33,341	$ 18,575
Interest expense- repurchase agreements	(2,406)	(2,427)
Interest expense- U.S. Treasury Securities sold short	—	(87)
Net Interest Income	$ 30,935	$ 16,061
Other Income (Loss):		
Realized gain on sale of available for sale Agency Securities (reclassified from Other Comprehensive Loss)	—	7,354
Loss on Agency Securities, trading	(254,389)	(62,586)
Loss on U.S. Treasury Securities	(78,387)	—
Loss on short sale of U.S. Treasury Securities	—	(28)
Subtotal	$ (332,776)	$ (55,260)
Realized loss on derivatives [(1)]	(102,065)	(27,360)
Unrealized gain on derivatives	346,699	145,980
Subtotal	$ 244,634	$ 118,620
Total Other Income (Loss)	$ (88,142)	$ 63,360
Expenses:		
Management fees	8,140	7,437
Professional fees	620	738
Insurance	200	193
Compensation	1,409	1,676
Other	808	450
Total Expenses	$ 11,177	$ 10,494
Less management fees waived	(1,950)	(2,400)
Total Expenses after fees waived	$ 9,227	$ 8,094
Net Income (Loss)	$ (66,434)	$ 71,327
Dividends on preferred stock	(2,995)	(2,486)
Net Income (Loss) available (related) to common stockholders	$ (69,429)	$ 68,841

(Continued)

ARMOUR Residential REIT, Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(in thousands, except per share)

	For the Three Months Ended March 31,	
	2022	2021
Net Income (Loss) per share available (related) to common stockholders (Note 11):		
Basic	$ (0.72)	$ 1.04
Diluted	$ (0.72)	$ 1.03
Dividends declared per common share	$ 0.30	$ 0.30
Weighted average common shares outstanding:		
Basic	96,226	65,964
Diluted	96,226	67,018

(1) Interest expense related to our interest rate swap contracts is recorded in realized loss on derivatives on the consolidated statements of operations. For additional information, see financial statement Note 7.

See financial statement notes (unaudited).

ARMOUR Residential REIT, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(in thousands)

	For the Three Months Ended March 31,	
	2022	2021
Net Income (Loss)	$ (66,434)	$ 71,327
Other comprehensive loss:		
Reclassification adjustment for realized gain on sale of available for sale Agency Securities	—	(7,354)
Net unrealized loss on available for sale Agency Securities	(78,538)	(34,880)
Other Comprehensive Loss	$ (78,538)	$ (42,234)
Comprehensive Income (Loss)	$ (144,972)	$ 29,093

See financial statement notes (unaudited).

ARMOUR Residential REIT, Inc.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
(in thousands)

	Shares		Par						
	Preferred Stock	Common Stock	Preferred Stock	Common Stock	Additional Paid-in Capital	Cumulative Distributions to Stockholders	Accumulated Net Loss	Accumulated Other Comprehensive Income (Loss)	Total Stockholders'Equity
Balance, December 31, 2021	6,847	94,152	$ 7	$ 94	$3,403,127	$ (1,837,955)	$ (528,607)	$ 106,973	$ 1,143,639
Comprehensive Income (loss)	—	—	—	—	—	—	(66,434)	(78,538)	(144,972)
Issuance of common stock, net	—	6,162	—	6	54,430	—	—	—	54,436
Stock based compensation, net of withholding requirements	—	47	—	—	935	—	—	—	935
Preferred stock dividends	—	—	—	—	—	(2,995)	—	—	(2,995)
Common stock dividends	—	—	—	—	—	(29,108)	—	—	(29,108)
Balance, March 31, 2022	6,847	100,361	$ 7	$ 100	$3,458,492	$ (1,870,058)	$ (595,041)	$ 28,435	$ 1,021,935

See financial statement notes (unaudited).

ARMOUR Residential REIT, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	For the Three Months Ended March 31,	
	2022	2021
Cash Flows From Operating Activities:		
Net Income (Loss)	$ (66,434)	$ 71,327
Adjustments to reconcile net income (loss) to net cash and cash collateral posted to counterparties provided by (used in) operating activities:		
Net amortization of premium on Agency Securities	7,486	15,795
Net amortization (accretion) of U.S. Treasury Securities	(801)	—
Realized gain on sale of Agency Securities, available for sale	—	(7,354)
Loss on Agency Securities, trading	254,389	62,586
Loss on U.S. Treasury Securities	78,387	—
Loss on short sale of U.S. Treasury Securities	—	28
Stock based compensation	935	1,199
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(6,064)	1,952
Increase in prepaid and other assets	(917)	(7,715)
Change in derivatives, at fair value	(354,525)	(117,813)
Increase (decrease) in accrued interest payable- repurchase agreements	20	(610)
Increase in accounts payable and other accrued expenses	3,820	1,802
Net cash and cash collateral posted to counterparties provided by (used in) operating activities	$ (83,704)	$ 21,197
Cash Flows From Investing Activities:		
Purchases of Agency Securities	(1,778,122)	—
Purchases of U.S. Treasury Securities	(2,654,611)	(390,126)
Principal repayments of Agency Securities	131,356	278,722
Proceeds from sales of Agency Securities	—	405,050
Proceeds from sales of U.S. Treasury Securities	1,470,125	390,098
Disbursements on reverse repurchase agreements	—	(391,125)
Receipts from reverse repurchase agreements	—	391,125
Increase in cash collateral posted by counterparties	378,598	120,426
Net cash and cash collateral posted to counterparties provided by (used in) investing activities	$ (2,452,654)	$ 804,170
Cash Flows From Financing Activities:		
Issuance of Series C Preferred stock, net of expenses	—	28,173
Issuance of common stock, net of expenses	46,427	52,960
Proceeds from repurchase agreements	16,191,551	7,044,307
Principal repayments on repurchase agreements	(13,699,584)	(7,769,582)
Series C Preferred stock dividends paid	(2,995)	(2,486)
Common stock dividends paid	(29,108)	(20,057)
Net cash and cash collateral posted to counterparties provided by (used in) financing activities	$ 2,506,291	$ (666,685)
Net increase (decrease) in cash and cash collateral posted to counterparties	(30,067)	158,682
Cash and cash collateral posted to counterparties - beginning of period	356,216	171,668
Cash and cash collateral posted to counterparties - end of period	$ 326,149	$ 330,350

(Continued)

ARMOUR Residential REIT, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	For the Three Months Ended March 31,		
		2022	2021
Supplemental Disclosure:			
Cash paid during the period for interest	$	19,371	4,193
Non-Cash Investing Activities:			
Receivable for unsettled sales	$	47,713	358,670
Payable for unsettled purchases	$	(687,250)	(295,991)
Net unrealized loss on available for sale Agency Securities	$	(78,538)	(34,880)
Non-Cash Financing Activities:			
Amounts receivable for issuance of common stock	$	8,009	—

See financial statement notes (unaudited).

Note 1 - Organization and Nature of Business Operations

References to "we," "us," "our," or the "Company" are to ARMOUR Residential REIT, Inc. ("ARMOUR") and its subsidiaries. References to "ACM" are to ARMOUR Capital Management LP, a Delaware limited partnership. ARMOUR owns a 10.0% equity interest in BUCKLER Securities LLC ("BUCKLER"). BUCKLER is a Delaware limited liability company and a FINRA-regulated broker-dealer, controlled by ACM and certain executive officers of ARMOUR. Refer to the Glossary of Terms for definitions of capitalized terms and abbreviations used in this report.

ARMOUR is an externally managed Maryland corporation incorporated in 2008. The Company is managed by ACM, an investment advisor registered with the Securities and Exchange Commission (the "SEC"), (see Note 8 - Commitments and Contingencies and Note 14 - Related Party Transactions). We have elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended (the "Code"). Our qualification as a REIT depends on our ability to meet, on a continuing basis, various complex requirements under the Code relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the concentration of ownership of our capital stock. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code and our manner of operations enables us to meet the requirements for taxation as a REIT for federal income tax purposes. As a REIT, we will generally not be subject to federal income tax on the REIT taxable income that we currently distribute to our stockholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we will be subject to federal income tax at regular corporate rates. Even if we qualify as a REIT for U.S. federal income tax purposes, we may still be subject to some federal, state and local taxes on our income.

At March 31, 2022 and December 31, 2021, we invested in mortgage backed securities ("MBS"), issued or guaranteed by a United States ("U.S.") Government-sponsored entity ("GSE"), such as the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac"), or a government agency such as Government National Mortgage Administration ("Ginnie Mae") (collectively, "Agency Securities"). Our Agency Securities consist primarily of fixed rate loans. The remaining are either backed by hybrid adjustable rate or adjustable rate loans. From time to time we have also invested in Credit Risk and Non-Agency Securities, Interest-Only Securities, U.S. Treasury Securities and money market instruments.

Note 2 - Basis of Presentation and Consolidation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X promulgated by the SEC. Accordingly, the condensed financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2022 are not necessarily indicative of the results that may be expected for the calendar year ending December 31, 2022. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2021.

The unaudited consolidated financial statements include the accounts of ARMOUR Residential REIT, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated. The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates affecting the accompanying condensed consolidated financial statements include the valuation of MBS, including an assessment of the allowance for credit losses, and derivative instruments.

Note 3 - Summary of Significant Accounting Policies

Cash

Cash includes cash on deposit with financial institutions. We may maintain deposits in federally insured financial institutions in excess of federally insured limits. However, management believes we are not exposed to significant credit risk due to the financial position and creditworthiness of the depository institutions in which those deposits are held.

Cash Collateral Posted To/By Counterparties

Cash collateral posted to/by counterparties represents cash posted by us to counterparties or posted by counterparties to us as collateral. Cash collateral posted to/by counterparties may include collateral for interest rate swap contracts, interest rate swaptions, basis swap contracts, futures contracts, repurchase agreements on our MBS and our Agency Securities purchased or sold on a to-be-announced basis ("TBA Agency Securities").

Investments in Securities, at Fair Value

Our investments in securities are generally classified as either available for sale or trading securities. Management determines the appropriate classifications of the securities at the time they are acquired and evaluates the appropriateness of such classifications at each balance sheet date.

Available for Sale Securities represent investments that we intend to hold for extended periods of time and are reported at their estimated fair values with unrealized gains and losses excluded from earnings and reported as part of the consolidated statements of comprehensive income (loss).

Trading Securities are reported at their estimated fair values with gains and losses included in Other Income (Loss) as a component of the consolidated statements of operations.

Receivables and Payables for Unsettled Sales and Purchases

We account for purchases and sales of securities on the trade date, including purchases and sales for forward settlement. Receivables and payables for unsettled trades represent the agreed trade price multiplied by the outstanding balance of the securities at the balance sheet date.

Accrued Interest Receivable and Payable

Accrued interest receivable includes interest accrued between payment dates on securities and interest on unsettled sales of securities. Accrued interest payable includes interest on unsettled purchases of securities and interest on repurchase agreements. At certain times, we may have interest payable on U.S. Treasury Securities sold short.

Repurchase Agreements

We finance the acquisition of the majority of our MBS through the use of repurchase agreements. Our repurchase agreements are secured by our MBS and bear interest rates that have historically moved in close relationship to the Federal Funds Rate and short-term London Interbank Offered Rate ("LIBOR") (prior to its dissolution), and more recently the Secured Overnight Funding Rate ("SOFR"). Under these repurchase agreements, we sell MBS to a lender and agree to repurchase the same MBS in the future for a price that is higher than the original sales price. The difference between the sales price that we receive and the repurchase price that we pay represents interest paid to the lender, which accrues over the life of the repurchase agreement. A repurchase agreement operates as a financing arrangement under which we pledge our MBS as collateral to secure a loan which is equal in value to a specified percentage of the estimated fair value of the pledged collateral. We retain beneficial ownership of the pledged collateral. At the maturity of a repurchase agreement, we are required to repay the loan and concurrently receive back our pledged collateral from the lender or, with the consent of the lender, we may renew such agreement at the then prevailing interest rate. The repurchase agreements may require us to pledge additional assets to the lender in the event the estimated fair value of the existing pledged collateral declines.

In addition to the repurchase agreement financing discussed above, at certain times we have entered into reverse repurchase agreements with certain of our repurchase agreement counterparties. Under a typical reverse repurchase agreement, we purchase U.S. Treasury Securities from a borrower in exchange for cash and agree to sell the same securities in the future in exchange for a price that is higher than the original purchase price. The difference between the purchase price originally paid and the sale price represents interest received from the borrower. Reverse repurchase agreement receivables and repurchase agreement liabilities are presented net when they meet certain criteria, including being with the same counterparty, being governed by the same master repurchase agreement ("MRA"), settlement through the same brokerage or clearing account and maturing on the same day. We did not have any reverse repurchase agreements outstanding at March 31, 2022 and December 31, 2021.

Derivatives, at Fair Value

We recognize all derivatives individually as either assets or liabilities at fair value on our consolidated balance sheets. All changes in the fair values of our derivatives are reflected in our consolidated statements of operations. We designate derivatives as hedges for tax purposes and any unrealized derivative gains or losses would not affect our distributable net taxable income. These transactions may include interest rate swap contracts, interest rate swaptions, basis swap contracts and futures contracts.

We also may utilize forward contracts for the purchase or sale of TBA Agency Securities. We account for TBA Agency Securities as derivative instruments if it is reasonably possible that we will not take or make physical delivery of the Agency Security upon settlement of the contract. We account for TBA dollar roll transactions as a series of derivative transactions. We may also purchase and sell TBA Agency Securities as a means of investing in and financing Agency Securities (thereby increasing our “at risk” leverage) or as a means of disposing of or reducing our exposure to Agency Securities (thereby reducing our “at risk” leverage). We agree to purchase or sell, for future delivery, Agency Securities with certain principal and interest terms and certain types of collateral, but the particular Agency Securities to be delivered are not identified until shortly before the TBA settlement date. We may also choose, prior to settlement, to move the settlement of these securities out to a later date by entering into an offsetting short or long position (referred to as a “pair off”), net settling the paired off positions for cash, and simultaneously purchasing or selling a similar TBA Agency Security for a later settlement date. This transaction is commonly referred to as a “dollar roll.” When it is reasonably possible that we will pair off a TBA Agency Security, we account for that contract as a derivative.

Impairment of Assets

We assess impairment of available for sale securities at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. We consider an impairment if we (1) intend to sell the available for sale securities, or (2) believe it is more likely than not that we will be required to sell the securities before recovery (for example, because of liquidity requirements or contractual obligations) and a credit impairment exists where fair value is less than amortized cost. Impairment losses recognized establish a new cost basis for the related available for sale securities.

Revenue Recognition

Interest income is earned and recognized on Agency Securities based on their unpaid principal amounts and their contractual terms. Recognition of interest income commences on the settlement date of the purchase transaction and continues through the settlement date of the sale transaction. Premiums and discounts associated with the purchase of Multi-Family MBS, which are generally not subject to prepayment, are amortized or accreted into interest income over the contractual lives of the securities using a level yield method. Premiums and discounts associated with the purchase of other Agency Securities are amortized or accreted into interest income over the actual lives of the securities, reflecting actual prepayments as they occur. Purchase and sale transactions (including TBA Agency Securities) are recorded on the trade date to the extent it is probable that we will take or make timely physical delivery of the related securities. Gains or losses realized from sales of available for sale securities are reclassified into income from other comprehensive income and are determined using the specific identification method.

Interest income on U.S. Treasury Securities is recognized based on their unpaid principal amounts and their contractual terms. Recognition of interest income commences on the settlement date of the purchase transaction and continues through the settlement date of the sale transaction.

Comprehensive Income (Loss)

Comprehensive income (loss) refers to the sum of net income and other comprehensive income (loss). It represents all changes in equity during a period from transactions and other events from non-owner sources. It excludes all changes in equity during a period resulting from investments by owners and distributions to owners.

Note 4 - Fair Value of Financial Instruments

Our valuation techniques for financial instruments use observable and unobservable inputs. Observable inputs reflect readily obtainable data from third-party sources, while unobservable inputs reflect management's market assumptions. The Accounting Standards Codification Topic No. 820, "Fair Value Measurement," classifies these inputs into the following hierarchy:

Level 1 Inputs - Quoted prices for identical instruments in active markets.

Level 2 Inputs - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs - Prices determined using significant unobservable inputs. Unobservable inputs may be used in situations where quoted prices or observable inputs are unavailable (for example, when there is little or no market activity for an investment at the end of the period). Unobservable inputs reflect management's assumptions about the factors that market participants would use in pricing an asset or liability and would be based on the best information available.

At the beginning of each quarter, we assess the assets and liabilities that are measured at fair value on a recurring basis to determine if any transfers between levels in the fair value hierarchy are needed.

The following describes the valuation methodologies used for our assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy. Any transfers between levels are assumed to occur at the beginning of the reporting period.

Investments in Securities

Fair value for our investments in securities are based on obtaining a valuation for each security from third-party pricing services and/or dealer quotes. The third-party pricing services use common market pricing methods that may include pricing models that may incorporate such factors as coupons, prepayment speeds, spread to the Treasury curves and interest rate swap curves, duration, periodic and life caps and credit enhancement. If the fair value of a security is not available from the third-party pricing services or such data appears unreliable, we obtain pricing indications from up to three dealers who make markets in similar securities. Management reviews pricing used to ensure that current market conditions are properly reflected. This review includes, but is not limited to, comparisons of similar market transactions or alternative third-party pricing services, dealer pricing indications and comparisons to a third-party pricing model. Fair values obtained from the third-party pricing services for similar instruments are classified as Level 2 securities if the inputs to the pricing models used are consistent with the Level 2 definition. If quoted prices for a security are not reasonably available from the third-party pricing service, but dealer pricing indications are, the security will be classified as a Level 2 security. If neither is available, management will determine the fair value based on characteristics of the security that we receive from the issuer and based on available market information and classify it as a Level 3 security. U.S. Treasury Securities are classified as Level 1, as quoted unadjusted prices are available in active markets for identical assets.

(in thousands, except per share)

Derivatives

The fair values of our interest rate swap contracts, interest rate swaptions, basis swaps and futures contracts are valued using information provided by third-party pricing services that incorporate common market pricing methods that may include current interest rate curves, forward interest rate curves and market spreads to interest rate curves and are classified as Level 2. We estimate the fair value of TBA Agency Securities based on similar methods used to value our Agency Securities and they are classified as Level 2. Management compares the pricing information received to dealer quotes to ensure that the current market conditions are properly reflected.

The following tables provide a summary of our assets and liabilities that are measured at fair value on a recurring basis at March 31, 2022 and December 31, 2021.

March 31, 2022	Level 1	Level 2	Level 3	Balance
Assets at Fair Value:				
Agency Securities	$ —	$ 6,399,346	$ —	$ 6,399,346
U.S. Treasury Securities	$ 1,258,020	$ —	$ —	$ 1,258,020
Derivatives	$ —	$ 543,229	$ —	$ 543,229
Liabilities at Fair Value:				
Derivatives	$ —	$ 531	$ —	$ 531

December 31, 2021	Level 1	Level 2	Level 3	Balance
Assets at Fair Value:				
Agency Securities	$ —	$ 4,406,521	$ —	$ 4,406,521
U.S. Treasury Securities	$ 198,833	$ —	$ —	$ 198,833
Derivatives	$ —	$ 199,073	$ —	$ 199,073
Liabilities at Fair Value:				
Derivatives	$ —	$ 10,900	$ —	$ 10,900

There were no transfers of assets or liabilities between the levels of the fair value hierarchy during the three months ended March 31, 2022 or for the year ended December 31, 2021.

Excluded from the tables above are financial instruments, including cash, cash collateral posted to/by counterparties, receivables, the Subordinated loan to BUCKLER, payables and borrowings under repurchase agreements, which are presented in our consolidated financial statements at cost, which approximates fair value. The estimated fair value of these instruments is measured using "Level 1" or "Level 2" inputs at March 31, 2022 and December 31, 2021.

Note 5 - Investments in Securities

As of March 31, 2022 and December 31, 2021, our securities portfolio consisted of $7,657,366 and $4,605,354 of investment securities, at fair value, respectively, and $763,273 and $4,575,060 of TBA Agency Securities, at fair value, respectively. Our TBA Agency Securities are reported at net carrying value of $2,719 and $7,697, at March 31, 2022 and December 31, 2021, respectively, and are reported in Derivatives, at fair value on our consolidated balance sheets (see Note 7 - Derivatives). The net carrying value of our TBA Agency Securities represents the difference between the fair value of the underlying Agency Security in the TBA contract and the cost basis or the forward price to be paid or received for the underlying Agency Security.

The following tables summarize our investments in securities as of March 31, 2022 and December 31, 2021, excluding TBA Agency Securities (see Note 7 - Derivatives). Beginning in the second quarter of 2020, we designated Agency MBS purchased as “trading securities” for financial reporting purposes, and consequently, fair value changes for these investments will be reported in net income. We anticipate continuing this designation for newly acquired Agency MBS positions because it is more representative of our results of operations insofar as the fair value changes for these securities are presented in a manner consistent with the presentation and timing of the fair value changes of our hedging instruments. Fair value changes for the legacy Agency Securities designated as available for sale are reported in other comprehensive income as required by GAAP.

(in thousands, except per share)

	Available for Sale Securities	Trading Securities		
	Agency	Agency	U.S. Treasuries	Totals
March 31, 2022				
Balance, December 31, 2021	$ 1,387,845	$ 3,018,676	$ 198,833	$ 4,605,354
Purchases [1]	—	2,464,594	2,654,611	5,119,205
Proceeds from sales [2]	—	—	(1,517,838)	(1,517,838)
Principal repayments	(30,189)	(101,167)	—	(131,356)
Losses	(78,538)	(254,389)	(78,387)	(411,314)
(Amortization) accretion	(1,763)	(5,723)	801	(6,685)
Balance, March 31, 2022	$ 1,277,355	$ 5,121,991	$ 1,258,020	$ 7,657,366
Percentage of Portfolio	16.68 %	66.89 %	16.43 %	100.00 %
December 31, 2021				
Balance, December 31, 2020	$ 1,970,902	$ 3,207,420	$ —	$ 5,178,322
Purchases [1]	—	1,265,942	987,887	2,253,829
Proceeds from sales	(167,202)	(813,178)	(779,684)	(1,760,064)
Principal repayments	(339,393)	(531,592)	—	(870,985)
Gains (losses)	(61,106)	(77,145)	(9,391)	(147,642)
(Amortization) accretion	(15,356)	(32,771)	21	(48,106)
Balance, December 31, 2021	$ 1,387,845	$ 3,018,676	$ 198,833	$ 4,605,354
Percentage of Portfolio	30.14 %	65.55 %	4.31 %	100.00 %

(1) Purchases include cash paid during the period, plus payable for investment securities purchased during the period as of period end.

(2) Proceeds from sales include cash received during the period, plus receivables for investment securities sold during the period as of period end. The receivable is included in prepaid and other assets in our consolidated balance sheet at March 31, 2022.

Available for Sale Securities

At least quarterly, we evaluate our available for sale securities to determine if the available for sale securities in an unrealized loss position are impaired. No credit loss expense was incurred for the three months ended March 31, 2022 or for the three months ended March 31, 2021.

The table below presents the components of the carrying value and the unrealized gain or loss position of our available for sale securities at March 31, 2022 and December 31, 2021. Our available for sale securities had a weighted average coupon of 3.82% and 3.83% at March 31, 2022 and December 31, 2021, respectively.

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Agency Securities	Principal Amount	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value
March 31, 2022					
Total Fannie Mae	$ 1,050,660	$ 1,074,388	$ (375)	$ 28,317	$ 1,102,330
Total Freddie Mac	155,761	161,932	(222)	775	162,485
Total Ginnie Mae	12,299	12,600	(69)	9	12,540
Total	$ 1,218,720	$ 1,248,920	$ (666)	$ 29,101	$ 1,277,355
December 31, 2021					
Total Fannie Mae	$ 1,063,403	$ 1,088,209	$ (21)	$ 99,138	$ 1,187,326
Total Freddie Mac	172,550	179,385	(4)	7,797	187,178
Total Ginnie Mae	12,957	13,278	(20)	83	13,341
Total	$ 1,248,910	$ 1,280,872	$ (45)	$ 107,018	$ 1,387,845

The following table presents the unrealized losses and estimated fair value of our available for sale securities by length of time that such securities have been in a continuous unrealized loss position at March 31, 2022 and December 31, 2021. All of our available for sale securities are issued and guaranteed by GSEs or Ginnie Mae. The GSEs have a long term credit rating of AA+.

	Unrealized Loss Position For:					
	< 12 Months		≥ 12 Months		Total	
Agency Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2022	$ 39,266	$ (623)	$ 4,749	$ (43)	$ 44,015	$ (666)
December 31, 2021	$ 2,924	$ (17)	$ 5,185	$ (28)	$ 8,109	$ (45)

Actual maturities of available for sale securities are generally shorter than stated contractual maturities because actual maturities of available for sale securities are affected by the contractual lives of the underlying mortgages, periodic payments of principal and prepayments of principal.

The following table summarizes the weighted average lives of our available for sale securities at March 31, 2022 and December 31, 2021.

	March 31, 2022		December 31, 2021	
Weighted Average Life of Available for Sale Securities	Fair Value	Amortized Cost	Fair Value	Amortized Cost
< 1 year	$ 183	$ 183	$ 179	$ 174
≥ 1 year and < 3 years	25,089	24,986	27,110	26,731
≥ 3 years and < 5 years	14,225	14,316	333,598	319,762
≥ 5 years	1,237,858	1,209,435	1,026,958	934,205
Total Available for Sale Securities	$ 1,277,355	$ 1,248,920	$ 1,387,845	$ 1,280,872

We use a third-party model to calculate the weighted average lives of our available for sale securities. Weighted average life is calculated based on expectations for estimated prepayments for the underlying mortgage loans of our available for sale securities. These estimated prepayments are based on assumptions such as interest rates, current and future home prices, housing policy and borrower incentives. The weighted average lives of our available for sale securities at March 31, 2022 and December 31, 2021 in the table above are based upon market factors, assumptions, models and estimates from the third-party model and also incorporate management's judgment and experience. The actual weighted average lives of our available for sale securities could be longer or shorter than estimated.

(in thousands, except per share)

Trading Securities:

The components of the carrying value of our trading securities at March 31, 2022 and December 31, 2021 are presented in the table below.

	Principal Amount	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value
March 31, 2022					
Agency Securities:					
Total Fannie Mae	$ 4,210,224	$ 4,354,922	$ (254,365)	$ 1,256	$ 4,101,813
Total Freddie Mac	1,040,930	1,074,981	(55,003)	200	1,020,178
Total Agency Securities	$ 5,251,154	$ 5,429,903	$ (309,368)	$ 1,456	$ 5,121,991
U.S. Treasury Securities	1,300,000	1,290,788	(32,768)	—	1,258,020
Total Trading Securities	$ 6,551,154	$ 6,720,691	$ (342,136)	$ 1,456	$ 6,380,011
December 31, 2021					
Agency Securities:					
Total Fannie Mae	$ 2,253,393	$ 2,382,146	$ (47,079)	$ 1,056	$ 2,336,123
Total Freddie Mac	656,775	690,053	(7,546)	46	682,553
Total Agency Securities	$ 2,910,168	$ 3,072,199	$ (54,625)	$ 1,102	$ 3,018,676
U.S. Treasury Securities	200,000	198,987	(154)	—	198,833
Total Trading Securities	$ 3,110,168	$ 3,271,186	$ (54,779)	$ 1,102	$ 3,217,509

The following table summarizes the weighted average lives of our trading securities at March 31, 2022 and December 31, 2021.

	March 31, 2022		December 31, 2021	
Estimated Weighted Average Life of Trading Securities	**Fair Value**	**Amortized Cost**	**Fair Value**	**Amortized Cost**
< 1 year	$ 199,629	$ 199,700	$ 99,973	$ 99,978
≥ 1 year and < 3 years	93	98	5,323	5,365
≥ 3 years and < 5 years	413,165	435,063	472,774	475,600
≥ 5 years	5,767,124	6,085,830	2,639,439	2,690,243
Total	$ 6,380,011	$ 6,720,691	$ 3,217,509	$ 3,271,186

We use a third-party model to calculate the weighted average lives of our trading securities. Weighted average life is calculated based on expectations for estimated prepayments for the underlying mortgage loans of our trading securities. These estimated prepayments are based on assumptions such as interest rates, current and future home prices, housing policy and borrower incentives. The weighted average lives of our trading securities at March 31, 2022 and December 31, 2021 in the tables above are based upon market factors, assumptions, models and estimates from the third-party model and also incorporate management's judgment and experience. The actual weighted average lives of our trading securities could be longer or shorter than estimated.

(in thousands, except per share)

Note 6 - Repurchase Agreements

At March 31, 2022, we had active MRAs with 36 counterparties and had $6,440,004 in outstanding borrowings with 19 of those counterparties. At December 31, 2021, we had MRAs with 34 counterparties and had $3,948,037 in outstanding borrowings with 18 counterparties.

The following table represents the contractual repricing regarding our repurchase agreements to finance MBS purchases at March 31, 2022 and December 31, 2021. No amounts below are subject to offsetting. Our repurchase agreements require excess collateral, known as a "haircut." At March 31, 2022, the average haircut percentage was 2.75% compared to 3.45% at December 31, 2021. The haircut for our repurchase agreements vary by counterparty and therefore, the changes in the average haircut percentage will vary with the changes in our counterparty repurchase agreement balances.

	Balance	Weighted Average Contractual Rate	Weighted Average Maturity in days
March 31, 2022			
Agency Securities			
≤ 30 days	$ 4,415,600	0.37 %	15
> 30 days to ≤ 90 days	917,841	0.40 %	34
> 90 days	26,605	0.98 %	175
Total or Weighted Average	$ 5,360,046	0.37 %	19
U.S. Treasury Securities			
≤ 30 days	1,079,958	0.18 %	1
Total or Weighted Average	$ 6,440,004	0.34 %	16
December 31, 2021			
Agency Securities			
≤ 30 days	$ 2,565,743	0.13 %	13
> 30 days to ≤ 60 days	647,584	0.13 %	35
> 60 days to ≤ 90 days	635,710	0.11 %	89
Total or Weighted Average	$ 3,849,037	0.13 %	29
U.S. Treasury Securities			
≤ 30 days	99,000	0.12 %	3
Total or Weighted Average	$ 3,948,037	0.12 %	29

Our repurchase agreements require that we maintain adequate pledged collateral. A decline in the value of the MBS pledged as collateral for borrowings under repurchase agreements could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels. We manage this risk by maintaining an adequate balance of available cash and unpledged securities. An event of default or termination event under the standard MRA would give our counterparty the option to terminate all repurchase transactions existing with us and require any amount due to be payable immediately. In addition, certain of our MRAs contain a restriction that prohibits our leverage from exceeding twelve times our stockholders' equity as well as termination events in the case of significant reductions in equity capital. We also may receive cash or securities as collateral from our derivative counterparties which we may use as additional collateral for repurchase agreements. Certain interest rate swap contracts provide for cross collateralization and cross default with repurchase agreements and other contracts with the same counterparty.

At March 31, 2022 and December 31, 2021, BUCKLER accounted for 52.4% and 49.7%, respectively, of our aggregate borrowings and had an amount at risk of 8.3% and 5.0%, respectively, of our total stockholders' equity with a weighted average maturity of 16 days and 35 days, respectively, on repurchase agreements (see Note 14 - Related Party Transactions for other transactions with BUCKLER).

In addition, at March 31, 2022, we had 5 repurchase agreement counterparties that individually accounted for over 5% of our aggregate borrowings. In total, these counterparties accounted for approximately 31.0% of our repurchase agreement borrowings outstanding at March 31, 2022. At December 31, 2021, we had 2 repurchase agreement counterparties that individually accounted for over 5% of our aggregate borrowings. In total, these counterparties accounted for 16.0% of our repurchase agreement borrowings at December 31, 2021.

Note 7 - Derivatives

We enter into derivative transactions to manage our interest rate risk and agency mortgage rate exposures. We have agreements with our derivative counterparties that provide for the posting of collateral based on the fair values of our derivatives. Through this margin process, either we or our counterparties may be required to pledge cash or securities as collateral. Collateral requirements vary by counterparty and change over time based on the fair value, notional amount and remaining term of the contracts. Certain contracts provide for cross collateralization and cross default with repurchase agreements and other contracts with the same counterparty.

Interest rate swap contracts are designed to lock in funding costs for repurchase agreements associated with our assets in such a way to help assure the realization of net interest margins. Such transactions are based on assumptions about prepayments which, if not realized, will cause transaction results to differ from expectations. Interest rate swaptions generally provide us the option to enter into an interest rate swap agreement at a certain point of time in the future with a predetermined notional amount, stated term and stated rate of interest in the fixed leg and interest rate index on the floating leg. Basis swap contracts allow us to exchange one floating interest rate basis for another, thereby allowing us to diversify our floating rate basis exposures.

TBA Agency Securities are forward contracts for the purchase (“long position”) or sale (“short position”) of Agency Securities at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency Securities delivered into the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. We may enter into TBA Agency Securities as a means of hedging against short-term changes in interest rates. We may also enter into TBA Agency Securities as a means of acquiring or disposing of Agency Securities and we may from time to time utilize TBA dollar roll transactions to finance Agency Security purchases. We estimate the fair value of TBA Agency Securities based on similar methods used to value our Agency Securities.

We have netting arrangements in place with all derivative counterparties pursuant to standard documentation developed by ISDA. We are also required to post or hold cash collateral based upon the net underlying market value of our open positions with the counterparty. A decline in the value of the open positions with the counterparty could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels. We manage this risk by maintaining an adequate balance of available cash and unpledged securities. An event of default or termination event under the standard ISDA would give our counterparty the option to terminate all repurchase transactions existing with us and require any amount due to be payable immediately. In addition, certain of our ISDAs contain a restriction that prohibits our leverage from exceeding twelve times our stockholders’ equity as well as termination events in the case of significant reductions in equity capital.

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The following tables present information about the potential effects of netting our derivatives if we were to offset the assets and liabilities on the accompanying consolidated balance sheets. We currently present these financial instruments at their gross amounts and they are included in Derivatives, at fair value on the accompanying consolidated balance sheets at March 31, 2022 and December 31, 2021.

		Gross Amounts Not Offset		
Assets	**Gross Amounts[1]**	**Financial Instruments**	**Cash Collateral**	**Total Net**
March 31, 2022				
Interest rate swap contracts	$ 539,979	$ —	$ (463,679)	$ 76,300
TBA Agency Securities	3,250	(531)	25	2,744
Totals	$ 543,229	$ (531)	$ (463,654)	$ 79,044
December 31, 2021				
Interest rate swap contracts	$ 187,661	$ (7,185)	$ (161,529)	$ 18,947
TBA Agency Securities	11,412	(3,715)	4,036	11,733
Totals	$ 199,073	$ (10,900)	$ (157,493)	$ 30,680

(1) See Note 4 - Fair Value of Financial Instruments for additional discussion.

		Gross Amounts Not Offset		
Liabilities	**Gross Amounts[1]**	**Financial Instruments**	**Cash Collateral**	**Total Net**
March 31, 2022				
TBA Agency Securities	(531)	531	—	—
Totals	$ (531)	$ 531	$ —	$ —
December 31, 2021				
Interest rate swap contracts	$ (7,185)	$ 7,185	$ —	$ —
TBA Agency Securities	(3,715)	3,715	—	—
Totals	$ (10,900)	$ 10,900	$ —	$ —

(1) See Note 4 - Fair Value of Financial Instruments for additional discussion.

The following table represents the location and information regarding our derivatives which are included in Other Income (Loss) in the accompanying consolidated statements of operations for the three months ended March 31, 2022 and March 31, 2021.

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		Income (Loss) Recognized	
		For the Three Months Ended March 31,	
Derivatives	Location on consolidated statements of operations	2022	2021
Interest rate swap contracts:			
Interest income	Realized loss on derivatives	$ 1,719	$ 872
Interest expense	Realized loss on derivatives	(7,985)	(4,448)
Changes in fair value	Unrealized gain on derivatives	350,099	185,960
		$ 343,833	$ 182,384
TBA Agency Securities:			
Realized gain	Realized loss on derivatives	(95,799)	(23,784)
Changes in fair value	Unrealized gain on derivatives	(3,400)	(39,980)
		$ (99,199)	$ (63,764)
Totals		$ 244,634	$ 118,620

The following tables present information about our derivatives at March 31, 2022 and December 31, 2021.

Interest Rate Swap Contracts (1)	Notional Amount	Weighted Average Remaining Term (Months)	Weighted Average Rate
March 31, 2022			
< 3 years	$ 1,593,000	12	0.08 %
≥ 3 years and < 5 years	865,000	54	0.24 %
≥ 5 years and < 7 years	650,000	65	1.05 %
≥ 7 years	4,302,000	105	0.90 %
Total or Weighted Average (2)	$ 7,410,000	75	0.66 %
December 31, 2021			
< 3 years	$ 1,593,000	15	0.08 %
≥ 3 years and < 5 years	708,000	57	0.24 %
≥ 5 years and < 7 years	707,000	64	0.88 %
≥ 7 years	4,202,000	107	0.87 %
Total or Weighted Average (3)	$ 7,210,000	77	0.63 %

(1) Pay Fixed/Receive Variable.

(2) Of this amount, $6,007,000 notional are Fed Funds based swaps, the last of which matures in 2032 and $1,403,000 notional are SOFR based swaps, the last of which matures in 2032. Includes $950,000 notional of forward settling swap contracts that settle by September 23, 2022.

(3) Of this amount, $1,203,000 notional are SOFR based swaps, the last of which matures in 2023; and $6,007,000 notional are Fed Funds based swaps, the last of which matures in 2032.

(in thousands, except per share)

TBA Agency Securities	Notional Amount	Cost Basis	Fair Value
March 31, 2022			
30 Year Long			
4.0%	750,000	760,449	763,273
Total (1)	$ 750,000	$ 760,449	$ 763,273
December 31, 2021			
15 Year Long			
1.5%	$ 1,000,000	$ 999,840	$ 1,003,125
2.0%	1,700,000	1,733,652	1,738,695
30 Year Long			
2.0%	300,000	300,789	299,227
2.5%	1,200,000	1,224,820	1,223,510
3.0%	300,000	309,734	310,503
Total (1)	$ 4,500,000	$ 4,568,835	$ 4,575,060

(1) $200,000 and $400,000 notional were forward settling at March 31, 2022 and December 31, 2021, respectively.

Note 8 - Commitments and Contingencies

Management

The Company is managed by ACM, pursuant to a management agreement (see also Note 14 - Related Party Transactions). The management agreement entitles ACM to receive management fees payable monthly in arrears. Currently, the monthly management fee is 1/12th of the sum of (a) 1.5% of gross equity raised up to $1.0 billion plus (b) 0.75% of gross equity raised in excess of $1.0 billion. The cost of repurchased stock and any dividends specifically designated by the Board as liquidation dividends will reduce the amount of gross equity raised used to calculate the monthly management fee. Realized and unrealized gains and losses do not affect the amount of gross equity raised. At March 31, 2022 and March 31, 2021, the effective management fee, prior to management fees waived, was 0.97% and 1.00% based on gross equity raised of $3,368,971 and $3,026,269, respectively.

ACM began waiving 40% of its management fee during the second quarter of 2020 and on January 13, 2021, ACM notified ARMOUR that it intended to adjust the fee waiver to the rate of $2,400 for the first quarter of 2021 and $800 per month thereafter. On April 20, 2021, ACM notified ARMOUR that it intended to adjust the fee waiver to the rate of $2,100 for the second quarter of 2021 and $700 per month thereafter. On October 25, 2021, ACM notified ARMOUR that it intended to adjust the fee waiver from the rate of $700 per month to $650 per month, effective November 1, 2021, until further notice. During the three months ended March 31, 2022, and March 31, 2021 ACM waived management fees of $1,950 and $2,400, respectively. The monthly management fees are not calculated based on the performance of our assets. Accordingly, the payment of our monthly management fees may not decline in the event of a decline in our earnings and may cause us to incur losses. We are also responsible for any costs and expenses that ACM incurs solely on our behalf other than the various overhead expenses specified in the terms of the management agreement. ACM is further entitled to receive termination fees from us under certain circumstances.

Indemnifications and Litigation

We enter into certain contracts that contain a variety of indemnifications, principally with ACM and underwriters, against third-party claims for errors and omissions in connection with their services to us. We have not incurred any costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the estimated fair value of these agreements, as well as the maximum amount attributable to past events, is not material. Accordingly, we have no liabilities recorded for these agreements at March 31, 2022 and December 31, 2021.

Nine putative class action lawsuits have been filed in connection with the tender offer (the "Tender Offer") and merger (the "Merger") for JAVELIN. The Tender Offer and Merger are collectively defined herein as the "Transactions." All nine suits name ARMOUR, the previous members of JAVELIN's board of directors prior to the Merger (of which eight are current members of ARMOUR's board of directors) (the "Individual Defendants") and JMI Acquisition Corporation ("Acquisition") as defendants. Certain cases also name ACM and JAVELIN as additional defendants. The lawsuits were brought by purported holders of JAVELIN's common stock, both individually and on behalf of a putative class of JAVELIN's stockholders, alleging that the Individual Defendants breached their fiduciary duties owed to the plaintiffs and the putative class of JAVELIN stockholders, including claims that the Individual Defendants failed to properly value JAVELIN; failed to take steps to maximize the value of JAVELIN to its stockholders; ignored or failed to protect against conflicts of interest; failed to disclose material information about the Transactions; took steps to avoid competitive bidding and to give ARMOUR an unfair advantage by failing to adequately solicit other potential acquirors or alternative transactions; and erected unreasonable barriers to other third-party bidders. The suits also allege that ARMOUR, JAVELIN, ACM and Acquisition aided and abetted the alleged breaches of fiduciary duties by the Individual Defendants. The lawsuits seek equitable relief, including, among other relief, to enjoin consummation of the Transactions, or rescind or unwind the Transactions if already consummated, and award costs and disbursements, including reasonable attorneys' fees and expenses. The sole Florida lawsuit was never served on the defendants, and that case was voluntarily dismissed and closed on January 20, 2017. On April 25, 2016, the Maryland court issued an order consolidating the eight Maryland cases into one action, captioned In re JAVELIN Mortgage Investment Corp. Shareholder Litigation (Case No. 24-C-16-001542), and designated counsel for one of the Maryland cases as interim lead co-counsel. On May 26, 2016, interim lead counsel filed the Consolidated Amended Class Action Complaint for Breach of Fiduciary Duty asserting consolidated claims of breach of fiduciary duty, aiding and abetting the breaches of fiduciary duty, and waste. On June 27, 2016, defendants filed a Motion to Dismiss the Consolidated Amended Class Action Complaint for failing to state a claim upon which relief can be granted. A hearing was held on the Motion to Dismiss on March 3, 2017, and the Court reserved ruling. On August 16, 2021, the court ordered that the entry of an Order of Dismissal is further deferred until February 1, 2022. On March 1, 2022, the court deferred the Order of Dismissal until September 1, 2022 and if the case is not fully disposed of by that date, the clerk shall enter on the docket "dismissed for lack of prosecution without prejudice."

Each of ARMOUR, JAVELIN, ACM and the Individual Defendants intends to defend the claims made in these lawsuits vigorously; however, there can be no assurance that any of ARMOUR, JAVELIN, ACM or the Individual Defendants will prevail in its defense of any of these lawsuits to which it is a party. An unfavorable resolution of any such litigation surrounding the Transactions may result in monetary damages being awarded to the plaintiffs and the putative class of former stockholders of JAVELIN and the cost of defending the litigation, even if resolved favorably, could be substantial. Due to the preliminary nature of all of these suits, ARMOUR is not able at this time to estimate their outcome.

Note 9 - Stock Based Compensation

We adopted the 2009 Stock Incentive Plan as amended (the "Plan") to attract, retain and reward directors and other persons who provide services to us in the course of operations. The Plan authorizes the Board to grant awards including common stock, restricted shares of common stock ("RSUs"), stock options, performance shares, performance units, stock appreciation rights and other equity and cash-based awards (collectively, "Awards"), subject to terms as provided in the Plan. At March 31, 2022, there were 2,167 shares available for future issuance under the Plan.

Transactions related to awards for the three months ended March 31, 2022 are summarized below:

(in thousands, except per share)

	March 31, 2022		
	Number of Awards	Weighted Average Grant Date Fair Value per Award	
Unvested RSU Awards Outstanding beginning of period	823	$	14.07
Vested	(63)	$	16.73
Unvested RSU Awards Outstanding end of period	760	$	13.85

At March 31, 2022, there was approximately $10,523 of unvested stock based compensation related to the Awards (based on a weighted grant date price of $13.85 per share), which we expect to recognize as an expense as follows: for the remaining of 2022 expense of $3,202, in 2023 expense of $2,416, and thereafter expense of $4,905. We also pay each of our non-executive Board members quarterly fees of $33, which are payable in cash, common stock, RSUs or a combination of common stock, RSUs and cash at the option of the director. Non-executive Board members have the option to participate in the Company's Non-Management Director Compensation and Deferral Program (the "Deferral Program"). The Deferral Program permits non-executive Board members to elect to receive either common stock or RSUs or a combination of common stock and RSUs at the option of the director, instead of all or part of their quarterly cash compensation and/or all or part of their committee and chairperson cash retainers.

Note 10 - Stockholders' Equity

Changes in Stockholders' Equity

The following table presents the changes in Stockholders' Equity for the following periods.

Stockholders' Equity	March 31, 2022	March 31, 2021
Balance, beginning of quarter	$ 1,143,639	$ 938,304
Other comprehensive loss	(78,538)	(42,234)
Net income (loss)	(66,434)	71,327
Issuance of Series C Preferred Stock	—	28,173
Issuance of Common stock, net	54,436	52,960
Stock based compensation, net of withholding requirements	935	1,199
Series C Preferred dividends ($0.14583 per share)	(2,995)	(2,486)
Common stock dividends ($0.10 per share)	(29,108)	(20,057)
Balance, end of quarter	$ 1,021,935	$ 1,027,186

The following table presents the components of cumulative distributions to stockholders at March 31, 2022 and December 31, 2021.

Cumulative Distributions to Stockholders	March 31, 2022	December 31, 2021
Preferred dividends	$ 135,841	$ 132,845
Common stock dividends	1,734,217	1,705,110
Total	$ 1,870,058	$ 1,837,955

Preferred Stock

At March 31, 2022 and December 31, 2021, we were authorized to issue up to 50,000 shares of preferred stock, par value $0.001 per share, with such designations, voting and other rights and preferences as may be determined from time to time by our Board of Directors (“Board”) or a committee thereof. At March 31, 2022, 10,000 shares of the Company’s authorized preferred stock, par value $0.001 per share are designated as shares of 7.00% Series C Cumulative Redeemable Preferred Stock ("Series C Preferred Stock") with the powers, designations, preferences and other rights as set forth therein and a total of 40,000 shares of our authorized preferred stock remain available for designation as future series.

At March 31, 2022 and December 31, 2021, we had 6,847 shares of Series C Preferred Stock issued and outstanding with a par value of $0.001 per share and a liquidation preference of $25.00 per share, or $171,175 in the aggregate. Shares designated as Series C Preferred Stock but unissued totaled 3,153 at March 31, 2022 and December 31, 2021. At March 31, 2022 and December 31, 2021, there were no accrued or unpaid dividends on the Series C Preferred Stock.

On January 29, 2020, the Company entered into an Equity Sales Agreement (the “Preferred C ATM Sales Agreement”) with B. Riley Securities, Inc. (formerly B. Riley FBR, Inc.) and BUCKLER, as sales agents (individually and collectively, the “Agents"), and ACM, pursuant to which the Company may offer and sell, over a period of time and from time to time, through one or more of the Agents, as the Company’s agents, up to 6,550 of Series C Preferred Stock. The Preferred C ATM Sales Agreement relates to a proposed “at-the-market” offering program. Under the Preferred C ATM Sales Agreement, we will pay the agent designated to sell our shares an aggregate commission of up to 2.0% of the gross sales price per share of our common stock sold through the designated agent under the Preferred C ATM Sales Agreement. We did not sell any shares under the Preferred C ATM Sales Agreement during the three months ended March 31, 2022.

Common Stock

At March 31, 2022 and December 31, 2021, we were authorized to issue up to 200,000 shares of common stock, par value $0.001 per share, with such designations, voting and other rights and preferences as may be determined from time to time by our Board. We had 100,361 shares of common stock issued and outstanding at March 31, 2022 and 94,152 shares of common stock issued and outstanding at December 31, 2021.

On February 15, 2019, we entered into an Equity Sales Agreement (the “Common stock ATM Sales Agreement”) with BUCKLER, JMP Securities LLC and Ladenburg Thalmann & Co. Inc., as sales agents, relating to the shares of our common stock. On April 3, 2020, the Common stock ATM Sales Agreement was amended to add B. Riley Securities, Inc. (formerly B. Riley FBR, Inc.) as a sales agent. On May 4, 2020 the Common stock ATM Sales Agreement was further amended to increase the number of shares available for sale pursuant to the terms of the Common Stock ATM Sales Agreement. In accordance with the terms of the Common Stock ATM Sales agreement, as amended, we were permitted to offer and sell over a period of time and from time to time, up to 17,000 shares of our common stock, par value $0.001 per share. The Common stock ATM Sales Agreement related to an "at-the-market" offering program. Under the Common stock ATM Sales Agreement, as amended, we paid the agent designated to sell our shares an aggregate commission of up to 2.0% of the gross sales price per share of our common stock sold through the designated agent. Prior to exhausting the Common stock ATM Sales Agreement, as amended, on May 18, 2021, we sold 10,713 shares for proceeds of $129,336, net of issuance costs and commissions of approximately $1,682.

After exhausting the Common stock ATM Sales Agreement, we entered into a new Equity Sales Agreement (the “2021 Common stock ATM Sales Agreement”) on May 14, 2021, with BUCKLER, JMP Securities LLC, Ladenburg Thalmann & Co. Inc. and B. Riley Securities, Inc., as sales agents, relating to the shares of our common stock. In accordance with the terms of the 2021 Common Stock ATM Sales agreement, we may offer and sell over a period of time and from time to time, up to 17,000 shares of our common stock, par value $0.001 per share. On November 12, 2021, the 2021 Common stock ATM Sales Agreement was amended to add JonesTrading Institutional Services LLC, as a sales agent and to offer an additional 25,000 shares available for sale pursuant to the terms of the 2021 Common stock ATM Sales Agreement. The 2021 Common stock ATM Sales Agreement relates to an "at-the-market" offering program. The 2021 Common stock ATM

(in thousands, except per share)

Sales Agreement provides that we will pay the agent designated to sell our shares an aggregate commission of up to 2.0% of the gross sales price per share of our common stock sold through the designated agent, under the 2021 Common stock ATM Sales Agreement. During the three months ended March 31, 2022, we sold 6,162 shares under this agreement for proceeds of $54,436, net of issuance costs and commissions of approximately $598.

See Note 14 - Related Party Transactions for discussion of additional transactions with BUCKLER.

Common Stock Repurchased

At March 31, 2022 and December 31, 2021, there were 8,210 authorized shares remaining under the current repurchase authorization. Under the Repurchase Program, shares may be purchased in the open market, including block trades, through privately negotiated transactions, or pursuant to a trading plan separately adopted in the future. The timing, manner, price and amount of any repurchases will be at our discretion, subject to the requirements of the Securities Exchange Act of 1934, as amended, and related rules. We are not required to repurchase any shares under the Repurchase Program and it may be modified, suspended or terminated at any time for any reason. We do not intend to purchase shares from our Board or other affiliates. Under Maryland law, such repurchased shares are treated as authorized but unissued.

Equity Capital Raising Activities

The following tables present our equity transactions for the three months ended March 31, 2022 and for the year ended December 31, 2021.

Transaction Type	Completion Date	Number of Shares	Per Share price (1)	Net Proceeds (Costs)
March 31, 2022				
2021 Common stock ATM Sales Agreement	January 11, 2022 - March 31, 2022	6,162	$ 8.83	$ 54,436
December 31, 2021				
Preferred C ATM Sales Agreement	January 19, 2021 - April 9, 2021	1,500	$ 24.38	$ 36,585
Common stock ATM Sales Agreement	March 3, 2021 - May 18, 2021	10,713	$ 12.07	$ 129,336
2021 Common stock ATM Sales Agreement	May 19, 2021 - December 10, 2021	17,915	$ 11.13	$ 199,444

(1) Weighted average price

Dividends

The following table presents our Series C Preferred Stock dividend transactions for the three months ended March 31, 2022.

Record Date	Payment Date	Rate per Series C Preferred Share	Aggregate amount paid to holders of record
January 15, 2022	January 27, 2022	$ 0.14583	$ 998.5
February 15, 2022	February 28, 2022	$ 0.14583	998.5
March 15, 2022	March 28, 2022	$ 0.14583	998.5
Total dividends paid			$ 2,995.5

(in thousands, except per share)

The following table presents our common stock dividend transactions for the three months ended March 31, 2022.

Record Date	Payment Date	Rate per common share	Aggregate amount paid to holders of record
January 18, 2022	January 28, 2022	$ 0.10	$ 9,654
February 15, 2022	February 28, 2022	$ 0.10	9,690
March 15, 2022	March 28, 2022	$ 0.10	9,764
Total dividends paid			$ 29,108

Note 11 - Net Income (Loss) per Common Share

The following table presents a reconciliation of net income (loss) and the shares used in calculating weighted average basic and diluted earnings per common share for the three months ended March 31, 2022 and March 31, 2021.

	For the Three Months Ended March 31,	
	2022	2021
Net Income (Loss)	$ (66,434)	$ 71,327
Less: Preferred dividends	(2,995)	(2,486)
Net Income (Loss) available (related) to common stockholders	$ (69,429)	$ 68,841
Weighted average common shares outstanding – basic	96,226	65,964
Add: Effect of dilutive non-vested awards, assumed vested	—	1,054
Weighted average common shares outstanding – diluted	96,226	67,018

For the three months ended March 31, 2022, 760 of potentially dilutive non-vested awards outstanding were excluded from the computation of diluted Net Income (Loss) available (related) to common stockholders because to have included them would have been anti-dilutive for the period.

(in thousands, except per share)

Note 12 - Comprehensive Income (Loss) per Common Share

The following table presents a reconciliation of comprehensive net income (loss) and the shares used in calculating weighted average basic and diluted comprehensive income (loss) per common share for the three months ended March 31, 2022 and March 31, 2021.

	For the Three Months Ended March 31,	
	2022	2021
Comprehensive Income (Loss)	$ (144,972)	$ 29,093
Less: Preferred dividends	(2,995)	(2,486)
Comprehensive Income (Loss) available (related) to common stockholders	$ (147,967)	$ 26,607
Net Comprehensive Income (Loss) per share available (related) to common stockholders:		
Basic	$ (1.54)	$ 0.40
Diluted	$ (1.54)	$ 0.40
Weighted average common shares outstanding:		
Basic	96,226	65,964
Add: Effect of dilutive non-vested awards, assumed vested	—	1,054
Diluted	96,226	67,018

For the three months ended March 31, 2022, 760 of potentially dilutive non-vested awards outstanding were excluded from the computation of diluted Net Comprehensive Income (Loss) available (related) to common stockholders because to have included them would have been anti-dilutive for the period.

(in thousands, except per share)

Note 13 - Income Taxes

The following table reconciles our GAAP net income (loss) to estimated REIT taxable loss for the three months ended March 31, 2022 and March 31, 2021.

	For the Three Months Ended March 31, 2022	For the Three Months Ended March 31, 2021
GAAP net income (loss)	$ (66,434)	$ 71,327
Book to tax differences:		
TRS income	(1)	(7)
Premium amortization expense	(41)	(48)
Agency Securities, trading	254,389	62,586
U.S. Treasury Securities	78,387	28
Changes in interest rate contracts	(250,900)	(122,195)
Gain on Security Sales	—	(7,354)
Amortization of deferred hedging costs	(39,581)	(41,867)
Other	550	417
Estimated REIT taxable loss	$ (23,631)	$ (37,113)

Interest rate contracts and futures contracts are treated as hedging transactions for U.S. federal income tax purposes. Unrealized gains and losses on open interest rate contracts are not included in the determination of REIT taxable income. Realized gains and losses on interest rate contracts terminated before their maturity are deferred and amortized over the remainder of the original term of the contract for REIT taxable income. At March 31, 2022 and at December 31, 2021, we had approximately $567,419 and $607,000 in tax deductible expense relating to previously terminated interest rate swap contracts amortizing through the year 2031. At March 31, 2022, we had $240,428 of net operating loss carryforwards available for use indefinitely.

Net capital losses realized	Amount	Available to offset capital gains through
2018	$ (136,388)	2023
2019	$ (13,819)	2024
2021	$ (15,605)	2026

The Company's subsidiary, ARMOUR TRS, Inc. has made an election as a taxable REIT subsidiary (“TRS”). As such, the TRS is taxable as a domestic C corporation and subject to federal, state, and local income taxes based upon its taxable income.

The aggregate tax basis of our assets and liabilities was less than our total Stockholders’ Equity at March 31, 2022 by approximately $308,578, or approximately $3.07 per common share (based on the 100,361 common shares then outstanding). State and federal tax returns for the years 2018 and later remain open and are subject to possible examination.

We are required and intend to timely distribute substantially all of our REIT taxable income in order to maintain our REIT status under the Code. Total dividend payments to stockholders for the three months ended March 31, 2022 and March 31, 2021 were $32,103 and $22,543, respectively.

Our REIT taxable income and dividend requirements to maintain our REIT status are determined on an annual basis. Dividends paid in excess of current tax earnings and profits for the year will generally not be taxable to common stockholders.

(in thousands, except per share)

Our management is responsible for determining whether tax positions taken by us are more likely than not to be sustained on their merits. We have no material unrecognized tax benefits or material uncertain tax positions.

Note 14 - Related Party Transactions

ACM

The Company is managed by ACM, pursuant to a management agreement. All of our executive officers are also employees of ACM. ACM manages our day-to-day operations, subject to the direction and oversight of the Board. The management agreement runs through June 18, 2027 and is thereafter automatically renewed for an additional five-year term unless terminated under certain circumstances. Either party must provide 180 days prior written notice of any such termination.

Under the terms of the management agreement, ACM is responsible for costs incident to the performance of its duties, such as compensation of its employees and various overhead expenses. ACM is responsible for the following primary roles:

- Advising us with respect to, arranging for and managing the acquisition, financing, management and disposition of, elements of our investment portfolio;
- Evaluating the duration risk and prepayment risk within the investment portfolio and arranging borrowing and hedging strategies;
- Coordinating capital raising activities;
- Advising us on the formulation and implementation of operating strategies and policies, arranging for the acquisition of assets, monitoring the performance of those assets and providing administrative and managerial services in connection with our day-to-day operations; and
- Providing executive and administrative personnel, office space and other appropriate services required in rendering management services to us.

ACM began waiving 40% of its management fee during the second quarter of 2020 and on January 13, 2021, ACM notified ARMOUR that it intended to adjust the fee waiver to the rate of $2,400 for the first quarter of 2021 and $800 per month thereafter. On April 20, 2021, ACM notified ARMOUR that it intended to adjust the fee waiver to the rate of $2,100 for the second quarter of 2021 and $700 per month thereafter. On October 25, 2021, ACM notified ARMOUR that it intended to adjust the fee waiver from the rate of $700 per month to $650 per month, effective November 1, 2021, until further notice.

The following table reconciles the fees incurred in accordance with the management agreement for the three months ended March 31, 2022 and March 31, 2021.

	For the Three Months Ended March 31,	
	2022	2021
ARMOUR management fees	$ 8,125	$ 7,428
Less management fees waived	(1,950)	(2,400)
Total management fee expense	$ 6,175	$ 5,028

We are required to take actions as may be reasonably required to permit and enable ACM to carry out its duties and obligations. We are also responsible for any costs and expenses that ACM incurred solely on our behalf other than the various overhead expenses specified in the terms of the management agreement. For the three months ended March 31, 2022 and March 31, 2021, we reimbursed ACM $107 and $7 for other expenses incurred on our behalf. In 2017, 2020 and 2021, we elected to grant restricted stock unit awards to our executive officers and other ACM employees through ACM that generally vest over 5 years. In 2017, 2020 and 2021, we elected to grant RSUs to the Board. We recognized stock based compensation expense of $162 and $207 for the three months ended March 31, 2022 and March 31, 2021, respectively.

(in thousands, except per share)

BUCKLER

In March 2017, we contributed $352 for a 10.0% ownership interest in BUCKLER. The investment is included in prepaid and other assets in our consolidated balance sheet and is accounted for using the equity method as BUCKLER maintains specific ownership accounts. The value of the investment was $606 at March 31, 2022 and December 31, 2021, reflecting our total investment plus our share of BUCKLER's operating results, in accordance with the terms of the operating agreement of BUCKLER that our independent directors negotiated. The primary purpose of our investment in BUCKLER is to facilitate our access to repurchase financing on potentially attractive terms (considering rate, term, size, haircut, relationship and funding commitment) compared to other suitable repurchase financing counterparties.

Our operating agreement with BUCKLER contains certain provisions to benefit and protect the Company, including (1) sharing in any (a) defined profits realized by BUCKLER from the anticipated financing spreads resulting from repurchase financing facilitated by BUCKLER, and (b) distributions from BUCKLER to its members of net cash receipts, and (2) the realization of anticipated savings from reduced clearing, brokerage, trading and administrative fees. In addition, the independent directors of the Company must approve, in their sole discretion, any third-party business engaged by BUCKLER and may cause BUCKLER to wind up and dissolve and promptly return certain subordinated loans we provide to BUCKLER as regulatory capital (as described more fully below) if the independent directors reasonably determine that BUCKLER's ability to provide attractive securities transactions for the Company is materially adversely affected. For each of the three months ended March 31, 2022 and March 31, 2021, we earned $0 from BUCKLER as an allocated share of Financing Gross Profit for a reduction of interest on repurchase agreements charged to the Company. Financing Gross Profit is defined in the operating agreement, subject to a contractually required reduction in our share of the Financing Gross Profit of $306 per annum until the end of the first quarter of 2022

We have one subordinated loan agreement with BUCKLER, totaling $105.0 million and maturing on May 1, 2025. BUCKLER may, at its option after obtaining regulatory approval, repay all or a portion of the principal amount of the loan. The loan has a stated interest rate of zero, plus additional interest payable to the Company in an amount equal to the amount of interest earned by BUCKLER on the investment of the loan proceeds, generally in government securities funds. For the three months ended March 31, 2022 and March 31, 2021, the Company earned $19 and $17, respectively, of interest on this loan.

On February 22, 2021, the Company entered into an uncommitted revolving credit facility and security agreement with BUCKLER. Under the terms of the facility, the Company may, in its sole and absolute discretion, provide drawings to BUCKLER of up to $50,000. Interest on drawings is payable monthly at the Federal Reserve Bank of New York SOFR plus 2% per annum. To date, Buckler has not yet used the facility and therefore no interest expense was payable.

With BUCKLER as the sales agent, under the 2021 Common stock ATM Sales Agreement, we sold 6,162 common shares for proceeds of $54,436, net of commissions of approximately $550 during the three months ended March 31, 2022 (see Note 10 - Stockholders' Equity).

The table below summarizes other transactions with BUCKLER for the three months ended March 31, 2022 and for the year ended December 31, 2021.

Transactions with BUCKLER	March 31, 2022		December 31, 2021	
Repurchase agreements [(1)]	$	3,372,837	$	1,963,679
Collateral posted on repurchase agreements	$	3,488,675	$	2,036,385
U.S. Treasury Securities Purchased	$	600,000	$	100,000
U.S. Treasury Securities Sold	$	800,000	$	—

(1) Interest on repurchase agreements was $1,033 and $1,388 for the three months ended March 31, 2022 and March 31, 2021, respectively. See also, Note 6 - Repurchase Agreements for transactions with BUCKLER.

Note 15 - Subsequent Events

Series C Preferred Stock

A cash dividend of $0.14583 per outstanding share of Series C Preferred Stock, or $998 in the aggregate, will be paid on April 27, 2022 to holders of record on April 15, 2022. We have also declared cash dividends of $0.14583 per outstanding share of Series C Preferred Stock payable May 27, 2022 to holders of record on May 15, 2022 and payable June 27, 2022 to holders of record on June 15, 2022.

Common Stock

A cash dividend of $0.10 per outstanding common share, or $10,360 in the aggregate, will be paid on April 29, 2022 to holders of record on April 18, 2022. We have also declared a cash dividend of $0.10 per outstanding common share payable May 27, 2022 to holders of record on May 16, 2022.

Between April 1, 2022 and April 14, 2022, we issued 2,809 shares under our 2021 Common stock ATM Sales Agreement, with BUCKLER as the sales agent, for proceeds of $22,974 net of issuance costs and commissions of $231.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ARMOUR Residential REIT, Inc.

References to "we," "us," "our," or the "Company" are to ARMOUR Residential REIT, Inc. ("ARMOUR") and its subsidiaries. References to "ACM" are to ARMOUR Capital Management LP, a Delaware limited partnership. ARMOUR owns a 10% equity interest in BUCKLER Securities LLC ("BUCKLER"), a Delaware limited liability company and a FINRA-regulated broker-dealer, controlled by ACM and certain executive officers of ARMOUR. Refer to the Glossary of Terms for definitions of capitalized terms and abbreviations used in this report.

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this report. U.S. dollar amounts are presented in thousands, except per share amounts or as otherwise noted.

Overview

We are a Maryland corporation managed by ACM, an investment advisor registered with the SEC (see Note 8 and Note 14 to the consolidated financial statements). We have elected to be taxed as a REIT under the Code. We believe that we are organized in conformity with the requirements for qualification as a REIT under the Code and our manner of operations enables us to meet the requirements for taxation as a REIT for federal income tax purposes.

Our strategy is to create shareholder value through thoughtful investment and risk management that produces current yield and superior risk adjusted returns over the long term. Our focus on residential real estate finance supports home ownership for a broad and diverse spectrum of Americans by bringing private capital into the mortgage markets. We are deeply committed to implementing sustainable environmental, responsible social, and prudent governance practices that improve our work and our world.

We strive to contribute to a healthy, sustainable environment by utilizing resources efficiently. As an organization, we create a relatively small environmental footprint. Still, we are focused on minimizing the environmental impact of our business where possible.

At March 31, 2022 and December 31, 2021, we invested in MBS, issued or guaranteed by a U.S. GSE, such as Fannie Mae, Freddie Mac, or a government agency such as Ginnie Mae (collectively, Agency Securities). Our Agency Securities consist primarily of fixed rate loans. The remaining are either backed by hybrid adjustable rate or adjustable rate loans. From time to time we have also invested in Credit Risk and Non-Agency Securities, Interest-Only Securities, U.S. Treasury Securities and money market instruments.

We earn returns on the spread between the yield on our assets and our costs, including the interest cost of the funds we borrow, after giving effect to our hedges. We identify and acquire MBS, finance our acquisitions with borrowings under a series of short-term repurchase agreements and then hedge certain risks based on our entire portfolio of assets and liabilities and our management's view of the market.

Factors that Affect our Results of Operations and Financial Condition

Our results of operations and financial condition are affected by various factors, many of which are beyond our control, including, among other things, our net interest income, the market value of our assets and the supply of and demand for such assets. Recent events, such as those discussed below, can affect our business in ways that are difficult to predict and may produce results outside of typical operating variances. Our net interest income varies primarily as a result of changes in interest rates, borrowing costs and prepayment speeds, the behavior of which involves various risks and uncertainties. We currently invest primarily in Agency Securities, for which the principal and interest payments are guaranteed by a GSE or other government agency. We also invest in U.S. Treasury Securities and money market instruments. In the past, we have invested in Credit Risk and Non-Agency Securities and it is possible we may do so in the future. We expect our investments to be subject to risks arising from prepayments resulting from existing home sales, financings, delinquencies and foreclosures. We are exposed to changing mortgage spreads, which could result in declines in the fair value of our investments. Our asset selection, financing and hedging strategies are designed to work together to generate current net interest income while moderating our exposure to market volatility.

Interest Rates

Changes in interest rates, particularly short-term interest rates, may significantly influence our net interest income. With the maturities of our assets, generally of a longer term than those of our liabilities, interest rate increases will tend to decrease our net interest income and the market value of our assets (and therefore our book value). Such rate increases could possibly result in operating losses or adversely affect our ability to make distributions to our stockholders. Our operating results depend, in large part, upon our ability to manage interest rate risks effectively while maintaining our status as a REIT.

Prepayment Rates

Prepayments on MBS and the underlying mortgage loans may be influenced by changes in market interest rates and a variety of economic and geographic factors, policy decisions by regulators, as well as other factors beyond our control. To the extent we hold MBS acquired at a premium or discount to par, or face value, changes in prepayment rates may impact our anticipated yield. In periods of declining interest rates, prepayments on our MBS will likely increase. If we are unable to reinvest the proceeds of such prepayments at comparable yields, our net interest income may decline. Our operating results depend, in large part, upon our ability to manage prepayment risks effectively while maintaining our status as a REIT.

While we use strategies to economically hedge some of our interest rate risk, we do not hedge all of our exposure to changes in interest rates and prepayment rates, as there are practical limitations on our ability to insulate our securities portfolio from all potential negative consequences associated with changes in short-term interest rates in a manner that will allow us to seek attractive net spreads on our securities portfolio. Also, since we have not elected to use cash flow hedge accounting, earnings reported in accordance with GAAP will fluctuate even in situations where our derivatives are operating as intended. As a result of this mark-to-market accounting treatment, our results of operations are likely to fluctuate far more than if we were to designate our derivative activities as cash flow hedges. Comparisons with companies that use cash flow hedge accounting for all or part of their derivative activities may not be meaningful. For these and other reasons more fully described under the section captioned "Derivative Instruments" below, no assurance can be given that our derivatives will have the desired beneficial impact on our results of operations or financial condition.

In addition to the use of derivatives to hedge interest rate risk, a variety of other factors relating to our business may also impact our financial condition and operating performance; these factors include:

- our degree of leverage;
- our access to funding and borrowing capacity;
- the REIT requirements under the Code; and
- the requirements to qualify for an exclusion under the 1940 Act and other regulatory and accounting policies related to our business.

Management

See Note 8 and Note 14 to the consolidated financial statements.

Market and Interest Rate Trends and the Effect on our Securities Portfolio

Federal Reserve Actions

On March 16, 2022, the Federal Reserve raised its target range for the Federal Funds Rate to between 0.25% and 0.5%. The Fed also stated that it anticipates that ongoing increases in the target range will be appropriate. The Fed further indicated that it expects to begin reducing its holdings of agency mortgage-backed securities and other fixed-income assets at a coming meeting. Financial markets will likely be highly sensitive to the Fed's interest rate decisions, its bond purchasing and balance sheet holding decisions, as well as its communication. ARMOUR continues to mitigate risk and maximize liquidity within the scope of its business plan. The agency mortgage-backed securities market remains highly dependent on the future course and timing of the Fed's actions on interest rates as well as its purchases and holdings of our target assets.

Developments at Fannie Mae and Freddie Mac

The payments we receive on the Agency Securities in which we invest depend upon a steady stream of payments by borrowers on the underlying mortgages and the fulfillment of guarantees by GSEs. There can be no assurance that the U.S. Government's intervention in Fannie Mae and Freddie Mac will continue to be adequate or assured for the longer-term viability of these GSEs. These uncertainties may lead to concerns about the availability of and market for Agency Securities in the long term. Accordingly, if the GSEs defaulted on their guaranteed obligations, suffered losses or ceased to exist, the value of our Agency Securities and our business, operations and financial condition could be materially and adversely affected.

The passage of any new federal legislation affecting Fannie Mae and Freddie Mac may create market uncertainty and reduce the actual or perceived credit quality of securities issued or guaranteed by them. If Fannie Mae and Freddie Mac were reformed or wound down, it is unclear what effect, if any, this would have on the value of the existing Fannie Mae and Freddie Mac Agency Securities. The foregoing could materially adversely affect the pricing, supply, liquidity and value of the Agency Securities in which we invest and otherwise materially adversely affect our business, operations and financial condition.

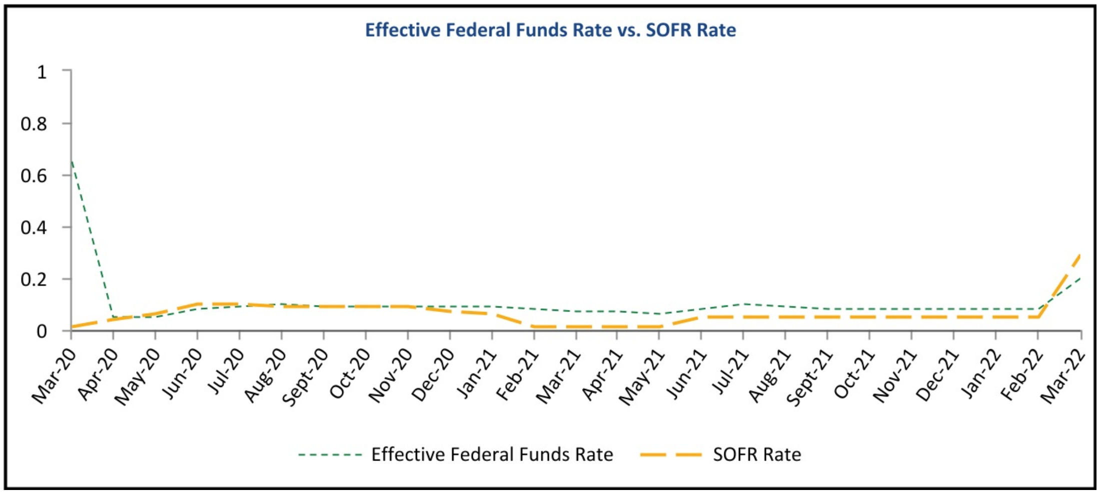
Short-term Interest Rates and Funding Costs

Changes in Fed policy affect our financial results, since our cost of funds is largely dependent on short-term rates. An increase in our cost of funds without a corresponding increase in interest income earned on our MBS would cause our net income to decline. Below is the Fed's target range for the Federal Funds Rate at each Fed meeting where a change was made since March 2020.

Meeting Date	Lower Bound	Higher Bound
March 16, 2022	0.25 %	0.50 %
March 16, 2020	0.00 %	0.25 %
March 3, 2020	1.00 %	1.25 %

Our borrowings in the repurchase market have historically closely tracked the Federal Funds Rate, LIBOR (prior to its dissolution) and more recently SOFR. Traditionally, a lower Federal Funds Rate has indicated a time of increased net interest margin and higher asset values. Volatility in these rates and divergence from the historical relationship among these rates could negatively impact our ability to manage our securities portfolio. If rates were to increase as a result, our net interest margin and the value of our securities portfolio might suffer as a result. Our derivatives are either Federal Funds Rate or SOFR-based interest rate swap contracts (see Note 7 to the consolidated financial statements).

The following graph shows the effective Federal Funds Rate as compared to SOFR on a monthly basis from March 31, 2020 to March 31, 2022.



Long-term Interest Rates and Mortgage Spreads

Our securities are valued at an interest rate spread versus long-term interest rates (mortgage spread). This mortgage spread varies over time and can be above or below long-term averages, depending upon market participants' current desire to own MBS over other investment alternatives. When the mortgage spread gets smaller (or negative) versus long-term interest rates, our book value will be positively affected. When this spread gets larger (or positive), our book value will be negatively affected.

Mortgage spreads can vary due to movements in securities valuations, movements in long-term interest rates or a combination of both. We mainly use interest rate swap contracts, interest rate swaptions, basis swap contracts and futures contracts to economically hedge against changes in the valuation of our securities. We do not use such hedging contracts for speculative purposes.

We may reduce our mortgage spread exposure by entering in to certain TBA Agency Securities short positions. The TBA short positions may represent different securities and maturities than our MBS and TBA Agency Security long positions, and accordingly, may perform somewhat differently. While we expect our TBA Agency Securities short positions to perform well compared to our related mortgage securities, there can be no assurance as to their relative performance.

Results of Operations

	For the Three Months Ended March 31,	
	2022	2021
Net Interest Income	$ 30,935	$ 16,061
Total Other Income (Loss)	(88,142)	63,360
Total Expenses after fees waived	(9,227)	(8,094)
Net Income (Loss)	$ (66,434)	$ 71,327
Reclassification adjustment for realized gain on sale of available for sale Agency Securities	—	(7,354)
Net unrealized loss on available for sale Agency Securities	$ (78,538)	$ (34,880)
Other Comprehensive Loss	$ (78,538)	$ (42,234)
Comprehensive Income (Loss)	$ (144,972)	$ 29,093

Net income (loss) for the three months ended March 31, 2022 compared to the three months ended March 31, 2021 reflected interest income and expense from a larger average securities portfolio as well as mark to market losses on our Agency Securities due to changes in interest rates offset in part due to fair value gains on our derivatives.

Net interest income is a function of both our securities portfolio size and net interest rate spread.

	For the Three Months Ended March 31,	
	2022	2021
Interest Income:		
Agency Securities, net of amortization of premium and fees	$ 27,681	$ 18,558
U.S. Treasury Securities	5,641	—
BUCKLER Subordinated loan	19	17
Total Interest Income	$ 33,341	$ 18,575
Interest expense- repurchase agreements	(2,406)	(2,427)
Interest expense- U.S. Treasury Securities sold short	—	(87)
Net Interest Income	$ 30,935	$ 16,061

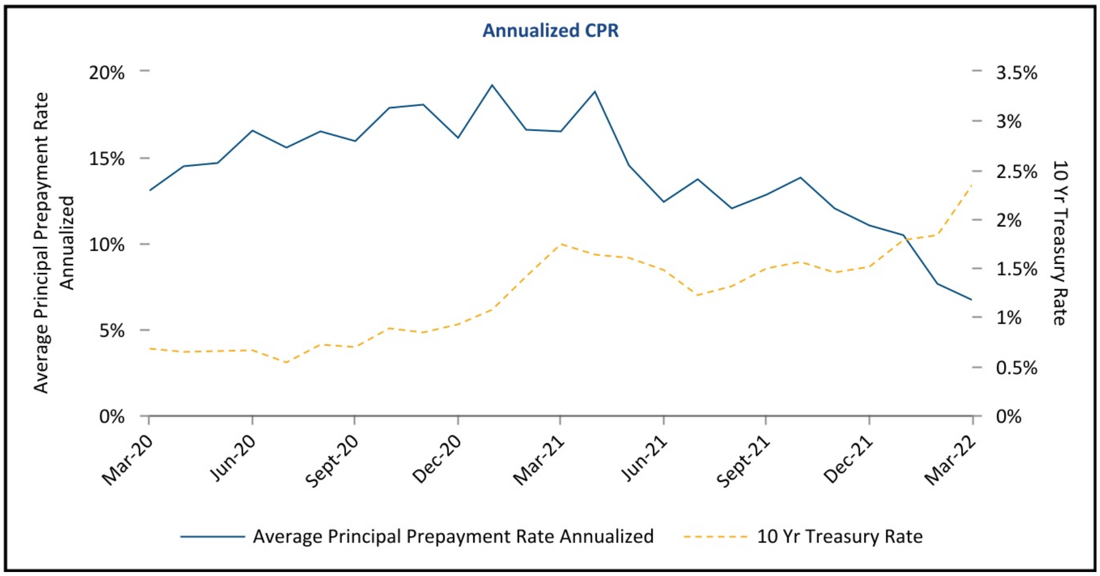
Three Months Ended March 31, 2022 vs. Three Months Ended March 31, 2021

- Our average securities portfolio, including TBA Agency Securities, increased 25.5% from $6,902,777 to $8,661,923 quarter over quarter due to the repositioning of our securities portfolio. We disposed of TBA Agency Securities and purchased U.S. Treasury Securities and additional Agency Securities, trading.
- Our average securities portfolio yield increased 0.36% and our cost of funds increased 0.07% quarter over quarter.
- Our net interest rate spread increased by 0.29% quarter over quarter.

The following table presents the components of the yield earned on our securities portfolio for the quarterly periods ended on the dates shown below:

	Asset Yield	Cost of Funds	Net Interest Margin	Interest Expense on Repurchase Agreements
March 2022	2.20 %	0.42 %	1.78 %	0.17 %
December 2021	2.15 %	0.40 %	1.75 %	0.16 %
September 2021	2.15 %	0.45 %	1.70 %	0.17 %
June 2021	1.95 %	0.50 %	1.45 %	0.17 %
March 2021	1.84 %	0.35 %	1.49 %	0.23 %
December 2020	1.99 %	0.27 %	1.72 %	0.26 %
September 2020	2.21 %	0.26 %	1.95 %	0.26 %
June 2020	2.53 %	0.90 %	1.63 %	0.55 %
March 2020	3.18 %	1.95 %	1.23 %	1.94 %

The yield on our assets is most significantly affected by the rate of repayments on our Agency Securities. The following graph shows the annualized CPR on a monthly basis for the quarterly periods ended on the dates shown below.



Other Income (Loss)

	For the Three Months Ended March 31,	
	2022	2021
Other Income (Loss):		
Realized gain on sale of available for sale Agency Securities (reclassified from Other Comprehensive Loss)	$ —	$ 7,354
Loss on Agency Securities, trading	(254,389)	(62,586)
Loss on U.S. Treasury Securities	(78,387)	—
Loss on short sale of U.S. Treasury Securities	—	(28)
Subtotal	$ (332,776)	$ (55,260)
Realized loss on derivatives	(102,065)	(27,360)
Unrealized gain on derivatives	346,699	145,980
Subtotal	$ 244,634	$ 118,620
Total Other Income (Loss)	$ (88,142)	$ 63,360

Three Months Ended March 31, 2022 vs. Three Months Ended March 31, 2021

- We did not sell any Agency Securities, available for sale during the three months ended March 31, 2022. Gains on Agency Securities, available for sale, resulted from gains from sales of Agency Securities of $87,875 for the three months ended March 31, 2021.
- We evaluate our available for sale securities, at least quarterly, to determine if the available for sale securities in an unrealized loss position are impaired. No credit loss expense was incurred.
- Loss on Agency Securities, trading, includes changes in fair value of the securities as well as the loss on sales. For the three months ended March 31, 2022, the change in fair value of the securities was $(254,389) compared to $(59,381) for the three months ended March 31, 2021. We did not sell any Agency Securities, trading during the three months ended March 31, 2022. For the three months ended March 31, 2021, we sold $675,845 of Agency Securities, trading which resulted in a loss of $(3,205).
- Loss on U.S. Treasury Securities resulted from the change in fair value of the securities as well as the loss on sales. For the three months ended March 31, 2022, the change in fair value of the securities was $(32,614). For the three months ended March 31, 2022, we sold $1,517,838 of U.S. Treasury Securities resulting in a realized loss of $(45,773). We did not have any U.S. Treasury Securities for the three months ended March 31, 2021.
- Gain (losses) on Derivatives resulted from a combination of the following:
    - Interest rate swap contracts' aggregate notional balance increased from $7,210,000 at December 31, 2021 to $7,410,000 at March 31, 2022.
    - Changes in fair value due to interest rate movements.
    - Our total TBA Agency Securities aggregate notional balance was $4,500,000 at December 31, 2021 and $750,000 at March 31, 2022. The decrease in TBA prices as we exited our positions during the quarter resulted in losses of $(99,199) and $(63,764) for the three months ended March 31, 2022 and March 31, 2021, respectively.

	For the Three Months Ended March 31,	
	2022	**2021**
Expenses:		
Management fees	$ 8,140	$ 7,437
Professional fees	620	738
Insurance	200	193
Compensation	1,409	1,676
Other	808	450
Total Expenses	$ 11,177	$ 10,494
Less management fees waived	(1,950)	(2,400)
Total Expenses after fees waived	$ 9,227	$ 8,094

Expenses

The Company is managed by ACM, pursuant to a management agreement. The management fees are determined based on gross equity raised. Therefore, management fees increase when we raise capital and decline when we repurchase previously issued stock and liquidate distributions as approved and so designated by a majority of the Board. However, because the management fee rate decreased to 0.75% per annum for gross equity raised in excess of $1.0 billion pursuant to the management agreement, the effective average management fee rate declines as equity is raised. The cost of repurchased stock and any dividends specifically designated by the Board as liquidation dividends will reduce the amount of gross equity raised used to calculate the monthly management fee. Realized and unrealized gains and losses do not affect the amount of gross equity raised. At March 31, 2022 and March 31, 2021, the effective management fee, prior to management fees waived, was 0.97% and 1.00% based on gross equity raised of $3,368,971 and $3,026,269, respectively. ACM began waiving 40% of its management fee during the second quarter of 2020 and on January 13, 2021, ACM notified ARMOUR that it intended to adjust the fee waiver to the rate of $2,400 for the first quarter of 2021 and $800 per month thereafter. On April 20, 2021, ACM notified ARMOUR that it intended to adjust the fee waiver to the rate of $2,100 for the second quarter of 2021 and $700 per month thereafter. On October 25, 2021, ACM notified ARMOUR that it intended to adjust the fee waiver from the rate of $700 per month to $650 per month, effective November 1, 2021, until further notice.

Professional fees include securities clearing, legal, audit and consulting costs and are generally driven by the size and complexity of our securities portfolio, the volume of transactions we execute and the extent of research and due diligence activities we undertake on potential transactions.

Insurance includes premiums for both general business and directors and officers liability coverage. The fluctuation from year to year is due to changes in premiums.

Compensation includes non-executive director compensation as well as the restricted stock units awarded to our Board, executive officers and other ACM employees through ACM. The fluctuation from year to year is due to the number of awards vesting.

Other expenses include fees for market and pricing data, analytics and risk management systems and portfolio related data processing costs as well as stock exchange listing fees and similar stockholder related expenses, net of other miscellaneous income.

Taxable Income

As a REIT that regularly distributes all of its taxable income, we are generally not required to pay federal income tax (see Note 13 to the consolidated financial statements).

Realized gains and losses on interest rate contracts terminated before their maturity are deferred and amortized over the remainder of the original term of the contract for REIT taxable income. At March 31, 2022 and at December 31, 2021, we had approximately $567,419 and $607,000, respectively, in tax deductible expense relating to previously terminated interest rate swap contracts amortizing through the year 2031. We currently project that such amortization will exceed the Company's other taxable income for 2022. As a result, we currently project that all 2022 dividends on the Company's common stock and Series C Preferred Stock will be treated as basis adjustments rather than currently taxable income for stockholder tax purposes. This is consistent with the treatment of dividends for 2021. At March 31, 2022, we had $240,428 of net operating loss carryforwards available for use indefinitely.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners (see Note 12 to the consolidated financial statements).

Financial Condition

Investments In Securities

Our securities portfolio consists primarily of Agency Securities backed by fixed rate home loans. From time to time, a portion of our Agency Securities may be backed by hybrid adjustable rate and adjustable rate home loans as well as unsecured notes and bonds issued by GSEs, U.S. Treasuries and money market instruments, subject to certain income tests we must satisfy for our qualification as a REIT. Our charter permits us to invest in MBS. Our TBA Agency Securities are reported at net carrying value and are reported in Derivatives, at fair value on our consolidated balance sheets (see Note 7 to the consolidated financial statements).

Agency Securities:

Agency Security purchase and sale transactions, including purchases and sales for forward settlement, are recorded on the trade date to the extent it is probable that we will take or make timely physical delivery of the related securities. Gains or losses realized from the sale of securities are included in income and are determined using the specific identification method. We typically purchase Agency Securities at premium prices. The premium price paid over par value on those assets is expensed as the underlying mortgages experience repayment or prepayment. The lower the prepayment rate, the lower the amount of amortization expense for a particular period. Accordingly, the yield on an asset and earnings are higher. If prepayment rates increase, the amount of amortization expense for a particular period will go up. These increased prepayment rates would act to decrease the yield on an asset and would decrease earnings.

Our net interest income is primarily a function of the difference between the yield on our assets and the financing (borrowing and hedging) cost of owning those assets. Since we tend to purchase Agency Securities at a premium to par, the main item that can affect the yield on our Agency Securities after they are purchased is the rate at which the mortgage borrowers repay the loan. While the scheduled repayments, which are the principal portion of the homeowners' regular monthly payments, are fairly predictable, the unscheduled repayments, which are generally refinancing of the mortgage but can also result from repurchases of delinquent, defaulted, or modified loans, are less so. Being able to accurately estimate and manage these repayment rates is a critical portion of the management of our securities portfolio, not only for estimating current yield but also for considering the rate of reinvestment of those proceeds into new securities, the yields on those new securities and the impact of the repayments on our hedging strategy.

Adjustable and hybrid adjustable rate mortgage loans underlying some of our Agency Securities have fixed interest rates after which time the interest rates reset and become adjustable. After a reset date, interest rates on our adjustable and hybrid adjustable Agency Securities float based on spreads over various indices, typically the one-year constant maturity treasury rate. These interest rates are subject to caps that limit the amount the applicable interest rate can increase during any year, known as an annual cap and through the maturity of the security, known as a lifetime cap.

Beginning in the second quarter of 2020, we designated Agency MBS purchased as "trading securities" for financial reporting purposes, and consequently, fair value changes for these investments will be reported in net income. We anticipate continuing this designation for newly acquired Agency MBS positions because it is more representative of our results of operations insofar as the fair value changes for these securities are presented in a manner consistent with the presentation and timing of the fair value changes of our hedging instruments. Fair value changes for the legacy Agency MBS positions designated as "available for sale" will continue to be reported in other comprehensive income as required by GAAP.

TBA Agency Securities:

We account for TBA Agency Securities as derivative instruments if it is reasonably possible that we will not take or make physical delivery of the Agency Security upon settlement of the contract. TBA Agency Securities are forward contracts for the purchase ("long position") or sale ("short position") of Agency Securities at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date. The specific Agency Securities delivered pursuant to the contract upon the settlement date, published each month by the Securities Industry and Financial Markets Association, are not known at the time of the transaction. We estimate the fair value of TBA Agency Securities based on similar methods used to value our Agency Securities. TBA Agency Securities are included in the table below on a gross basis as they can be used to establish and finance portfolio positions in Agency Securities.

The tables below summarize certain characteristics of our investments in securities at March 31, 2022 and December 31, 2021.

Asset Type	Principal Amount	Fair Value	Weighted Average Coupon	CPR [(1)]	Weighted Average Months to Maturity	Percent of Total
March 31, 2022						
Agency Securities:						
Total Fannie Mae	$ 5,260,884	$ 5,204,143	3.0 %	5.6 %	291	61.8 %
Total Freddie Mac	1,196,691	1,182,663	3.0 %	10.0 %	309	14.0
Total Ginnie Mae	12,299	12,540	1.7 %	7.9 %	207	0.2
Total Agency Securities	$ 6,469,874	$ 6,399,346	3.0 %	6.4 %	294	76.0 %
TBA Agency Securities:						
30 Year Long [(2)]	750,000	763,273	4.0 %	n/a	n/a	9.1
Total TBA Agency Securities	$ 750,000	$ 763,273	4.0 %	n/a	n/a	9.1 %
U.S. Treasury Securities	1,300,000	1,258,020	1.6 %	n/a	83	14.9 %
Total Investments in Securities	$ 8,519,874	$ 8,420,639				100.0 %

(1) Weighted average CPR during the quarter for the securities owned at March 31, 2022.

(2) Our TBA Agency Securities were recorded as derivative instruments in our accompanying consolidated financial statements. Our TBA Agency Securities were reported at net carrying values of $2,719 at March 31, 2022 and were reported in Derivatives, at fair value on our consolidated balance sheets (see Note 7 to the consolidated financial statements).

Asset Type	Principal Amount	Fair Value	Weighted Average Coupon	CPR [(1)]	Weighted Average Months to Maturity	Percent of Total
December 31, 2021						
Agency Securities:						
Total Fannie Mae	$ 3,316,796	$ 3,523,449	3.0 %	8.5 %	255	38.4 %
Total Freddie Mac	829,325	869,731	3.0 %	16.7 %	283	9.5
Total Ginnie Mae	12,957	13,341	1.8 %	10.7 %	210	0.1
Total Agency Securities	$ 4,159,078	$ 4,406,521	3.0 %	10.2 %	260	48.0 %
TBA Agency Securities:						
15 Year Long [(2)]	2,700,000	2,741,820	1.8 %	n/a	n/a	29.8
30 Year Long [(2)]	1,800,000	1,833,240	2.5 %	n/a	n/a	20.0
Total TBA Agency Securities	$ 4,500,000	$ 4,575,060	2.1 %			49.8 %
U.S. Treasury Securities	$ 200,000	$ 198,833	0.7 %	n/a	61	2.2 %
Total Investments in Securities	$ 8,859,078	$ 9,180,414				100.0 %

(1) Weighted average CPR during the fourth quarter for the securities owned at December 31, 2021.

(2) Our TBA Agency Securities were recorded as derivative instruments in our accompanying consolidated financial statements. Our TBA Agency Securities were reported at net carrying values of $7,697, at December 31, 2021 and were reported in Derivatives, at fair value on our consolidated balance sheets (see Note 7 to the consolidated financial statements).

Repurchase Agreements

We have entered into repurchase agreements to finance the majority of our MBS. Our repurchase agreements are secured by our MBS and bear interest at rates that have historically moved in close relationship to the Federal Funds Rate, LIBOR (prior to its dissolution) and most recently SOFR. We have established borrowing relationships with numerous investment banking firms and other lenders, 19 and 18 of which had open repurchase agreements with us at March 31, 2022 and December 31, 2021, respectively. We had outstanding balances under our repurchase agreements at March 31, 2022 and December 31, 2021 of $6,440,004 and $3,948,037, respectively, consistent with the increase in our MBS in our securities portfolio. At March 31, 2022 and December 31, 2021, BUCKLER accounted for 52.4% and 49.7%, respectively, of our aggregate borrowings and had an amount at risk of 8.3% and 5.0%, respectively, of our total stockholders' equity with a weighted average maturity of 16 days and 35 days, respectively, on repurchase agreements (see Note 6 to the consolidated financial statements).

Our repurchase agreements require excess collateral, known as a "haircut." At March 31, 2022, the average haircut percentage was 2.75% compared to 3.45% at December 31, 2021. The change in the average haircut percentage is a reflection of the decrease in our securities portfolio and the disposition of our Credit Risk and Non-Agency Securities which had higher haircut levels than our Agency Securities.

Derivative Instruments

We use various contracts to manage our interest rate risk as we deem prudent in light of market conditions and the associated costs with counterparties that have a high quality credit rating and with futures exchanges. We generally pay a fixed rate and receive a floating rate with the objective of fixing a portion of our borrowing costs and hedging the change in our book value to some degree. The floating rate we receive is generally the Federal Funds Rate or SOFR.

We had contractual commitments under derivatives at March 31, 2022 and December 31, 2021. At March 31, 2022 and December 31, 2021, we had derivatives with a net fair value of $542,698 and $188,173, respectively. At March 31, 2022, we had interest rate swap contracts with an aggregate notional balance of $7,410,000, a weighted average swap rate of 0.66% and a weighted average term of 75 months. At December 31, 2021, we had interest rate swap contracts with an aggregate notional balance of $7,210,000, a weighted average swap rate of 0.63% and a weighted average term of 77 months (see Note 7 to the consolidated financial statements). We also had TBA Agency Securities with an aggregate notional balance of $750,000 and $4,500,000 at March 31, 2022 and December 31, 2021, respectively.

Our policies do not contain specific requirements as to the percentages or amount of interest rate risk that we are required to hedge. No assurance can be given that our derivatives will have the desired beneficial impact on our results of operations or financial condition. We have not elected cash flow hedge accounting treatment as allowed by GAAP. Since we do not designate our derivative activities as cash flow hedges, realized as well as unrealized gains/losses from these transactions will impact our GAAP earnings.

Use of derivative instruments may fail to protect or could adversely affect us because, among other things:

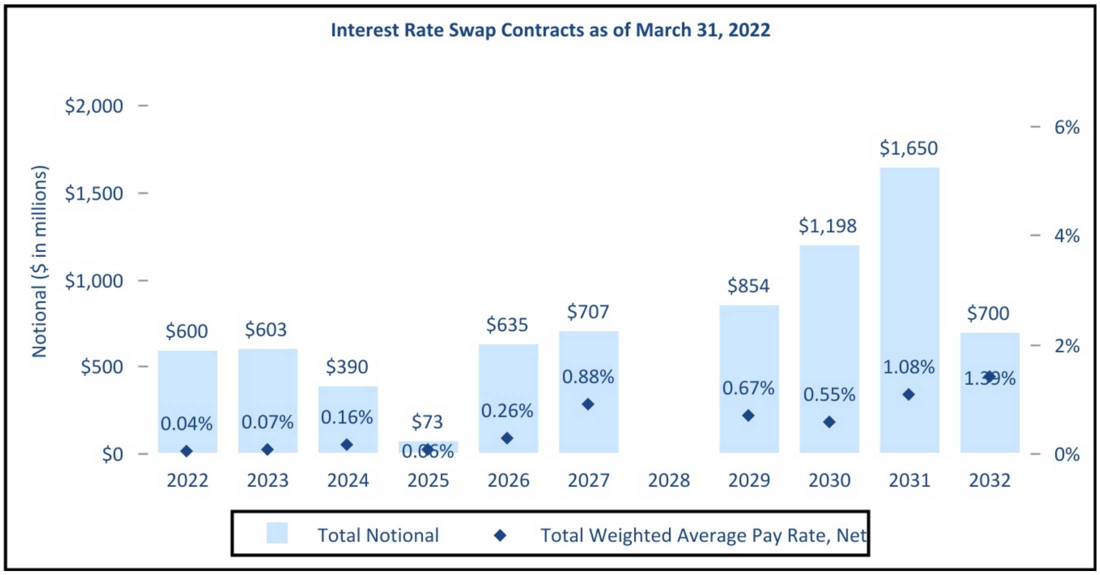
- available derivatives may not correspond directly with the interest rate risk for which protection is sought (e.g., the difference in interest rate movements for long-term U.S. Treasury Securities compared to Agency Securities);
- the duration of the derivatives may not match the duration of the related liability;
- the counterparty to a derivative agreement with us may default on its obligation to pay or not perform under the terms of the agreement and the collateral posted may not be sufficient to protect against any consequent loss;
- we may lose collateral we have pledged to secure our obligations under a derivative agreement if the associated counterparty becomes insolvent or files for bankruptcy;
- we may experience a termination event under one or more of our derivative agreements related to our REIT status, equity levels and performance, which could result in a payout to the associated counterparty and a taxable loss to us;
- the credit-quality of the party owing money on the derivatives may be downgraded to such an extent that it impairs our ability to sell or assign our side of the hedging transaction; and
- the value of derivatives may be adjusted from time to time in accordance with GAAP to reflect changes in fair value; downward adjustments, or "mark-to-market losses," would reduce our net income or increase any net loss.

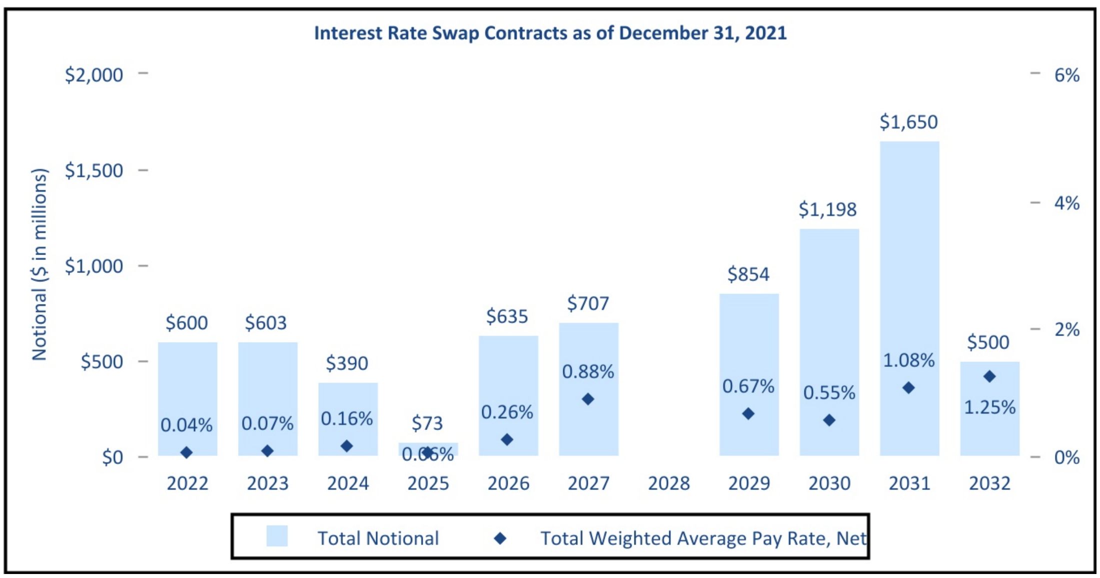
Although we attempt to structure our derivatives to offset the changes in asset prices, the complexity of the actual and expected prepayment characteristics of the underlying mortgages as well as the volatility in mortgage interest rates relative to U.S. Treasury and interest rate swap contract rates makes achieving high levels of offset difficult. We recognized net gains of $244,634 and $118,620, for the three months ended March 31, 2022 and March 31, 2021, respectively, related to our derivatives.

As required by the Dodd-Frank Act, the Commodity Futures Trading Commission has adopted rules requiring certain interest rate swap contracts to be cleared through a derivatives clearing organization. We are required to clear certain new interest rate swap contracts. Cleared interest rate swaps may have higher margin requirements than un-cleared interest rate swaps we previously had. We have established an account with a futures commission merchant for this purpose. To date, we have not entered into any cleared interest rate swap contracts.

We are required to account for our TBA Agency Securities as derivatives when it is reasonably possible that we will not take or make timely physical delivery of the related securities. However, from time to time, we use TBA Agency Securities primarily to effectively establish portfolio positions. See the section, "TBA Agency Securities" above.

The following graphs present the notional and weighted average interest rate of our interest rate swap contracts by year of maturity.





Liquidity and Capital Resources

At March 31, 2022, our liquidity totaled $628,321, consisting of $316,852 of cash plus $311,469 of unencumbered Agency Securities and U.S. government securities (including securities received as collateral). Our primary sources of funds are borrowings under repurchase arrangements, monthly principal and interest payments on our MBS and cash generated from our operating results. Other potential sources of liquidity include our automatic shelf registration filed with the SEC, pursuant to which we may offer an unspecified amount of shares of our common stock, preferred stock, warrants, depositary shares and debt securities (refer to Note 10 to the consolidated financial statements). We generally maintain liquidity to pay down borrowings under repurchase arrangements to reduce borrowing costs and otherwise efficiently manage our long-term investment capital. Because the level of our borrowings can be adjusted on a daily basis, the level of cash carried on our consolidated balance sheet is significantly less important than our potential liquidity available under our borrowing arrangements. We continue to pursue additional lending counterparties in order to help increase our financial flexibility and ability to withstand periods of contracting liquidity in the credit markets.

In addition to the repurchase agreement financing discussed above, from time to time we have entered into reverse repurchase agreements with certain of our repurchase agreement counterparties. Under a typical reverse repurchase agreement, we purchase U.S. Treasury Securities from a borrower in exchange for cash and agree to sell the same securities back in the future. We then sell such U.S. Treasury Securities to third parties and recognize a liability to return the securities to the original borrower. Reverse repurchase agreement receivables and repurchase agreement liabilities are presented net when they meet certain criteria, including being with the same counterparty, being governed by the same MRA, settlement through the same brokerage or clearing account and maturing on the same day. The practical effect of these transactions is to replace a portion of our repurchase agreement financing of our MBS in our securities portfolio with short positions in U.S. Treasury Securities. We believe that this helps to reduce interest rate risk, and therefore counterparty credit and liquidity risk. Both parties to the repurchase and reverse repurchase transactions have the right to make daily margin calls based on changes in the value of the collateral obtained and/or pledged. We did not have any reverse repurchase agreements outstanding at March 31, 2022 and December 31, 2021.

Our primary uses of cash are to purchase MBS, pay interest and principal on our borrowings, fund our operations and pay dividends. From time to time, we purchase or sell assets for forward settlement up to 90 days in the future to lock in purchase prices or sales proceeds. At March 31, 2022 and December 31, 2021, we financed our securities portfolio with $6,440,004 and $3,948,037 of borrowings under repurchase agreements. We generally seek to borrow (on a recourse basis) between six and ten times the amount of our total stockholders' equity. Our debt to equity ratios at March 31, 2022 and December 31, 2021, were 6.30:1 and 3.45:1, respectively, as we substituted Agency MBS for TBA Agency Securities. Our leverage ratios, including notional on our TBA Agency Securities, were 7.04:1 and 7.39:1 at March 31, 2022 and December 31, 2021, respectively.

Securities Portfolio Matters

	For the Three Months Ended March 31,	
	2022	2021
Securities purchased using proceeds from repurchase agreements and principal repayments	$ 5,119,205	$ 686,117
Average securities portfolio	$ 8,661,923	$ 6,902,777
Cash received from principal repayments on MBS	$ 131,356	$ 278,722
Net cash increase (decrease) from repurchase agreements	$ 2,491,967	$ (725,275)
Cash interest payments made on liabilities	$ 19,371	$ 4,193
Cash and cash collateral posted to counterparties provided by (used in) operating activities [1]	$ (83,704)	$ 21,197

(1) The decrease in cash and cash collateral posted to counterparties related to operating activities from 2021 to 2022 was primarily due to the mark to market losses on our securities portfolio.

Other Contractual Obligations

The Company is managed by ACM, pursuant to a management agreement (see Note 8 and Note 14 to the consolidated financial statements). The management agreement runs through June 18, 2027 and is thereafter automatically renewed for an additional five-year term unless terminated under certain circumstances.

The following table reconciles the fees incurred in accordance with the management agreement for the three months ended March 31, 2022 and March 31, 2021.

	For the Three Months Ended March 31,	
	2022	2021
ARMOUR management fees	$ 8,125	$ 7,428
Less management fees waived	(1,950)	(2,400)
Total Management fee expense	$ 6,175	$ 5,028

We adopted the 2009 Stock Incentive Plan (as amended, the "Plan") to attract, retain and reward directors and other persons who provide services to us in the course of operations. The Plan authorizes the Board to grant awards including common stock, restricted shares of common stock ("RSUs"), stock options, performance shares, performance units, stock appreciation rights and other equity and cash-based awards (collectively, "Awards"), subject to terms as provided in the Plan. At March 31, 2022, there were 2,167 shares available for future issuance under the Plan.

At March 31, 2022, there was approximately $10,523 of unvested stock based compensation related to the Awards (based on a weighted grant date price of $13.85 per share), which we expect to recognize as an expense as follows: in 2022 an expense of $3,202, in 2023 an expense of $2,416, and thereafter an expense of $4,905. Our policy is to account for forfeitures as they occur. We also pay each of our non-executive Board members quarterly fees, which are payable in cash, common stock, RSUs or a combination of common stock, RSUs and cash at the option of the director. Compensation to be paid to our non-executive Board in the form of cash and common equity is $1,351 annually (see Note 9 to the consolidated financial statements).

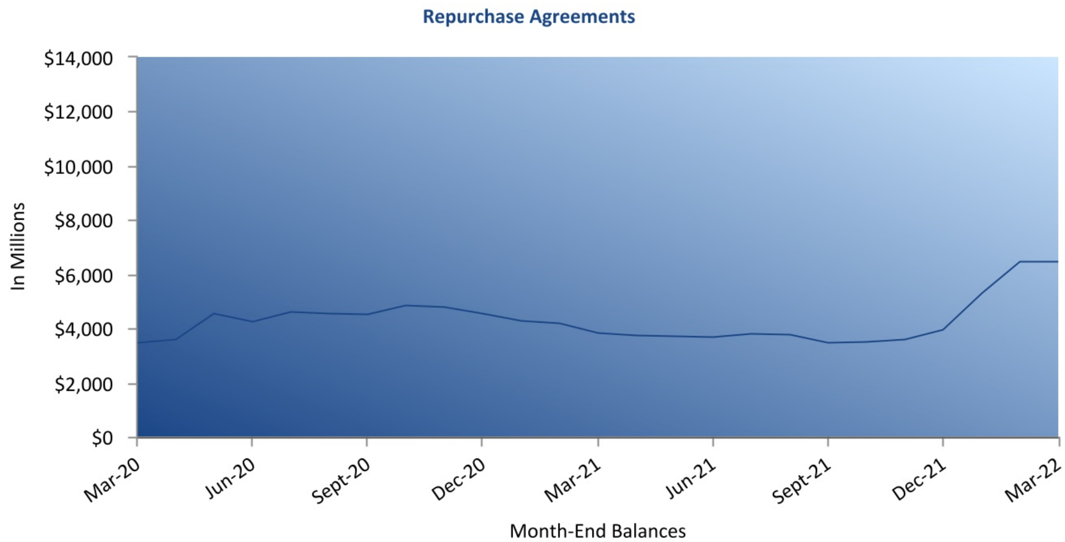
We currently believe that we have sufficient liquidity and capital resources available for the acquisition of additional investments, repayments on repurchase borrowings, reacquisition of securities to be returned to borrowers and the payment of cash dividends as required for continued qualification as a REIT.

Repurchase Agreements

Declines in the value of our Agency Securities portfolio can trigger margin calls by our lenders under our repurchase agreements. An event of default or termination event under the standard MRA would give our counterparty the option to terminate all repurchase transactions existing with us and require any amount due to be payable immediately.

Changing capital or other financial market regulatory requirements may cause our lenders to exit the repurchase market, increase financing rates, tighten lending standards or increase the amount of required equity capital or haircut we post, any of which could make it more difficult or costly for us to obtain financing.

The following graph represents the outstanding balances of our repurchase agreements (before the effect of netting reverse repurchase agreements), which finance most of our MBS. Our repurchase agreements balance will fluctuate based on our change in capital, leverage targets and the market prices of our assets (including the effects of principal paydowns) and the level and timing of investment and reinvestment activity (see Note 6 and Note 14 to the consolidated financial statements).



Effects of Margin Requirements, Leverage and Credit Spreads

Our MBS have values that fluctuate according to market conditions and, as discussed above, the market value of our MBS will decrease as prevailing interest rates or credit spreads increase. When the value of the securities pledged to secure a repurchase agreement decreases to the point where the positive difference between the collateral value and the loan amount is less than the haircut, our lenders may issue a margin call, which requires us to pay the difference in cash or pledge additional collateral to meet the obligations under our repurchase agreements. Under our repurchase facilities, our lenders have full discretion to determine the value of the MBS we pledge to them. Most of our lenders will value securities based on recent trades in the market. Lenders also issue margin calls as the published current principal balance factors change on the pool of mortgages underlying the securities pledged as collateral when scheduled and unscheduled principal repayments are announced monthly.

Forward-Looking Statements Regarding Liquidity

Based on our current portfolio, leverage rate and available borrowing arrangements, we believe that our cash flow from operations and our ability to make timely portfolio adjustments will be sufficient to enable us to meet anticipated short-term (one year or less) liquidity requirements such as to fund our investment activities, meet our financing obligations, pay fees under the management agreement and fund our distributions to stockholders and pay general corporate expenses.

We may increase our capital resources by obtaining long-term credit facilities or making public or private offerings of equity or debt securities, including classes of preferred stock, common stock and senior or subordinated notes to meet our liquidity requirements. These requirements include maturing repurchase agreements, settling TBA Agency Security positions and potentially making net payments on our interest rate swap contracts, and in each case, continuing to meet ongoing margin requirements. Such financing will depend on market conditions for capital raises and for the investment of any proceeds and there can be no assurances that we will successfully obtain any such financing.

Stockholders' Equity

See Note 10 to the consolidated financial statements.

Critical Accounting Policies

Valuation

Fair value is based on valuations obtained from third-party pricing services and/or dealer quotes. The third-party pricing services use common market pricing methods that include valuation models which incorporate such factors as coupons, collateral type, bond structure, historical and projected future prepayment speeds, priority of payments, historical and projected future delinquency rates and default severities, spread to the Treasury curve and interest rate swap curves, duration, periodic and life caps and credit enhancement. If the fair value of the MBS is not available from the third-party pricing services or such data appears unreliable, we obtain pricing indications from up to three dealers who make markets in similar MBS. Management reviews pricing used to ensure that current market conditions are properly reflected. This review includes, but is not limited to, comparisons of similar market transactions or alternative third-party pricing services, dealer pricing indications and comparisons to a third-party pricing model.

Valuation modeling is required because each individual MBS pool is a separately identified security with individual combinations of characteristics that influence market pricing. While the Agency Security market is generally very active and liquid within the context of broader classes of MBS, any particular security will likely trade infrequently. Our interest rate contracts are bilateral contracts with individual dealers and counterparties and are not cleared through recognized clearing organizations. Valuation models for these positions rely on information from the active and liquid general interest rate swap market to infer the value of these unique positions.

From time to time, we challenge the information and valuations we receive from third-party pricing services. Occasionally, the third-party pricing services revise their information or valuations as a result of such challenges. While we have concluded that the fair values reflected in the financial statements are appropriate, there is no way to verify that the particular fair value estimated for any individual position represents the price at which it may actually be bought or sold at any given date.

Fair value for our U.S. Treasury Securities is based on obtaining a valuation for each U.S. Treasury Security from third-party pricing services and/or dealer quotes.

We update our fair value estimates at the end of each business day to reflect current market dynamics. During times of high market volatility, it can be difficult to obtain accurate market information timely, and accordingly, the confidence interval around our valuation estimates will increase, potentially significantly. During the three months ended March 31, 2022, the largest inter-day movement was the overall estimated values of our investment and hedge positions translated to a change in estimated book value of $0.26 per common share. Similarly, 95% of inter-day movements in estimated value translated to changes in estimated book value per share of $0.16 or less.

Available for Sale Securities

Agency Securities acquired on or before March 31, 2020 are classified as available for sale. We realize gains and losses on our available for sale securities upon their sale. At that time, previously unrealized amounts included in accumulated other comprehensive income are reclassified and reported in net income as other gain or loss. To the extent that we sell available for sale securities in later periods after changes in the fair value of those available for sale securities have occurred, we may report significant net income or net loss without a corresponding change in our total stockholders' equity.

Declines in the fair values of our available for sale securities that represent credit impairments are also treated as realized losses and reported in net income as other loss. We evaluate available for sale securities for impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. We consider available for sale securities impaired if we (1) intend to sell the available for sale securities, (2) believe it is more likely than not that we will be required to sell the securities before recovery (for example, because of liquidity requirements or contractual obligations), and (3) a credit loss exists. Impairment losses recognized establish a new cost basis for the related available for sale securities. Gains or losses on subsequent sales are determined by reference to such new cost basis.

Gains and losses on available for sale Agency Securities are included in net income only when realized upon sale or recognized as impairments; therefore, reported net income will generally not reflect all elements of our overall investment performance for the period. At March 31, 2022, the fair value of our available for sale Agency Securities totaled $1,277,355 which represented 16.68% of our securities positions, or 15.17% of our total investment securities, including TBA Agency Securities.

Inflation

Virtually all of our assets and liabilities are interest rate-sensitive in nature. As a result, interest rates and other factors influence our performance far more than inflation. Changes in interest rates do not necessarily correlate with inflation rates or changes in inflation rates. Our financial statements are prepared in accordance with GAAP and any distributions we may make will be determined by our Board based in part on our REIT taxable income as calculated according to the requirements of the Code; in each case, our activities and balance sheet are measured with reference to fair value without considering inflation.

Subsequent Events

See Note 15 to the consolidated financial statements.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The forward-looking statements in this report are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations are subject to risks and uncertainties and can change as a result of many possible events or factors, not all of which are known to us. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements. See Part I, Item 1A. "Risk Factors" of our most recent Annual Report on Form 10-K. You should carefully consider these risks before you make an investment decision with respect to our stock, along with the following factors that could cause actual results to vary from our forward-looking statements:

- the impact of COVID-19 on our operations;
- the geopolitical situation as a result of the war in Ukraine may adversely effect the U.S. economy, which may lead the Fed to take actions that may impact our business;
- the impact of the federal conservatorship of Fannie Mae and Freddie Mac and related efforts, along with any changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the federal government and the Fed system;
- the possible material adverse effect on our business if the U.S. Congress passed legislation reforming or winding down Fannie Mae or Freddie Mac;
- mortgage loan modification programs and future legislative action;
- actions by the Fed which could cause a change of the yield curve, which could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders;
- the impact of a delay or failure of the U.S. Government in reaching an agreement on the national debt ceiling;
- availability, terms and deployment of capital;
- extended trade disputes with foreign countries;
- changes in economic conditions generally;

- changes in interest rates, interest rate spreads and the yield curve or prepayment rates;
- general volatility of the financial markets, including markets for mortgage securities;
- a downgrade of the U.S. Government's or certain European countries' credit ratings and future downgrades of the U.S. Government's or certain European countries' credit ratings may materially adversely affect our business, financial condition and results of operations;
- our inability to maintain the level of non-taxable returns of capital through the payment of dividends to our stockholders or to pay dividends to our stockholders at all;
- inflation or deflation;
- the impact of a shutdown of the U.S. Government;
- availability of suitable investment opportunities;
- the degree and nature of our competition, including competition for MBS;
- changes in our business and investment strategy;
- our failure to maintain our qualification as a REIT;
- our failure to maintain an exemption from being regulated as a commodity pool operator;
- our dependence on ACM and ability to find a suitable replacement if ACM was to terminate its management relationship with us;
- the existence of conflicts of interest in our relationship with ACM, BUCKLER, certain of our directors and our officers, which could result in decisions that are not in the best interest of our stockholders;
- the potential for Buckler's inability to access attractive repurchase financing on our behalf or secure profitable third-party business;
- our management's competing duties to other affiliated entities, which could result in decisions that are not in the best interest of our stockholders;
- changes in personnel at ACM or the availability of qualified personnel at ACM;
- limitations imposed on our business by our status as a REIT under the Code;
- the potential burdens on our business of maintaining our exclusion from the 1940 Act and possible consequences of losing that exclusion;
- changes in GAAP, including interpretations thereof; and
- changes in applicable laws and regulations.

We cannot guarantee future results, levels of activity, performance or achievements. You should not place undue reliance on forward-looking statements, which apply only as of the date of this report. We do not intend and disclaim any duty or obligation to update or revise any industry information or forward-looking statements set forth in this report to reflect new information, future events or otherwise, except as required under the U.S. federal securities laws.

GLOSSARY OF TERMS
ARMOUR Residential REIT, Inc.

Term	Definition
Agency Securities	Securities issued or guaranteed by Fannie Mae, Freddie Mac and Ginnie Mae; interests in or obligations backed by pools of fixed rate, hybrid adjustable rate and adjustable rate mortgage loans.
ARMs	Adjustable Rate Mortgage backed securities.
Basis swap contracts	Derivative contracts that allow us to exchange one floating interest rate basis for another, for example, 3 month Fed Funds Rates, thereby allowing us to diversify our floating rate basis exposures.
Board	ARMOUR's Board of Directors.
BUCKLER	A Delaware limited liability company, and a FINRA-regulated broker-dealer. The primary purpose of our investment in BUCKLER is to facilitate our access to repurchase financing, on potentially more attractive terms (considering rate, term, size, haircut, relationship and funding commitment) compared to other suitable repurchase financing counterparties.
CFO	Chief Financial Officer of ARMOUR, James Mountain.
CME	Chicago Mercantile Exchange.
Co-CEOs	Co-Chief Executive Officers of ARMOUR, Jeffrey Zimmer and Scott Ulm.
Code	The Internal Revenue Code of 1986.
COVID-19	The Coronavirus pandemic.
CPR	Constant prepayment rate.
Credit Risk and Non-Agency Securities	Securities backed by residential mortgages in which we may invest, which are not issued or guaranteed by Fannie Mae, Freddie Mac or Ginnie Mae.
Dodd-Frank Act	The Dodd-Frank Wall Street Reform and Consumer Protection Act.
Exchange Act	Securities Exchange Act of 1934.
Fannie Mae	The Federal National Mortgage Association.
Fed	The U.S. Federal Reserve.
FINRA	The Financial Industry Regulatory Authority. A private corporation that acts as a self-regulatory organization.
Freddie Mac	The Federal Home Loan Mortgage Corporation.
GAAP	Accounting principles generally accepted in the United States of America.
Ginnie Mae	The Government National Mortgage Administration.
GSE	A U.S. Government Sponsored Entity. Obligations of agencies originally established or chartered by the U.S. government to serve public purposes as specified by the U.S. Congress; these obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.
Haircut	The weighted average margin requirement, or the percentage amount by which the collateral value must exceed the loan amount. Among other things, it is a measure of our unsecured credit risk to our lenders.
Hybrid	A mortgage that has a fixed rate for an initial term after which the rate becomes adjustable according to a specific schedule.
Interest-Only Securities	The interest portion of Agency Securities, which is separated and sold individually from the principal portion of the same payment.
ISDA	International Swaps and Derivatives Association.
JAVELIN	JAVELIN Mortgage Investment Corp., formerly a publicly-traded REIT. Since its acquisition on April 6, 2016, JAVELIN became a wholly-owned, qualified REIT subsidiary of ARMOUR and continues to be managed by ACM pursuant to the pre-existing management agreement between JAVELIN and ACM.

ARMOUR Residential REIT, Inc.
GLOSSARY OF TERMS (continued)

LIBOR	The London Interbank Offered Rate.
MBS	Mortgage backed securities. A security representing a direct interest in a pool of mortgage loans. The pass-through issuer or servicer collects the payments on the loans in the pool and “passes through” the principal and interest to the security holders on a pro rata basis.
Merger	The merger of JMI Acquisition Corporation with and into JAVELIN on April 6, 2016.
MRA	Master repurchase agreement. A document that outlines standard terms between the Company and counterparties for repurchase agreement transactions.
Multi-Family MBS	MBS issued under Fannie Mae's Delegated Underwriting System (DUS) program.
REIT	Real Estate Investment Trust. A special purpose investment vehicle that provides investors with the ability to participate directly in the ownership or financing of real-estate related assets by pooling their capital to purchase and manage mortgage loans and/or income property.
Repurchase Program	ARMOUR's common stock repurchase program authorized by our Board.
SEC	The Securities and Exchange Commission.
SOFR	Secured overnight funding rate. A measure of the cost of borrowing cash overnight collateralized by U.S. Treasury Securities.
TBA Agency Securities	Forward contracts for the purchase (“long position”) or sale (“short position”) of Agency Securities at a predetermined price, face amount, issuer, coupon and stated maturity on an agreed-upon future date.
TBA Drop Income	The discount associated with TBA Agency Securities contracts which reflects the expected interest income on the underlying deliverable Agency Securities, net of an implied financing cost, which would have been earned by the buyer if the TBA Agency Securities contract had settled on the next regular settlement date instead of the forward settlement date specified. TBA Drop Income is calculated as the difference between the forward settlement price of the TBA Agency Securities contract and the spot price of similar TBA Agency Securities contracts for regular settlement. The Company generally accounts for TBA Agency Securities contracts as derivatives and TBA Drop Income is included as part of the periodic changes in fair value of the TBA Agency Securities that the Company recognizes in the Other Income (Loss) section of its Consolidated Statement of Operations.
TRS	Taxable REIT subsidiary.
U.S.	United States.
1940 Act	The Investment Company Act of 1940.

Item 3. Quantitative and Qualitative Disclosures about Market Risk
ARMOUR Residential REIT, Inc.

We seek to manage our risks related to the credit-quality of our assets, interest rates, liquidity, prepayment speeds and market value while, at the same time, seeking to provide an opportunity to stockholders to realize attractive risk adjusted returns through ownership of our capital stock. While we do not seek to avoid risk completely, we believe the risk can be quantified from historical experience and seek to actively manage that risk, to earn sufficient compensation to justify taking those risks and to maintain capital levels consistent with the risks we undertake.

Interest Rate Risk

Our primary market risk is interest rate risk. Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Changes in the general level of interest rates can affect net interest income, which is the difference between the interest income earned on our assets and the interest expense incurred in connection with our liabilities, by affecting the spread between the interest-earning assets and interest-bearing liabilities. Changes in the level of interest rates also can affect the value of MBS and our ability to realize gains from the sale of these assets. A decline in the value of the MBS pledged as collateral for borrowings under repurchase agreements could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

A portion of our securities portfolio consists of hybrid adjustable rate and adjustable rate MBS. Hybrid mortgages are ARMs that have a fixed interest rate for an initial period of time (typically three years or greater) and then convert to an adjustable rate for the remaining loan term. ARMs are typically subject to periodic and lifetime interest rate caps that limit the amount the interest rate can change during any given period. Furthermore, some ARMs may be subject to periodic payment caps that result in some portion of the interest being deferred and added to the principal outstanding. ARMs are also typically subject to a minimum interest rate payable. Most of our adjustable rate assets are based on the one-year constant maturity treasury rate. Our fixed rate MBS have interest rates that are not variable and are constant for the entire loan term.

Our borrowings are not subject to similar restrictions and are generally repurchase agreements of limited duration that track the Federal Funds Rate and SOFR and are periodically refinanced at current market rates. Therefore, on average, our cost of funds may rise or fall more quickly than our earnings rate on our assets. Hence, in a period of increasing interest rates, interest rates on our borrowings could increase without limitation, while the changes in the interest rates on our mortgage related assets could be limited. These factors could lower our net interest income or cause a net loss during periods of rising interest rates, which would negatively impact our liquidity, net income and our ability to make distributions to stockholders.

We anticipate that in most cases the interest rates, interest rate indices and repricing terms of our mortgage assets and our funding sources will not be identical, thereby creating an interest rate mismatch between assets and liabilities. These indices generally move in the same direction, but there can be no assurance that this will continue to occur. Furthermore, our net income may vary somewhat as the spread between one-month interest rates, the typical term for our repurchase agreements, and the interest rates on our mortgage assets varies. During periods of changing interest rates, such interest rate mismatches could negatively impact our net interest income, dividend yield and the market price of our stock.

Another component of interest rate risk is the effect changes in interest rates will have on the market value of our MBS. We face the risk that the market value of our MBS will increase or decrease at different rates than that of our liabilities, including our derivative instruments.

We primarily assess our interest rate risk by estimating the effective duration of our assets and the effective duration of our liabilities and by estimating the time difference between the interest rate adjustment of our assets and the interest rate adjustment of our liabilities. Effective duration essentially measures the market price volatility of financial instruments as interest rates change. We generally estimate effective duration using various financial models and empirical data. Different models and methodologies can produce different effective duration estimates for the same securities.

The sensitivity analysis tables presented below reflect the estimated impact of an instantaneous parallel shift in the yield curve, up and down 50 and 100 basis points, on the market value of our interest rate-sensitive investments and net interest income, at March 31, 2022 and December 31, 2021. It assumes that the mortgage spread on our MBS remains constant. Actual interest rate movements over time will likely be different, and such differences may be material. When evaluating the impact of changes in interest rates, prepayment assumptions and principal reinvestment rates are adjusted based on ACM's expectations. Interest rates for interest rate swaps and repurchase agreements are assumed to remain positive. The analysis presented utilized assumptions, models and estimates of ACM based on ACM's judgment and experience.

	Percentage Change in Projected		
Change in Interest Rates	**Net Interest Income**	**Portfolio Including Derivatives**	**Shareholder's Equity**
March 31, 2022			
1.00%	8.31%	(0.90)%	(7.94)%
0.50%	4.16%	(0.43)%	(3.80)%
(0.50)%	(2.49)%	0.33%	2.92%
(1.00)%	(2.75)%	0.49%	4.34%
December 31, 2021			
1.00%	48.15%	(0.85)%	(6.98)%
0.50%	24.45%	(0.30)%	(2.49)%
(0.50)%	(3.93)%	(0.07)%	(0.57)%
(1.00)%	(6.69)%	(0.56)%	(4.60)%

While the tables above reflect the estimated immediate impact of interest rate increases and decreases on a static securities portfolio, we rebalance our securities portfolio from time to time either to seek to take advantage of or reduce the impact of changes in interest rates. It is important to note that the impact of changing interest rates on market value and net interest income can change significantly when interest rates change beyond 100 basis points from current levels. Therefore, the volatility in the market value of our assets could increase significantly when interest rates change beyond amounts shown in the tables above. In addition, other factors impact the market value of and net interest income from our interest rate-sensitive investments and derivative instruments, such as the shape of the yield curve, market expectations as to future interest rate changes and other market conditions. Accordingly, interest income would likely differ from that shown above and such difference might be material and adverse to our stockholders.

Mortgage Spread Risk

Weakness in the mortgage market may adversely affect the performance and market value of our investments. This could negatively impact our book value. Furthermore, if our lenders are unwilling or unable to provide additional financing, we could be forced to sell our MBS at an inopportune time when prices are depressed.

The table below quantifies the estimated changes in the fair value of our securities portfolio and in our shareholders' equity as of March 31, 2022 and December 31, 2021. The estimated impact of changes in spreads is in addition to our interest rate sensitivity presented above. Our securities portfolio's sensitivity to mortgage spread changes will vary with changes in interest rates and in the size and composition of our securities portfolio. Therefore, actual results could differ materially from our estimates.

ARMOUR Residential REIT, Inc.
Market Risk Disclosures (continued)

	March 31, 2022		December 31, 2021	
	Percentage Change in Projected		Percentage Change in Projected	
Change in MBS spread	Portfolio Value	Shareholders' Equity	Portfolio Value	Shareholders' Equity
+25 BPS	(1.30)%	(10.73)%	(1.35)%	(10.81)%
+10 BPS	(0.52)%	(4.29)%	(0.54)%	(4.32)%
-10 BPS	0.52%	4.29%	0.54%	4.32%
-25 BPS	1.30%	10.73%	1.35%	10.81%

Prepayment Risk

As we receive payments of principal on our MBS, premiums paid on such securities are amortized against interest income and discounts are accreted to interest income as realized. Premiums arise when we acquire MBS at prices in excess of the principal balance of the mortgage loans underlying such MBS. Conversely, discounts arise when we acquire MBS at prices below the principal balance, adjusted for expected credit losses, of the mortgage loans underlying such MBS. Volatility in actual prepayment speeds will create volatility in the amount of premium amortization we recognize. Higher speeds will reduce our interest income and lower speeds will increase our interest income.

Credit Risk

We have limited our exposure to credit losses on our securities portfolio of Agency Securities. The payment of principal and interest on the Freddie Mac and Fannie Mae Agency Securities are guaranteed by those respective agencies and the payment of principal and interest on the Agency Securities guaranteed by Ginnie Mae are backed by the full faith and credit of the U.S. Government. Fannie Mae and Freddie Mac remain in conservatorship of the U.S. Government. There can be no assurances as to how or when the U.S. Government will end these conservatorships or how the future profitability of Fannie Mae and Freddie Mac and any future credit rating actions may impact the credit risk associated with Agency Securities and, therefore, the value of the Agency Securities. All of our Agency Securities are issued and guaranteed by GSEs or Ginnie Mae. The GSEs have a long term credit rating of AA+.

At March 31, 2022 and December 31, 2021, we did not own any Credit Risk and Non-Agency Securities. From time to time we may purchase Credit Risk and Non-Agency Securities at prices which incorporate our expectations for prepayment speeds, defaults, delinquencies and severities. These expectations determine the yields we receive on our assets. If actual prepayment speeds, defaults, delinquencies and severities are different from our expectations, our actual yields could be higher or lower. We evaluate each investment based on the characteristics of the underlying collateral and securitization structure, rather than relying on the ratings assigned by rating agencies. Credit Risk and Non-Agency Securities are subject to risk of loss with regard to principal and interest payments.

Liquidity Risk

Our primary liquidity risk arises from financing long-maturity MBS with short-term debt. The interest rates on our borrowings generally adjust more frequently than the interest rates on our ARMs. Accordingly, in a period of rising interest rates, our borrowing costs will usually increase faster than our interest earnings from MBS. Our repurchase agreements require that we maintain adequate pledged collateral. A decline in the value of the MBS pledged as collateral for borrowings under repurchase agreements could result in the counterparties demanding additional collateral pledges or liquidation of some of the existing collateral to reduce borrowing levels.

Operational Risk

We rely on our financial, accounting and other data processing systems. Computer malware, viruses, computer hacking and phishing attacks have become more prevalent in our industry and may occur on our systems. Although we have not detected a material cybersecurity breach to date, other financial services institutions have reported material breaches of their systems, some of which have been significant. Even with all reasonable security efforts, not every breach can be prevented or even detected. It is possible that we have experienced an undetected breach. There is no assurance that we, or the third parties that facilitate our business activities, have not or will not experience a breach. It is difficult to determine what, if any, negative impact may directly result from any specific interruption or cyber-attacks or security breaches of our networks or systems (or the networks or systems of third parties that facilitate our business activities) or any failure to maintain performance.

ACM has established an Information Technology Steering Committee (“the Committee”) to help mitigate technology risks including cybersecurity. One of the roles of the Committee is to oversee cyber risk assessments, monitor applicable key risk indicators, review cybersecurity training procedures, oversee the Company’s Cybersecurity Incident Response Plan and engage third parties to conduct periodic penetration testing. Our cybersecurity risk assessment includes an evaluation of cyber risk related to sensitive data held by third parties on their systems. There is no assurance that these efforts will effectively mitigate cybersecurity risk and mitigation efforts are not an assurance that no cybersecurity incidents will occur.

In addition, our Audit Committee periodically monitors and oversees our information and cybersecurity risks including reviewing and approving any information and cybersecurity policies, procedures and resources, and reviewing our information and cybersecurity risk assessment, detection, protection, and mitigation systems.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Co-Chief Executive Officers (“Co-CEOs”) and Chief Financial Officer (“CFO”) participated in an evaluation by our management of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of our fiscal quarter that ended on March 31, 2022. Based on their participation in that evaluation, our Co-CEOs and CFO concluded that our disclosure controls and procedures were effective as of March 31, 2022 to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and to ensure that information required to be disclosed in our reports filed or furnished under the Exchange Act, is accumulated and communicated to our management, including our Co-CEOs and CFO, as appropriate, to allow timely decisions regarding required disclosures.

Internal Control Over Financial Reporting

Our Co-CEOs and CFO also participated in an evaluation by our management of any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2022. That evaluation did not identify any changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION
ARMOUR Residential REIT, Inc.

Item 1. Legal Proceedings

There have been no material changes to the legal proceedings disclosed in our Annual Report on Form 10–K for the year ended December 31, 2021, filed with the SEC on February 16, 2022.

Item 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 16, 2022.

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.

EXHIBIT INDEX

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a) (1)
31.2	Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a) (1)
31.3	Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a) (1)
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350 (2)
32.2	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350 (2)
32.3	Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350 (2)
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)
104	Cover Page Interactive Data (formatted as Inline XBRL and contained in Exhibit 101)

(1) Filed herewith.
(2) Furnished herewith.

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.

April 27, 2022	**ARMOUR RESIDENTIAL REIT, INC.**
	/s/ James R. Mountain
	James R. Mountain
	Chief Financial Officer, Duly Authorized Officer and Principal Financial Officer

EXHIBIT 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Scott J. Ulm of ARMOUR Residential REIT, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2022 of ARMOUR Residential REIT, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting

Date: April 27, 2022

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ Scott J. Ulm
Scott J. Ulm
Co-Chief Executive Officer

EXHIBIT 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jeffrey J. Zimmer of ARMOUR Residential REIT, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2022 of ARMOUR Residential REIT, Inc. (the “registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting

Date: April 27, 2022

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ Jeffrey J. Zimmer

Jeffrey J. Zimmer
Co-Chief Executive Officer

EXHIBIT 31.3

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James R. Mountain of ARMOUR Residential REIT, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended March 31, 2022 of ARMOUR Residential REIT, Inc. (the "registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting

Date: April 27, 2022

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ James R. Mountain
James R. Mountain
Chief Financial Officer

EXHIBIT 32.1

Certification Pursuant To
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of ARMOUR Residential REIT, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Scott J. Ulm, Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2022

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ Scott J. Ulm

Scott J. Ulm
Co-Chief Executive Officer

EXHIBIT 32.2

Certification Pursuant To
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of ARMOUR Residential REIT, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jeffrey J. Zimmer, Co-Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2022

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ Jeffrey J. Zimmer
Jeffrey J. Zimmer
Co-Chief Executive Officer

EXHIBIT 32.3

Certification Pursuant To
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of The Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of ARMOUR Residential REIT, Inc. (the “Company”) on Form 10-Q for the period ended March 31, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James R. Mountain, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: April 27, 2022

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ James R. Mountain

James R. Mountain
Chief Financial Officer