



2020 Annual Report

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

FORM 10-K

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

For the Fiscal Year Ended December 31, 2020

OR

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

For the transition period from _____ to _____

Commission File Number 001-34766

ARMOUR RESIDENTIAL REIT, INC.

(Exact name of registrant as specified in its charter)

Maryland

26-1908763

(State or other jurisdiction of incorporation or organization)

(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 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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve 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 twelve 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

On June 30, 2020, the aggregate value of the registrant's common stock held by non-affiliates of the registrant was approximately, \$597,492,827 based on the closing sales price of our common stock on such date as reported on the NYSE.

The number of outstanding shares of the Registrant's common stock as of February 16, 2021 was 65,290,733.

Documents Incorporated By Reference

Certain portions of the registrant's definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 for its 2021 annual meeting of stockholders are incorporated by reference into Part III of this Form 10-K.

ARMOUR Residential REIT, Inc.
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PART I

Item 1. Business ARMOUR Residential REIT, Inc.

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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. U.S. dollar amounts are presented in thousands, except per share amounts or as otherwise noted.

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 (“SEC”), (see Note 9 and Note 15 to the consolidated financial statements). We have elected to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (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 (See *Real Estate Investment Trust Requirements* section below).

Strategies

We seek 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.

Assets

At December 31, 2020, we invest exclusively 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 may also invest in Credit Risk and Non-Agency Securities, Interest-Only Securities, U.S. Treasury Securities and money market instruments.

Borrowings

We borrow against our MBS using repurchase agreements. Our borrowings generally have maturities that range from overnight to three months, although occasionally we may enter into longer dated borrowing agreements. Our borrowings (on a recourse basis) are generally between six and ten times the amount of our total stockholders’ equity, but we are not limited to that range. The level of our borrowings may vary periodically depending on market conditions. In addition, certain of our MRAs and ISDAs contain a restriction that prohibits our leverage from exceeding twelve times our total stockholders’ equity as well as termination events in the case of significant reductions in equity capital.

Hedging

We use derivatives in the normal course of our business to reduce the impact of interest rate fluctuations on our cost of funding consistent with our REIT tax requirements. These techniques primarily consist of entering into interest rate swap contracts, basis swaps and swaptions and purchasing or selling futures contracts and may



ARMOUR Residential REIT, Inc.
Business (continued)

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also include entering into interest rate cap or floor agreements, purchasing put and call options on securities or futures contracts, or entering into forward rate agreements. Although we are not legally limited to our use of hedging, we intend to limit our use of derivative instruments to only those techniques described above and to enter into derivative transactions only with counterparties that we believe have a strong credit rating to help limit the risk of counterparty default or insolvency. These transactions are not entered into for speculative purposes.

To the extent that changes in our derivatives correlate with changes in our MBS, changes in the fair values of our derivatives will tend to offset changes in the fair values of our MBS. The actual extent of such offset will depend on the relative size of our derivative portfolio in relation to our MBS and the actual correlation of changes. However, changes in the fair value of our derivatives are reported in net income, while changes in the fair values of our available for sale securities are reported directly in our total stockholders' equity. Therefore, 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 reported results of operations are likely to fluctuate far more than if we used cash flow hedge accounting. Comparisons with companies that use cash flow hedge accounting for all or part of their derivative activities may not be meaningful.

Management

The Company is managed by ACM, pursuant to management agreements with ARMOUR and JAVELIN (see Note 9 and Note 15 to the consolidated financial statements). ACM manages our day-to-day operations, subject to the direction and oversight of the Board. The ARMOUR management agreement runs through June 18, 2027 and is thereafter automatically renewed for an additional five-year term unless terminated under certain circumstances. JAVELIN also has a management agreement with ACM, with an annual management fee of one dollar that will continue to automatically renew unless terminated under certain circumstances. Either party must provide 180 days prior written notice of any such termination.

The ARMOUR management agreement entitles ACM to receive management fees payable monthly in arrears. The monthly ARMOUR 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 liquidation distributions as approved and so designated by a majority of the Board will reduce the amount of gross equity raised used to calculate the monthly management fee. At December 31, 2020, December 31, 2019 and December 31, 2018, the effective ARMOUR management fee, prior to management fees waived, was 1.00%, 1.00% and 1.03% based on gross equity raised of \$2,944,169, \$2,965,163 and \$2,658,969, respectively. The ACM 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. ACM is further entitled to receive termination fees under certain circumstances. ACM began waiving 40% of its management fee during the second quarter of 2020. As of December 31, 2020, ACM has waived management fees of \$8,855. 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 until further notice (see Note 16 to the consolidated financial statements). Our total management fee expense for the year ended December 31, 2020, was \$29,580 (\$20,725 after fees waived), compared to \$29,513 for the year ended December 31, 2019 and \$27,190 for the year ended December 31, 2018.

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 agreements (see Note 15 to the consolidated financial statements). From time to time we grant restricted stock unit awards to our executive



officers and other ACM employees through ACM and to the Board that vest over various periods through 2027 (see Note 10 to the consolidated financial statements).

Environmental Sustainability

We are committed to promoting sustainable and environmentally friendly practices in our workplace to reduce energy-usage, increase recycling and decrease waste. ACM's 22-office based employees work in a 4,250 square feet leased office space in Vero Beach, Florida. As an organization, our business operations have a relatively modest environmental impact. However, energy conservation and environmental sustainability efforts are a priority and include:

- Recycling of: paper, glass and aluminum cans, electronic equipment, batteries and ink cartridges.
- Reducing carbon footprint through: video conferencing as an alternative to travel, utilizing LED lighting throughout the office, films on windows to reduce heating, ventilation, and air conditioning ("HVAC") system usage, and power management features that automatically put the computers and printers into a "sleep mode" after a designated period of inactivity.
- Using Energy Star® certified: computers, monitors, fixtures, appliances and a filtered water dispenser to eliminate the need for plastic bottles.
- Reduction of: single-use plastics by providing reusable, compostable and recycled kitchen products; office paper usage by emphasizing electronic communications, record storage and opting to receive e-statements and invoices from vendors; water consumption from low flow water fixtures in restrooms.
- Recent updates: installation of an eco-friendly porcelain tile flooring, produced with 40% of pre-consumer recycled materials, in high traffic areas that emits zero volatile organic compounds and moderates indoor temperature swings, reducing HVAC system usage; installation of a Self-Contained Ductable Commercial Air Cleaner with a HEPA filter that removes airborne contaminants like smoke, dust, pollen and dander that contribute to allergies and asthma and reduces BTU loads associated with larger amounts of outside air while helping lower energy costs and maintenance.

Social Responsibility

ARMOUR's primary social impact comes from its investment activity. As a provider of housing capital, we are honored to assist and strengthen the American housing market and those seeking home ownership. Through thoughtful investment and risk management, our focus on residential real estate finance supports home ownership for a broad and diverse spectrum of Americans. We take this duty seriously, as the benefits of homeownership are wide-reaching and well documented. Homeownership has long been understood as an important part of individual wealth creation. Improving homeownership rates stabilizes communities because homeowners are often engaged in and beneficial to their communities due to their financial and emotional investments in the space. The residential real estate market is an important part of the U.S. economy, and investing in home mortgages is a strong way to support and improve this market and the economy as a whole.

We believe that sharing our success is key to community and employee development. To each of these relationships, we bring a commitment to professional dignity and mutual respect. We strive to create a positive impact in the community in which we do business, making it a better place to live and work. The Company's community involvement is a combination of charitable contributions, including employees volunteering in local civic and charitable organizations and providing financial support.



ARMOUR Residential REIT, Inc.
Business (continued)

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While employees have the opportunity to donate time and funds to the community organization of their choice, the Company has chosen some key areas of high-impact focus that the Company and its employees feel strongly connected to:

- Affordable housing projects
- Career counseling in underserved communities
- Food security
- Financial literacy
- Children's health and social services
- Cancer support

Our greatest strength and most important assets are the members of the ARMOUR team, and their overall well-being is paramount. ACM ensures its employees have a rewarding, supportive, and healthy working environment in which to thrive, and endeavors to support their success in all things. ACM provides employees with opportunities for growth and development, both in the personal and professional spheres, as well as a wide variety of resources to support their work and personal lives. ACM's compensation and comprehensive benefits are thoughtfully designed to recognize and reward their professional skills, resulting in a low voluntary turnover rate for ARMOUR.

Corporate Governance

ARMOUR is committed to corporate governance that aligns with the interests of our stockholders and other stakeholders. We strive to maintain a well-rounded and diverse Board that balances financial industry expertise with independence, and the institutional knowledge of longer-tenured directors with the fresh perspectives brought by newer directors. Our directors bring to our Board a variety of skills and experiences developed across a broad range of industries, both in established and growth markets, and in each of the public, private and not-for-profit sectors. Our Board leads this effort by example.

Our Board of Directors has:

- 60% independent directors and a lead independent director.
- 20% representation of female directors.
- Average director tenure is 9.7 years, with 80% having over 10 years tenure.
- ARMOUR common stock ownership targets, with a prohibition on pledging or hedging.
- Annual election of Directors.
- Majority election and Director Resignation Policy.
- Written Board and Committee charters with annual self-assessments.
- Regular meetings of independent directors without management and with independent auditors.

Similarly, our executive officers have ARMOUR stock awards that vest over 5 years or longer, significant common stock ownership targets, and prohibitions on pledging or hedging their stock positions.

See the section titled *Corporate Information* below for our website and other information.



ARMOUR Residential REIT, Inc.
Business (continued)

Other Activities

If ACM and the Board determine that additional funding is advisable, we may raise such funds through equity offerings (including preferred equity), unsecured debt securities, convertible securities (including warrants, preferred equity and debt) or the retention of cash flow (subject to provisions in the Code concerning taxability of undistributed REIT taxable income) or a combination of these methods. In the event that ACM and the Board determine that we should raise additional equity capital, we have the authority, without stockholder approval, to issue additional stock in any manner and on such terms and for such consideration as we deem appropriate, at any time. At December 31, 2020, there were 59,709 authorized shares of common stock and 44,653 authorized shares of preferred stock available for issuance. At December 31, 2020, there were 8,210 authorized shares remaining available for repurchase under our Repurchase Program. See Note 16 to the consolidated financial statements for other activities subsequent to December 31, 2020.

We have a 10% ownership interest in BUCKLER, a Delaware limited liability company and a FINRA-regulated broker-dealer, controlled by ACM and certain executive officers of ARMOUR. (see Note 7 and Note 15 to the consolidated financial statements).

Real Estate Investment Trust Requirements

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. 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. 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 federal income tax purposes, we may still be subject to some federal, state and local taxes on our income. See, *Risks Related to Our Corporate Structure* in Item 1A. Risk Factors of this Form 10-K for further discussion.

In order to maintain our qualification as a REIT for U.S. federal income tax purposes, we are required to timely distribute, with respect to each year at least 90% of our REIT taxable income, determined without regard to the deduction for dividends paid and excluding any net capital gain. To satisfy these requirements, we presently intend to continue to make regular cash distributions of all or substantially all of our taxable income to holders of our stock out of assets legally available for such purposes. We are not restricted from using the proceeds of equity or debt offerings to pay dividends, but we do not intend to do so. The timing and amount of any dividends we pay to holders of our stock will be at the discretion of our Board and will depend upon various factors, including our earnings and financial condition, maintenance of REIT status, applicable provisions of MGCL and such other factors as our Board deems relevant. Dividends in excess of REIT taxable income for the year (including taxable income carried forward from the previous year) will generally not be taxable to common stockholders.

The below table shows the percentage of taxable income and non-taxable return of capital to shareholders for the years presented.

Year	Preferred		Common	
	Non-dividend distributions	Ordinary Dividends	Non-dividend distributions	Ordinary Dividends
2018	— %	100.00%	83.21%	16.79%
2019	— %	100.00%	56.84%	43.16%
2020	100.00 %	—%	100.00%	—%



ARMOUR Residential REIT, Inc.
Business (continued)

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At December 31, 2020, we had approximately \$717,000 in interest rate swap tax expense amortizing through the year 2029.

Investment Company Act of 1940 Exclusion

We conduct our business so as not to become regulated as an investment company under the 1940 Act. We rely on the exclusion provided by Section 3(c)(5)(C) of the 1940 Act as interpreted by the staff of the SEC. To qualify for this exclusion we must invest at least 55% of our assets in “mortgages and other liens on and interest in real estate” or “qualifying real estate interests” and at least 80% of our assets in qualifying real estate interests and “real estate related assets.” In satisfying this 55% requirement we treat MBS issued with respect to an underlying pool of mortgage loans in which we hold all of the certificates issued by the pool (“whole pool” securities) as qualifying real estate interests. We currently treat MBS in which we hold less than all of the certificates issued by the pool (“partial pool” securities) as real estate related assets and not qualifying real estate interests. Our business would be materially and adversely affected if we fail to qualify for an exclusion from regulation under the 1940 Act. See *Risks Related to Our Corporate Structure* in Item 1A. Risk Factors of this Form 10-K for further discussion.

Compliance with NYSE Corporate Governance Standards

We comply with the corporate governance standards of the NYSE. Our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are comprised entirely of independent directors and a majority of our directors are “independent” in accordance with the rules of the NYSE.

Competition

Our success depends, in large part, on our ability to acquire assets with favorable margins over our borrowing costs. In acquiring MBS, we compete with numerous mortgage REITs, mortgage finance and specialty finance companies, savings and loan associations, banks, mortgage bankers, insurance companies, mutual funds, institutional investors, investment banking firms, other lenders, governmental bodies and other entities and others may be organized in the future. Additional firms in the marketplace may increase competition for the available supply of mortgage assets suitable for purchase and could adversely affect the availability and cost of our financing. Many of these organizations have greater financial resources and access to lower costs of capital than we do. Some of these entities may not be subject to the same regulatory constraints that we are (i.e., REIT compliance or maintaining an exclusion under the 1940 Act).

Corporate Information

We are managed by ACM pursuant to management agreements between each of ARMOUR and JAVELIN and ACM. We do not have any employees. As of December 31, 2020, ACM had 22 employees that provide services to us.

Principal office location: 3001 Ocean Drive, Suite 201, Vero Beach, FL 32963

Phone number: (772) 617-4340.

Website: www.armourreit.com.



ARMOUR Residential REIT, Inc.
Business (continued)

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Our investor relations website can be found under the “Investor Relations” tab at www.armourreit.com. We make available on our website under “SEC filings,” free of charge, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the SEC. We also make available on our website, our Board committee charters as well as our corporate governance documents, including our code of business conduct and ethics and whistleblower policy. Any amendments or waivers thereto will be provided on our website within four business days following the date of the amendment or waiver. Information provided on our website is not part of this Annual Report on Form 10-K and not incorporated herein.

We are required to file Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q with the SEC on a regular basis and are required to disclose certain material events in a Current Report on Form 8-K. The SEC also maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The SEC’s Internet website is located at <http://www.sec.gov>.



Item 1A. Risk Factors
ARMOUR Residential REIT, Inc.

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You should consider carefully all of the risks described below together with the other information contained in this Annual Report on Form 10-K, before making a decision to invest in our securities. This Annual Report on Form 10-K also contains forward-looking statements that involve risks and uncertainties. The risks and uncertainties described herein should not be considered to be a complete list of all potential risks that may affect us. Additional risks and uncertainties not currently known to us, or not presently deemed material by us, may also impair our operations and performance. If any of the following events occur, our business, financial condition and operating results may be materially adversely affected, the trading price of our securities could decline and you may lose all or part of your investment. Refer to the Glossary of Terms for definitions of capitalized terms and abbreviations used in this report. U.S. dollar amounts are presented in thousands, except per share amounts or as otherwise noted.

Risk Factor Summary

ARMOUR's business of investing in MBS involves relies heavily on financial leverage which magnifies our interest rate and spread risks:

- Changes in interest rates generally, and volatility in the relationship between market prices and yields on our MBS and the prices and yields on benchmark fixed income securities, may adversely impact our net interest income, total comprehensive income, asset values and stockholders' equity;
- Our MBS have maturities ranging from 10 to 30 years (although average lives are much shorter due to amortization and prepayments) while our repurchase agreement borrowings generally have maturities ranging from one to 90 days;
- Fed monetary policy may significantly influence the term structure of interest rates as well as the availability of short-term financing;
- During stressful market conditions, we may be forced to sell MBS at distressed prices, thereby potentially incurring permanent equity losses;
- We have credit exposure to our financing and derivative counterparties for the value of our collateral they hold in excess of our current liabilities; and
- Substantially all of our MBS portfolio consists of premium securities. Premium value represents a significant portion of our stockholders' equity, is not guaranteed and will erode over time as principal payments are made.

ARMOUR is externally managed by ACM:

- ACM may terminate the management agreement for any reason without incurring a termination fee. If ACM ceases to be our manager, it may constitute an event of default under our financing arrangements;
- ACM's liability is contractually limited and we have agreed to indemnify ACM;
- ACM is not precluded from serving our competitors or pursuing competing businesses;
- We may experience reductions in our total stockholders' equity without a commensurate reduction in our management fee expense;
- ACM has voluntarily waived a portion of its contractual management fee. ACM may reduce the amount of or discontinue entirely its voluntary waiver without our consent; and
- Our management agreement with ACM extends through June 18, 2027. ARMOUR may terminate the agreement without cause only under limited circumstances, which include a termination fee equal four times the contractual management fee for the preceding 12 months.



ARMOUR Residential REIT, Inc.
Risk Factors (continued)

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We and equity analysts use Core Income as a measure of ARMOUR's investment performance:

- Core Income is a non-GAAP measure which excludes gains and losses, and therefore is an imperfect measure of our overall financial performance; and
- Using Core Income may encourage ACM to make portfolio decisions that accelerate the realization of losses and delay the realization of gains, which may not maximize the risk-adjusted returns on our investment portfolio.

Our affiliate BUCKLER is our largest financing counterparty:

- We hold a 10% equity ownership in BUCKLER and a subordinated loan for \$105 million, which qualifies as regulatory capital;
- BUCKLER relies primarily on bilateral and triparty repurchase agreement funding through the FICC. If BUCKLER became unable to access these facilities, our own funding could become more difficult and more expensive. We maintain repurchase relationships with other counterparties which may reduce this risk;
- BUCKLER provides repurchase financing to third parties and may pursue other lines of business. We cannot guarantee that BUCKLER will not incur losses from these activities. Significant losses by BUCKLER from other business could impair the value of our investment in BUCKLER and limit BUCKLER's ability to provide attractive repurchase financing to ARMOUR; and
- ACM owns 70% of the equity in BUCKLER and certain of our officers are also officers and equity owners of BUCKLER, which may lead to conflicts of interest between BUCKLER and ARMOUR.

General risks common to ARMOUR and our peer mortgage REITs:

- Our ability to make attractive portfolio investments consistent with our strategy;
- The future of Fannie Mae and Freddie Mac;
- Complying with REIT and other tax requirements and Maryland law;
- Maintaining exemptions from the 1940 Act and CFTC commodity pool regulations;
- The impact of COVID-19 on our operations;
- Our dependence on key personnel, information systems and communication systems;
- Our Board of Directors may declare common stock dividend levels that exceed our total economic return; and
- Capital markets risks related to our securities.



ARMOUR's business of investing in MBS involves relies heavily on financial leverage which magnifies our interest rate and spread risks:

Changes in interest rates may impact our level of net interest income, total comprehensive income and stockholders' equity and we may not be able to successfully mitigate such interest rate risks.

We invest predominately in MBS backed by loans with fixed interest rates, and to a lesser extent from time to time, in MBS backed by loans with interest rates that adjust on a regular basis, usually either monthly or annually. Our MBS have maturities ranging from 10 to 30 years (although average lives are much shorter due to amortization and prepayments). Our repurchase agreement borrowings generally have maturities ranging from one to 90 days. This mismatch in the interest rate terms between our assets and our liabilities is the primary source of our ability to generate positive net interest income because long-term interest rates tend to be higher than short-term rates. Short-term and long-term interest rates do not always move together. If short-term rates increase faster than long-term rates, the difference between the two may become zero or negative, and we may not have the ability to generate positive net interest income.

Changes in short-term rates will most significantly impact our level of net interest income, with rising interest rates likely to reduce our net interest income. Changes in long-term rates will initially impact the fair value of our investments in securities, with rising interest rates reducing their fair value. Changes in the fair values of our available for sale securities are generally not reflected in our net income or our earnings per share, but rather are reflected directly in our stockholders' equity. Changes in the values of our trading securities are reflected in our income as other gain or loss with rising rates likely to generate losses. Over longer periods of time, rising long-term interest rates will provide us the opportunity to reinvest principal receipts and otherwise acquire additional investments in securities with higher yields.

We attempt to mitigate interest rate risk by moderating the amount of our financial leverage, diversifying our securities portfolio across both maturities and interest rate coupons, and economic hedging with derivatives. For example, we enter into interest rate swaps that require us to pay fixed rates and receive variable rates. These swaps are designed to offset the fluctuations in the interest costs of our repurchase financing due to movements in short-term interest rates. We record our derivatives and our trading securities at fair value and periodic changes in fair value are reflected in our net income (loss) and earnings per share. To the extent that fair value changes on derivatives offset fair value changes in our investments in securities, the fluctuation in our stockholders' equity will be lower. However, our income statement volatility will not be reduced, because the fair value changes in our available for sale securities are reflected directly in stockholders' equity. Rising interest rates may tend to result in an overall increase in our reported net income even while our total stockholders' equity declines.

Volatility in the relationships between the market prices and yields for our securities and certain benchmark prices and interest rates can adversely affect our net income, earnings per share and stockholders' equity.

The market prices and yields for Agency Securities and interest rate derivatives like those we hold are generally correlated over time to each other and to certain benchmark prices and interest rates, such as those for U.S. Treasury Securities. Those correlations are never perfect, and can vary widely on occasion, particularly in times of market stress. This variation in the "spread" relationship among the market yields, and therefore prices, of different instruments can result in our hedging positions being not as effective as normally would be expected, exposing us to the risk of unexpected volatility in our net income, earnings per share, and total stockholders' equity.



ARMOUR Residential REIT, Inc.
Risk Factors (continued)

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Spread risk is difficult and expensive to hedge effectively. Avoiding holding MBS with interest rate spread risk would severely limit our opportunity to generate net interest income because low spread risk investments, such as U.S. Treasury Securities, usually have substantially lower yields. Our efforts to mitigate spread risk are limited to attempting to identify characteristics that might cause particular MBS to have relatively higher or lower spread risk under potential future market conditions. Such characteristics include characteristics of the underlying loans and current market premium levels. However, other investment considerations, such as prepayment risk, tend to overshadow spread risk in our selection of Agency Securities.

We cannot predict the impact of future Fed monetary policy on the prices and liquidity of Agency Securities or other securities in which we invest, although Fed action could increase the prices of our target assets and reduce the spread on our investments or decrease our book value.

In its March 2020 meeting, the Fed lowered its target range for the Federal Funds Rate to between 0.00% and 0.25% (see table in section titled *Short-term Interest Rates and Funding Costs* for historical rate changes). 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 investments in securities would cause our net income to decline. We cannot predict the impact of any future actions by the Fed on the prices and liquidity of our investments in securities in which we invest, although future Fed action could increase the prices of our target assets and reduce the spread on our investments or decrease our book value. Future securities purchase programs or other monetary policy enacted by the Fed could materially adversely affect our business, financial condition and results of operations and our ability to pay distributions to our stockholders.

During stressful market conditions, we may be forced to sell MBS at depressed prices, thereby potentially incurring permanent equity losses.

Occasionally, the cash and financing markets for MBS experience temporary periods of significant distress, as evidenced by limited liquidity, low bid prices and few transactions. In such circumstances, our lenders may increase their margin requirements and significantly reduce their collateral value for our pledged securities. Our lenders are contractually entitled to adjust margin requirements on relatively short notice and collateral values as frequently as daily. Depending on the duration and severity of the market distress, ARMOUR may need to sell MBS at prices significantly below their long-term value in order to meet lender margin calls. We may not be able to participate in any potential market recovery and the resulting losses may permanently and materially reduce our equity.

Our lenders may insist on financing terms that could result in reducing the availability and/or increasing the cost of our financing or may terminate our financing.

In order to achieve a competitive return for our investors, we use financial leverage to hold a portfolio of MBS that is several times larger than our total stockholders' equity. Our borrowings are essentially all in the form of repurchase agreements where we nominally sell MBS to counterparties with an agreement to repurchase them at a later date. The sale and purchase prices are set several percentage points below the current fair value of the MBS. This "haircut" percentage provides the counterparty with excess collateral to secure their loan and provides us with an incentive to complete the repurchase transaction on schedule.

There is a risk that our counterparties might be unwilling to continue to extend repurchase financing to us. Changes in regulation, market conditions or the financial position or business strategy of our counterparties could cause them to reduce or terminate our repurchase financing facilities.



ARMOUR Residential REIT, Inc.
Risk Factors (continued)

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We attempt to mitigate our funding risk by maintaining repurchase funding relationships with a variety of counterparties that are diversified as to size, character and primary regulatory jurisdiction, including a substantial funding relationship with BUCKLER. We also monitor our borrowing levels with each counterparty, attempt to establish appropriate additional business relationships beyond our borrowing and regularly communicate with their credit and business officers responsible for our relationship. From time to time, we explore new funding structures and opportunities, but there can be no assurance that any such additional funding will become available on attractive terms.

We may not be able to minimize potential credit risks that could arise in the event of bankruptcy of one or more of our counterparties.

Substantially all of our Agency Securities are issued or guaranteed by GSEs, which we consider the functional equivalent of the full faith and credit of the U.S Government. Our primary credit risk relates to our exposure to our counterparties for the amount of the excess collateral they hold to secure our repurchase financing and derivative obligations. We would typically become a general unsecured creditor for that amount in the event of the bankruptcy of a counterparty.

Our forward settling transactions, including TBAs, subject us to certain risks, including price risks and counterparty risks. We purchase a portion of our Agency Securities through forward settling transactions, including TBAs. In a forward settling transaction, we enter into a forward purchase agreement with a counterparty to purchase either (i) an identified Agency Security, or (ii) a TBA, or to-be-issued, Agency Securities with certain terms. As with any forward purchase contract, the value of the underlying Agency Security may decrease between the contract date and the settlement date. Furthermore, a transaction counterparty may fail to deliver the underlying Agency Securities at the settlement date. If any of the above risks were to occur, our financial condition and results of operations may be materially adversely affected.

We mitigate our credit risk by evaluating the credit quality of our counterparties on an ongoing basis, reducing or closing positions with counterparties where we have credit concerns, monitoring our collateral positions to minimize excess collateral balances and diversifying our repurchase financing and derivatives positions among numerous counterparties. At December 31, 2020 and December 31, 2019, BUCKLER (see Note 15 to the consolidated financial statements) accounted for 66.1% and 45.0%, respectively, of our aggregate borrowings and had an amount at risk of 8.3% and 14.8%, respectively, of our total stockholders' equity.

Substantially all of our MBS portfolio consists of premium securities. Premium securities may be subject to more risk than par value securities.

Premium securities have market values that exceed their unpaid principal balance. We typically buy MBS at premiums, which for the year ended December 31, 2020, ranged from 103.9% to 111.3%, which represent prices that we believe appropriately reflect the risks involved. Declining interest rates increase the premium level of our MBS and generate unrealized holding gains. Because we carry our MBS at fair value, unrealized holding gains are reflected in total stockholders' equity.

MBS premium is not guaranteed by the Agencies and rising interest rates tend to reduce premium values. In residential MBS, the premium is also subject to prepayment risk. Premium value will also erode over time as principal payments are made. At December 31, 2020, the total premium associated with our MBS portfolio was approximately \$559,912, which represents approximately 70% of our equity attributable to common stockholders.



ARMOUR Residential REIT, Inc.
Risk Factors (continued)

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Factors beyond our control may increase the prepayment speeds on our MBS, thereby reducing our interest income.

Agency Securities may be backed by loans where the underlying borrowers may prepay their loans without premium or penalty. When borrowers default on their loans, the GSE or government entity that issued or guaranteed the Agency Securities (including Agency Securities backed by multi-family loans) pay off the remaining loan balance. Those prepayments are passed through to us, reducing the balance of the Agency Security. We generally purchase Agency Securities at premium prices, and the premium amortization associated with prepayments reduces our interest income.

We experience prepayments on our Agency Security every month and the speed of prepayments can vary widely from month to month and across individual Agency Securities. Factors driving prepayment speeds include the rate of new and existing home sales, the level of borrower refinancing activities and the frequency of borrower defaults. Such factors are themselves influenced by government monetary, fiscal and regulatory policies and general economic conditions such as the level of and trends in interest rates, GDP, employment and consumer confidence. Prepayment expectations are an integral part of pricing Agency Securities in the marketplace. 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.

We consider our expectations of future prepayments when evaluating the prices at which we purchase and sell Agency Securities. We attempt to mitigate the risk of unexpected prepayments by identifying characteristics of the underlying loans, such as the loan size, coupon rate, loan age and maturity, geographic location, borrower credit scores and originator/servicer that might predict relatively faster or slower prepayment speed tendencies for a particular Agency Security. Agency Securities with characteristics expected to be favorable often command marginally higher prices, or “pay ups.” We seek to purchase Agency Securities with favorable prepayment characteristics when the required pay ups are relatively lower and may sell our Agency Securities when their pay ups are relatively higher.

The structural characteristics of Credit Risk and Non-Agency Securities may make them more or less sensitive to variations in prepayment speeds of the underlying mortgage loans.

Interest-Only Securities only entitle the holder to interest payments made on the underlying mortgage loans. Therefore, the yield to maturity of Interest-Only Securities is extremely sensitive to the rate of principal payments (particularly prepayments) on the underlying pool of mortgages.

ARMOUR is externally managed by ACM:

ACM may terminate the management agreement for any reason. If ACM ceases to be our investment manager, financial institutions providing any financing arrangements to us may not provide future financing to us.

The management agreement allows ACM to terminate its service to ARMOUR for any reason upon 180 days prior written notice. No termination fee shall be due From ACM to ARMOUR following any termination by ACM.

Financial institutions that finance our investments may require that ACM continue to act in such capacity. If ACM ceases to be our manager, it may constitute an event of default and the financial institution providing the arrangement may have acceleration rights with respect to outstanding borrowings and termination rights with respect to our ability to finance our future investments with that institution. If we are unable to obtain financing



ARMOUR Residential REIT, Inc.
Risk Factors (continued)

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for our accelerated borrowings and for our future investments under such circumstances, it is likely that we would be materially and adversely affected.

ACM's liability is limited under the management agreements and we have agreed to indemnify ACM and its affiliates against certain liabilities. As a result, we could experience poor performance or losses for which ACM would not be liable.

The management agreements limit the liability of ACM and any directors and officers of ACM for money damages, except for liability resulting from actual receipt of an improper benefit or profit in money, property or services, or a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

Pursuant to the management agreements, ACM will not assume any responsibility other than to render the services called for thereunder and will not be responsible for any action of our Board in following or declining to follow its advice or recommendations. ACM and its affiliates, directors, officers, stockholders, equity holders, employees, representatives and agents and any affiliates thereof, will not be liable to us, our stockholders, any subsidiary of ours, the stockholders of any subsidiary of ours, our Board, any issuer of mortgage securities, any credit-party, any counterparty under any agreement, or any other person for any acts or omissions, errors of judgment or mistakes of law by ACM or its affiliates, directors, officers, stockholders, equity holders, employees, representatives or agents, or any affiliates thereof, under or in connection with the management agreements, except if ACM was grossly negligent, acted with reckless disregard or engaged in willful misconduct or fraud while discharging its duties under the management agreements. We have agreed to indemnify ACM and its affiliates, directors, officers, stockholders, equity holders, employees, representatives and agents and any affiliates thereof, with respect to all expenses, losses, costs, damages, liabilities, demands, charges and claims of any nature, actual or threatened (including reasonable attorneys' fees), arising from or in respect of any acts or omissions, errors of judgment or mistakes of law (or any alleged acts or omissions, errors of judgment or mistakes of law) performed or made while acting in any capacity contemplated under the management agreements or pursuant to any underwriting or similar agreement to which ACM is a party that is related to our activities, unless ACM was grossly negligent, acted with reckless disregard or engaged in willful misconduct or fraud while discharging its duties under the management agreements. As a result, we could experience poor performance or losses for which ACM would not be liable.

In addition, our articles of incorporation provide that no director or officer of ours shall be personally liable to us or our stockholders for money damages. Furthermore, our articles of incorporation permit and our by-laws require, us to indemnify, pay or reimburse any present or former director or officer of ours who is made or threatened to be made a party to a proceeding by reason of his or her service to us in such capacity. Officers and directors of ours who are also officers of ACM will therefore benefit from the exculpation and indemnification provisions of our articles of incorporation and by-laws and accordingly may not be liable to us in such circumstances.

There is the potential for conflicts of interest with current and future investment entities affiliated with ACM.

There are conflicts of interest in allocating investment opportunities among us and other funds, investment vehicles and ventures managed by ACM. ACM and its affiliates may in the future form additional funds or sponsor additional investment vehicles and ventures that have overlapping objectives with us and therefore may compete with us for investment opportunities and ACM resources. ACM has an allocation policy that addresses the manner in which investment opportunities are allocated among the various entities and strategies for which they provide investment management services. However, we cannot assure you that ACM will always



allocate every investment opportunity in a manner that is advantageous for us; indeed, we may expect that the allocation of investment opportunities will at times result in our receiving only a portion of, or none of, certain investment opportunities.

There is the potential for conflicts of interest with the allocation of investment opportunities by ACM.

In allocating investment opportunities among us and any other funds or accounts that may be managed by them, ACM's personnel are guided by the principles that they will treat all entities fairly and equitably, they will not arbitrarily distinguish among entities and they will not favor one entity over another.

In allocating a specific investment opportunity among funds or accounts, ACM will make a determination, exercising their judgment in good faith, as to whether the opportunity is appropriate for each entity. Factors in making such a determination may include an evaluation of each entity's liquidity, overall investment strategy and objectives, the composition of the existing portfolio, the size or amount of the available opportunity, the characteristics of the securities involved, the liquidity of the markets in which the securities trade, the risks involved, and other factors relating to the entity and the investment opportunity. ACM is not required to provide every opportunity to each entity.

If ACM determines that an investment opportunity is appropriate for us, then ACM will allocate that opportunity in a manner that it determines, exercising its judgment in good faith, to be fair and equitable, taking into consideration all allocations taken as a whole. ACM has broad discretion in making that determination, and in amending that determination over time.

In the future, ACM may adopt additional conflicts of interest resolution policies and procedures designed to support the equitable allocation and to prevent the preferential allocation of investment opportunities among entities with overlapping investment objectives.

Members of our management team have competing duties to other entities, which could result in decisions that are not in the best interests of our stockholders.

Our executive officers and the employees of ACM do not spend all of their time managing our activities and our investment portfolio. Our executive officers and the employees of ACM allocate some, or a material portion, of their time to other businesses and activities. None of these individuals is required to devote a specific amount of time to our affairs. As a result of these overlapping responsibilities, there may be conflicts of interest among and reduced time commitments from our officers and employees of ACM that we will face in making investment decisions on our behalf. Accordingly, we will compete with ACM, and their existing activities, other ventures and possibly other entities in the future for the time and attention of these officers.

In the future, we may enter, or ACM may cause us to enter, into additional transactions with ACM or its affiliates. In particular, we may make loans to ACM or its affiliates or purchase, or ACM may cause us to purchase, assets from ACM or its affiliates or make co-purchases alongside ACM or its affiliates. These transactions may not be the result of arm's length negotiations and may involve conflicts between our interests and the interests of ACM and/or its affiliates in obtaining favorable terms and conditions.



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Risk Factors (continued)

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ACM's management fees are calculated based on our gross equity raised and not on our performance. Therefore, the management fee structure may not provide sufficient incentive to ACM to maximize risk adjusted returns on our investment portfolio and management fee expense may not decline with reductions in our total stockholders' equity.

ACM is entitled to receive monthly management fees that are based on the total of all gross equity raised (see Note 9 and Note 15 to the consolidated financial statements), as measured as of the date of determination (i.e., each month), regardless of our performance. Accordingly, the possibility exists that significant management fees could be payable to ACM for a given month despite the fact that we could experience a net loss during that month. ACM's entitlement to such significant nonperformance-based compensation may not provide sufficient incentive to ACM to devote its time and effort to source and maximize risk adjusted returns on our investment portfolio, which could, in turn, adversely affect our ability to pay dividends to our stockholders and the market price of our stock. Further, the management fee structure gives ACM the incentive to maximize gross equity raised by the issuance of new equity securities or the retention of existing equity, regardless of the effect of these actions on existing stockholders. In other words, the management fee structure will reward ACM primarily based on the size of our equity raised and not on our financial returns to stockholders.

Gross equity raised is reduced by the repurchase and redemption of our previously issued common and preferred stock and liquidation distributions designated by the Board of Directors. Regular dividends and investment losses do not reduce gross equity raised. Accordingly, we may experience reductions in our total stockholders' equity without a commensurate reduction in management fee expense.

ACM has voluntarily waived a portion of its contractual management fee. ACM may reduce the amount of or discontinue entirely its voluntary fee waiver without our consent.

Effective with the second quarter of 2020, ACM voluntarily waived 40% of its contractual management fee, which waiver totaled \$8,855 for 2020. Effective for the first quarter of 2021, ACM is voluntarily waiving \$2,400 and then \$800 per month thereafter of its contractual management fee. ACM may prospectively reduce the amount of or discontinue entirely its voluntary waiver at its sole discretion and without requiring our consent.

The termination of the management agreements may be difficult and costly, which may adversely affect our inclination to end our relationship with ACM.

ACM may terminate the management agreements at any time and for any reason upon 180 days prior notice. If the ARMOUR management agreement is terminated and no suitable replacement is found to manage us, we may not be able to execute our business plan.

Termination of the ARMOUR management agreement with ACM without cause may be difficult and costly. The term "cause" is limited to those circumstances described in the management agreement with ACM. We may not terminate the management agreement during the current term, except for cause or in connection with a Corporate Event, as defined therein. Upon a termination by us without cause, which shall include a Corporate Event, the management agreement provides that ARMOUR will pay ACM a termination payment equal to four times the base management fee paid to ACM in the preceding full twelve (12) months, calculated as of the effective date of the termination of the agreement. The possibility of termination fees would increase the effective cost to us of electing to terminate the management agreement, thereby adversely affecting our inclination to end our relationship with ACM, even if we believe ACM's performance is not satisfactory.



ARMOUR Residential REIT, Inc.
Risk Factors (continued)

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Additionally, following the Current Term, the ARMOUR management agreement will automatically renew for successive five-year renewal terms unless either we or ACM give advance notice to the other of our intent not to renew the agreement prior to the expiration of the Current Term or any renewal term. However, our right to give such a notice of non-renewal is limited and requires our independent directors to agree that certain conditions are met. The JAVELIN management agreement renewed on October 5, 2017, for a one-year period, with the annual management fee thereunder reduced to one dollar for the entirety of the renewal term. It automatically renews for successive one-year terms unless terminated under certain circumstances.

The management agreements were not negotiated on an arm's-length basis and the terms, including fees payable, may not be as favorable to us as if they were negotiated with an unaffiliated third-party.

The management agreements that we entered into with ACM were negotiated between related parties, and we did not have the benefit of arm's-length negotiations of the type normally conducted with an unaffiliated third-party. The terms of the management agreements, including fees payable, may not reflect the terms that we may have received if it were negotiated with an unrelated third-party. In addition, we may choose not to enforce, or to enforce less vigorously, our rights under the management agreements because of our desire to maintain our ongoing relationship with ACM.

We and equity analysts use Core Income as a measure of ARMOUR's investment performance:

Core Income is a non-GAAP measure which excludes gains and losses, and therefore is an imperfect measure of our overall financial performance.

We use Core Income as a measure of our investment performance and discuss our periodic financial results in terms of Core Income in our press releases and conference calls with equity analysts. Core Income is a non-GAAP measure which excludes gains or losses from securities sales and early termination of derivatives, market value adjustments (including impairments) and certain non-recurring expenses. Core Income is an incomplete measure of the Company's financial performance and involves differences from total comprehensive income (loss) computed in accordance with GAAP.

Using Core Income may not provide sufficient incentive to ACM to maximize risk adjusted returns on our investment portfolio.

Because Core Income excludes gains and losses, using it as a measure of investment performance may encourage ACM to make portfolio decisions on our behalf that have the effect of accelerating the realization of losses and delaying the realization of gains. For example, in declining interest rate environments, we may replace interest rate swaps that have declined in value with new swaps requiring a lower fixed coupon payment while retaining in portfolio appreciated mortgage securities. Conversely, in rising interest rate environments, we may replace mortgage securities that have declined in value with new, higher coupon securities while retaining interest rate swaps that have increased in value.

Our affiliate BUCKLER is our largest financing counterparty:

A material portion of our aggregate repurchase financing is facilitated through BUCKLER.

At December 31, 2020, BUCKLER provided approximately \$2,998,111, or 66.1% of ARMOUR's repurchase financing. BUCKLER is subject to various broker-dealer regulations. BUCKLER's failure to comply with these



ARMOUR Residential REIT, Inc.
Risk Factors (continued)

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regulations, facilitate attractive repurchase financing and its ability to conduct business with third parties could adversely affect ARMOUR's funding costs, "haircuts" and/or counterparty exposure.

We hold a 10% equity ownership interest in BUCKLER and additionally, provided it with an aggregate of \$105.0 million in a subordinated loan which qualifies as regulatory capital.

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, (see Note 15 to the consolidated financial statements). We cannot guarantee that BUCKLER will be able to provide repurchase financing on more attractive terms in the future.

BUCKLER relies primarily on bilateral and triparty repurchase agreement funding through the FICC.

BUCKLER's ability to access bilateral and triparty repo funding and to raise funds through the General Collateral Finance Repo service offered by the FICC, requires that it continuously meet the regulatory and membership requirements of FINRA and the FICC, which may change over time. If BUCKLER fails to meet these requirements and is unable to access such funding, we would be required to find alternative funding, which we may be unable to do, and our funding costs, "haircuts" and/or counterparty exposure could increase, and our liquidity could be adversely impacted.

ARMOUR continues to maintain active repurchase financing arrangements with numerous other counterparties with the intention of reducing our risk of relying primarily on BUCKLER. At December 31, 2020, we had repurchase borrowings from 18 different counterparties including BUCKLER. However, there can be no assurance as to the availability, terms, or cost of additional repurchase financing that might be available from other counterparties if we needed to replace BUCKLER's financing capacity, particularly on short notice or during times of market distress.

BUCKLER may pursue business opportunities with third parties.

So long as our subordinated loan is outstanding, our independent directors must approve, in their sole discretion, any third-party business engaged by BUCKLER. However, we cannot guarantee that BUCKLER's pursuit of business with third parties will not incur losses for us or that BUCKLER will be able to continue to provide us with attractive repurchase financing.

There are conflicts of interest in our relationship with ACM and its affiliates, including BUCKLER, which could result in decisions that are not in the best interests of our stockholders.

We are subject to conflicts of interest arising out of our relationship with ACM and its affiliates, including BUCKLER. Entities affiliated with Mr. Ulm and Mr. Zimmer are the general partners of ACM and each of Mr. Ulm, Mr. Zimmer, Mr. Staton and Mr. Bell is a limited partner in ACM. ACM and our executive officers control BUCKLER.

The management agreements with ACM may create a conflict of interest and their terms, including fees payable to ACM, may not be as favorable to us as if they had been negotiated with an unaffiliated third-party. In addition, we may choose not to enforce, or to enforce less vigorously, our rights under the management agreements because of our desire to maintain our ongoing relationship with ACM. ACM maintains a contractual and fiduciary relationship with us. The management agreements with ACM do not prevent ACM and its affiliates from engaging in additional management or investment opportunities some of which will compete with us. ACM



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Risk Factors (continued)

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and its affiliates may engage in additional management or investment opportunities that have overlapping objectives with ours and may thus face conflicts in the allocation of investment opportunities to these other investments. Such allocation is at the discretion of ACM and there is no guarantee that this allocation would be made in the best interest of our stockholders. We are not entitled to receive preferential treatment as compared with the treatment given by ACM or its affiliates to any investment company, fund or advisory account other than any fund or advisory account which contains only funds invested by ACM (and not of any of its clients or customers) or its officers and directors. Additionally, the ability of ACM and its respective officers and employees to engage in other business activities may reduce the time spent and resources used managing our activities.

ACM owns 70% of the equity of BUCKLER. BUCKLER may offer repurchase agreement financing to us at rates and terms that may be less advantageous to us than if they had been negotiated with third parties.

General risks common to ARMOUR and our peer mortgage REITs:

We operate in a highly competitive market for investment opportunities and related financing and competition may limit our ability and financing to acquire desirable investments in our target assets, obtain necessary financing and could also affect the pricing of these assets and cost of funds.

We operate in a highly competitive market for investment opportunities and borrowing facilities. Our profitability depends, in large part, on our ability to acquire our target assets at attractive prices and finance them economically. In acquiring and financing our target assets, we will compete with a variety of institutional investors, including other REITs, specialty finance companies, public and private funds, government entities, commercial and investment banks, commercial finance and insurance companies and other financial institutions. Many of our competitors are substantially larger and have considerably greater financial, technical, marketing and other resources than we do. Several other REITs may have investment objectives that overlap with ours, which may create additional competition for investment opportunities and financing. Some competitors may have a lower cost of funds and access to funding sources that may not be available to us, such as funding from the U.S. or foreign governments. Many of our competitors are not subject to the operating constraints associated with REIT tax compliance or maintenance of an exemption from the Investment Company Act. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, competition for investments in our target assets may lead to the price of such assets increasing, which may further limit our ability to generate desired returns. We cannot provide assurance that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, desirable investments in our target assets may be limited in the future and we may not be able to take advantage of attractive investment opportunities from time to time, as we can provide no assurance that we will be able to identify, finance and make investments that are consistent with our investment objectives.

Our ability to buy or sell our securities and derivatives may be severely limited or not profitable and we may be required to post additional collateral in connection with our financing and derivatives.

Our MBS and our hedging derivatives are traded in the over-the-counter market. Therefore, we must buy and sell our securities and derivatives in privately negotiated transactions with banks, brokers, dealers, or principal counter parties such as originators, the GSEs and other investors. Without the benefit of a securities exchange, there may be times when the supply of or demand for the MBS and derivatives we wish to buy or sell is severely limited. Our hedging derivatives, depending on their characteristics, are traded on either the over-the-counter market or on derivatives exchanges. The bid-ask spread between the prices at which we can purchase and sell MBS and derivatives may also become temporarily wide relative to historical levels. This could exacerbate our losses or



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Risk Factors (continued)

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limit our opportunities to profit during times of market stress or dislocation. We attempt to mitigate this risk by concentrating our investments in MBS that have more widespread trading interest resulting in deeper and more liquid trading.

All of our repurchase financing and our hedging derivatives have daily collateral maintenance requirements, and a substantial portion of our MBS are pledged as collateral. These collateral requirements are monitored by our counterparties and we may be required to post additional collateral when the value of our posted collateral declines and/or the fair value of our net liability under a derivative increase. We attempt to mitigate this risk by moderating the amount of our financial leverage, monitoring collateral maintenance requirements, and timely calling for collateral (or a return of collateral) from our counterparties on financing positions and derivatives, and maintaining reserve liquidity in the form of cash or unpledged Agency Securities that are widely acceptable as collateral. By concentrating our investments in more liquid Agency Securities, we also seek to be able to quickly sell positions and reduce our financial leverage if necessary.

The daily collateral maintenance required for our repurchase financing and our hedging derivatives generally move in opposite directions as market interest rates change. However, because market yields on our Agency Securities are not perfectly correlated with interest rate swap market yields, it is likely that our daily requirements to post collateral to our counterparties will not equal the collateral our counterparties are required to post to us. In times of higher market volatility, those differences can become more significant.

The adoption of derivatives legislation by Congress could have an adverse impact on our ability to hedge risks associated with our business.

The Dodd-Frank Act regulates derivative transactions, which include certain instruments used in our risk management activities. Under the Dodd-Frank Act, certain swaps are required to clear through a registered clearing facility and traded on a designated exchange or swap execution facility. 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. There are some exceptions to these requirements for entities that use swaps to hedge or mitigate commercial risk. However, we do not qualify for an exception. Among the other provisions of the Dodd-Frank Act that may affect derivative transactions are those relating to establishment of capital and margin requirements for certain derivative participants, establishment of business conduct standards, record keeping and reporting requirements, and imposition of position limits. Although the Dodd-Frank Act includes significant new provisions regarding the regulation of derivatives, the impact of those requirements will not be known definitively until regulations have been adopted by the SEC and the CFTC. The new legislation and any new regulations could increase the operational and transactional cost of derivatives contracts and affect the number and/or creditworthiness of available hedge counterparties to us.

We may change our target assets, financing and investment strategy and other operational policies without stockholder consent, which may adversely affect the market price of our common stock and our ability to make distributions to stockholders.

Within our overall investment guidelines, we may change our target assets financing strategy and investment guidelines at any time without the consent of our stockholders, which could result in our making investments that are different from, and possibly riskier than, the investments described in this Annual Report on Form 10-K. Our Board also determines our other operational policies and may amend or revise such policies, including our policies with respect to our REIT qualification, acquisitions, dispositions, operations, indebtedness and distributions, or approve transactions that deviate from these policies, without a vote of, or notice to, our stockholders. A change in our targeted investments, financing strategy, investment guidelines and other



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Risk Factors (continued)

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operational policies may increase our exposure to interest rate risk, default risk and real estate market fluctuations, all of which could adversely affect the market price of our stock and our ability to make distributions to our stockholders.

Changes in laws and regulations affecting the relationship between Fannie Mae and Freddie Mac and the U.S. Government may adversely affect our business.

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 for the longer-term viability of these GSEs. These uncertainties may lead to concerns about the availability of and trading 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.

Our qualification as a REIT subjects us to a broad array of financial and operating parameters that may influence our business and investment decisions and limit our flexibility in reacting to market developments.

In order to qualify and maintain our qualification as a REIT, we must, among other things, ensure:

- that at least 75% of our gross income each year is derived from certain real estate related sources;
- that at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans and certain kinds of MBS, at the end of each calendar quarter;
- that the remainder of our investment in securities generally cannot include more than 10% of the outstanding voting securities of any one issuer, or more than 10% of the total value of the outstanding securities of any one issuer; and
- that no more than 5% of the value of our assets can consist of securities of any one issuer.

There are significant restrictions on ownership of our common stock.

In order for us to maintain our qualification as a REIT under the Code, not more than 50% in value of the issued and outstanding shares of our capital stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities) at any time during the last half of each taxable year (other than our first year as a REIT). This test is known as the "5/50 test." Attribution rules in the Code apply to determine if any individual actually or constructively owns our capital stock for purposes of this requirement, including, without limitation, a rule that deems, in certain cases, a certain holder of a warrant or option to purchase stock as owning the shares underlying such warrant or option and a rule that treats shares owned (or treated as owned, including shares underlying warrants) by entities in which an individual has a direct or indirect interest as if they were owned by such individual. Additionally, at least 100 persons must beneficially own our



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capital stock during at least 335 days of each taxable year (other than our first year as a REIT). While we believe that we meet the 5/50 test, no assurance can be given that we will continue to meet this test.

Our charter prohibits beneficial or constructive ownership by any person of more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock or all classes of our capital stock. Additionally, our charter prohibits beneficial or constructive ownership of our stock that would otherwise result in our failure to qualify as a REIT. In each case, such prohibition includes a prohibition on owning warrants or options to purchase stock if ownership of the underlying stock would cause the holder or beneficial owner to exceed the prohibited thresholds. The ownership rules in our charter are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be owned by one individual or entity. As a result, these ownership rules could cause an individual or entity to unintentionally own shares beneficially or constructively in excess of our ownership limits. Any attempt to own or transfer shares of our common or preferred stock, in excess of our ownership limits without the consent of our board of directors shall be void, and will result in the shares being transferred to a charitable trust. These provisions may inhibit market activity and the resulting opportunity for our stockholders to receive a premium for their shares that might otherwise exist if any person were to attempt to assemble a block of shares of our stock in excess of the number of shares permitted under our charter and which may be in the best interests of our stockholders. We may grant waivers from the 9.8% charter restriction for holders where, based on representations, covenants and agreements received from certain equity holders, we determine that such waivers would not jeopardize our status as a REIT.

Legislative or other actions affecting the tax status of REITs could materially and adversely affect us and our stockholders.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive application, could materially and adversely affect us and our stockholders. We cannot predict how changes in the tax laws might affect us or our stockholders. New legislation, U.S. Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the U.S. federal income tax consequences of such qualification.

If we fail to comply with these requirements, we must dispose of a portion of our assets within 30 days after the end of the calendar quarter in order to avoid losing our REIT status and suffering adverse tax consequences. If we fail to qualify as a REIT, we will be subject to federal income tax as a regular corporation and may face substantial tax liability.

Qualification as a REIT involves the satisfaction of numerous requirements (some on an annual or quarterly basis) established under highly technical and complex provisions of the Code for which only a limited number of judicial or administrative interpretations exist. We believe we currently satisfy all the requirements of a REIT. However, the determination that we satisfy all REIT requirements requires an analysis of various factual matters and circumstances that may not be totally within our control. We have not requested and do not intend to request a ruling from the IRS that we qualify as a REIT. Accordingly, we are not certain we will be able to qualify and remain qualified as a REIT for federal income tax purposes. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, the U.S. Congress or the IRS might change tax laws or regulations and the courts might issue new rulings, in each case potentially having retroactive effect, which could make it more difficult or impossible for us to qualify as a REIT.

If we fail to qualify as a REIT in any tax year, then:



- we would be taxed as a regular domestic corporation, which, among other things, means that we would be unable to deduct distributions to stockholders in computing taxable income and would be subject to federal income tax on our net income at regular corporate rates;
- any resulting tax liability could be substantial and would reduce the amount of cash available for distribution to stockholders and could force us to liquidate assets at inopportune times, causing lower income or higher losses than would result if these assets were not liquidated; and
- unless we were entitled to relief under applicable statutory provisions, we would be disqualified from treatment as a REIT for the subsequent four taxable years following the year during which we lost our qualification and thus, our cash available for distribution to our stockholders would be reduced for each of the years during which we do not qualify as a REIT.

If we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

If we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, taxes on income from some activities conducted as a result of a foreclosure, excise taxes, state or local income, property and transfer taxes, such as mortgage recording taxes, and other taxes. In addition, in order to meet the REIT qualification requirements, prevent the recognition of certain types of non-cash income, or to avert the imposition of a 100% tax that applies to certain gains derived by a REIT from dealer property or inventory, we may hold some of our assets through a taxable REIT subsidiary ("TRS") or other subsidiary corporations that will be subject to corporate level income tax at regular rates. In addition, if we lend money to a TRS, the TRS may be unable to deduct all or a portion of the interest paid to us, which could result in an even higher corporate level tax liability. Any of these taxes would decrease cash available for distribution to our stockholders.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our taxable income, subject to certain adjustments and excluding any net capital gain, in order for federal corporate income tax not to apply to earnings that we distribute. To the extent that we satisfy this distribution requirement, but distribute less than 100% of our taxable income, we will be subject to federal corporate income tax on our undistributed taxable income. In addition, if the actual amount that we pay out to our stockholders in a calendar year is less than the sum of 85% of our REIT ordinary income for that year, 95% of our REIT capital gain net income for that year and any undistributed taxable income from prior periods, we will be subject to a 4% nondeductible excise tax on the excess of the required distribution over the amounts actually distributed. We intend to make distributions to our stockholders to comply with the REIT requirements of the Code.

From time to time, we may generate taxable income greater than our income for financial reporting purposes prepared in accordance with GAAP, or differences in timing between the recognition of taxable income and the actual receipt of cash may occur. For example, we may be required to accrue income from MBS and other types of debt securities or interests in debt securities before we receive any payments of interest or principal on such assets. We may also acquire discounted debt investments that are subsequently modified by agreement with the borrower. If such arrangements constitute "significant modifications" of such debt under the applicable Treasury regulations, the modified debt may be considered to have been reissued to us in a debt-for-debt exchange with the borrower, with gain recognized by us to the extent that the principal amount of the modified debt exceeds our cost of purchasing it prior to modification.

As a result, we may find it difficult or impossible to meet distribution requirements in certain circumstances. In particular, where we experience differences in timing between the recognition of taxable income



and the actual receipt of cash, the requirement to distribute a substantial portion of our taxable income could cause us to: (i) sell assets in adverse market conditions, (ii) borrow on unfavorable terms, (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt, in order to comply with REIT requirements, or (iv) make taxable distributions of our capital stock or debt securities. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

Complying with REIT requirements may cause us to forgo otherwise attractive opportunities.

To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts that we distribute to our stockholders and the ownership of our stock. We may be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution, and may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. In addition, in certain cases, the modification of a debt instrument or, potentially, an increase in the value of a debt instrument that we acquired at a significant discount, could result in the conversion of the instrument from a qualifying real estate asset to a wholly or partially non-qualifying asset that must be contributed to a TRS or disposed of in order for us to qualify or maintain our qualification as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make and, in certain cases, to maintain ownership of, certain attractive investments.

Complying with REIT requirements may force us to liquidate otherwise attractive investments.

To qualify as a REIT, we must ensure that at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and qualified REIT real estate assets, including certain mortgage loans and certain kinds of MBS. The remainder of our investment in securities (other than government securities, TRSs and qualified real estate assets) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our assets (other than government securities, TRSs and qualified real estate assets) can consist of the securities of any one issuer, and no more than 20% of the value of our total securities can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate from our investment portfolio otherwise attractive investments. For example, in certain cases, the modification of a debt instrument or, potentially, an increase in the value of a debt instrument that we acquired at a significant discount, could result in the conversion of the instrument from a qualifying real estate asset to a wholly or partially non-qualifying asset that must be liquidated in order for us to qualify or maintain our qualification as a REIT. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

The failure of assets subject to repurchase agreements to qualify as real estate assets could adversely affect our ability to qualify as a REIT.

In order to finance some of our assets that we hold or acquire, we may enter into repurchase agreements, including with persons who sell us those assets. Under a repurchase agreement, we will nominally sell certain of our assets to a counterparty and simultaneously enter into an agreement to repurchase those sold assets. Although the tax treatment of repurchase transactions is unclear, we take the position that we are treated for U.S. federal income tax purposes as the owner of those assets that are the subject of any such repurchase agreement



notwithstanding that we may transfer record ownership of those assets to the counterparty during the term of any such agreement. Because we enter into repurchase agreements the tax treatment of which is unclear, the IRS could assert, particularly in respect of our repurchase agreements with persons who sell us the assets that we wish to finance by way of repurchase agreements, that we did not own those assets during the term of the repurchase agreements, in which case we could fail to satisfy the 75% asset test necessary to qualify as a REIT.

Complying with REIT requirements may force us to borrow to make distributions to our stockholders.

As a REIT, we must distribute at least 90% of our annual REIT taxable income (excluding net capital gains) to our stockholders. From time to time, we may generate taxable income greater than our net income for financial reporting purposes from, among other things, the non-taxable unrealized changes in the value of our derivatives, or our taxable income may be greater than our cash flow available for distribution to our stockholders. If we do not have other funds available in these situations, we may be unable to distribute 90% of our taxable income as required by the REIT rules. Thus, we could be required to borrow funds, sell a portion of our assets at disadvantageous prices or find another alternative source of funds. These alternatives could increase our costs or reduce our equity and reduce amounts available to invest in MBS.

We may be required to report taxable income for certain investments in excess of the economic income we ultimately realize from them.

We may acquire debt instruments in the secondary market for less than their face amount. The discount at which such debt instruments are acquired may reflect doubts about their ultimate collectability rather than current market interest rates. The amount of such discount will nevertheless generally be treated as “market discount” for federal income tax purposes. Accrued market discount is reported as income when, and to the extent that, any payment of principal of the debt instrument is made. If we collect less on the debt instrument than our purchase price plus the market discount we had previously reported as income, we may not be able to benefit from any offsetting loss deductions. Some of the debt instruments that we acquire may have been issued with original issue discount. We are required to report such original issue discount based on a constant yield method and will be taxed based on the assumption that all future projected payments due on such debt instruments will be made. If such debt instruments or MBS turn out not to be fully collectible, an offsetting loss deduction will become available only in the later year that uncollectability is provable.

In addition, we may acquire debt instruments that are subsequently modified by agreement with the borrower. If the amendments to the outstanding instrument are “significant modifications” under the applicable Treasury regulations, the modified instrument is considered to have been reissued to us in a debt-for-debt exchange with the borrower. In that event, we may be required to recognize taxable gain to the extent the principal amount of the modified instrument exceeds our adjusted tax basis in the unmodified instrument, even if the value of the instrument or the payment expectations have not changed. Following such a taxable modification, we would hold the modified loan with a cost basis equal to its principal amount for federal tax purposes.

Finally, in the event that any debt instruments acquired by us are delinquent as to mandatory principal and interest payments, or in the event payments with respect to a particular instrument are not made when due, we may nonetheless be required to continue to recognize the unpaid interest as taxable income as it accrues, despite doubt as to its ultimate collectability. Similarly, we may be required to accrue interest income with respect to debt instruments at its stated rate regardless of whether corresponding cash payments are received or are ultimately collectible. In each case, while we would in general ultimately have an offsetting loss deduction available to us when such interest was determined to be uncollectible, the utility of that deduction could depend on our having taxable income in that later year or thereafter.



Our capital loss carry forward for tax purposes may expire before we can fully use it to offset otherwise taxable income or gains.

For U.S. federal income tax purposes, we previously have incurred net capital losses. Such net capital losses may be carried forward for five taxable years and generally used to offset undistributed taxable net capital gains realized during the carry forward period. Net capital losses realized totaling, \$(31,204), \$(7,375) and \$(216,634) will be available to offset future capital gains realized in 2021, 2022 and 2023 respectively. Any capital loss carry forward that we have not used to offset undistributed otherwise taxable net capital gains will expire after the end of such five-year period, and will no longer be available to us. Our capital loss carry forward may expire before we can fully use it because, for example, we do not generate enough taxable net capital gains during that period or we distribute net capital gains in the year realized. Our current practice of declaring dividends based on non-GAAP Core income increases the likelihood that net capital gains realized will be treated as distributed in the year realized. In the absence of offsetting net capital loss carry forward amounts, we will be required to make timely distributions of future net capital gains realized, or alternatively, pay U.S. federal income tax on such realized net capital gains not distributed.

Distributions to tax-exempt investors may be classified as unrelated business taxable income.

Neither ordinary nor capital gain distributions with respect to our common stock nor gain from the sale of common stock should generally constitute unrelated business taxable income to a tax-exempt investor. However, there are certain exceptions to this rule, including: (i) part of the income and gain recognized by certain qualified employee pension trusts with respect to our common stock may be treated as unrelated business taxable income if we become a “pension held” REIT and such qualified employee pension trust owns more than 10% of our common stock (ii) part of the income and gain recognized by a tax-exempt investor with respect to our common stock would constitute unrelated business taxable income if the investor incurs debt in order to acquire the common stock; (iii) part or all of the income or gain recognized with respect to our common stock by social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans which are exempt from federal income taxation under the Code may be treated as unrelated business taxable income; and (iv) to the extent that we are (or a part of us, or a disregarded subsidiary of ours, is) a “taxable mortgage pool,” (or if we hold residual interests in a REMIC), a portion of the distributions paid to a tax-exempt stockholder that is allocable to excess inclusion income may be treated as unrelated business taxable income.

The “taxable mortgage pool” rules may increase the taxes that we or our stockholders may incur and may limit the manner in which we effect future securitizations.

Securitizations could result in the creation of taxable mortgage pools for federal income tax purposes. As a REIT, so long as we own 100% of the equity interests in a taxable mortgage pool, we generally would not be adversely affected by the characterization of the securitization as a taxable mortgage pool. Certain categories of stockholders, however, such as foreign stockholders eligible for treaty or other benefits, stockholders with net operating losses and certain tax-exempt stockholders that are subject to unrelated business income tax, could be subject to increased taxes on a portion of their distribution income from us that is attributable to the taxable mortgage pool. In addition, to the extent that our stock is owned by tax-exempt “disqualified organizations,” such as certain government-related entities and charitable remainder trusts that are not subject to tax on unrelated business income, we may incur a corporate level tax on a portion of our income from the taxable mortgage pool. In that case, we will reduce the amount of our distributions to any disqualified organization whose stock ownership gave rise to the tax. Moreover, we would be precluded from selling equity interests in these securitizations to outside investors or selling any debt securities issued in connection with these securitizations that might be



considered to be equity interests for tax purposes. These limitations may prevent us from using certain techniques to maximize our returns from securitization transactions.

We may incur excess inclusion income that would increase the tax liability of our stockholders or the Company.

In general, dividend income that a tax-exempt entity receives from us should not constitute unrelated business taxable income as defined in Section 512 of the Code. If we realize excess inclusion income and allocate it to stockholders, however, then this income would be fully taxable as unrelated business taxable income under Section 512 of the Code. If the stockholder is foreign, it would generally be subject to U.S. federal income tax withholding on this income without reduction pursuant to any otherwise applicable income tax treaty. U.S. stockholders would not be able to offset such income with their operating losses. If our stock is held in record name by “disqualified organizations” (generally government entities and certain tax-exempt investors, such as certain state pension plans and charitable remainder trusts, that are not subject to the tax on unrelated business taxable income), the Company must pay tax at the highest corporate rate on any excess inclusion income attributable to such disqualified organization investors. That tax would reduce our taxable REIT income.

We generally structure our borrowing arrangements in a manner designed to avoid generating significant amounts of excess inclusion income. However, excess inclusion income could result if we held a residual interest in a REMIC. Excess inclusion income also may be generated if we were to issue debt obligations with two or more maturities and the terms of the payments on these obligations bore a relationship to the payments that we received on our Agency Securities securing those debt obligations. For example, we may engage in non-REMIC CMO securitizations. We also enter into various repurchase agreements that have differing maturity dates and afford the lender the right to sell any pledged mortgage securities if we default on our obligations. These transactions may give rise to excess inclusion income that requires allocation among our stockholders. We may invest in equity securities of other REITs and it is possible that we might receive excess inclusion income from those investments. Some types of entities, including, without limitation, voluntarily employee benefit associations and entities that have borrowed funds to acquire their shares of our stock, may be required to treat a portion of or all of the dividends they receive from us as unrelated business taxable income.

Liquidation of assets may jeopardize our REIT qualification or create additional tax liability for us.

To qualify as a REIT, we must comply with requirements regarding the composition of our assets and our sources of income. If we are compelled to liquidate our investments to repay obligations to our lenders, we may be unable to comply with these requirements, ultimately jeopardizing our qualification as a REIT, or we may be subject to a 100% tax on any resultant gain if we sell assets that are treated as dealer property or inventory.

The tax on prohibited transactions limits our ability to engage in transactions, including certain methods of securitizing mortgage loans, which would be treated as prohibited transactions for federal income tax purposes.

Net income that we derive from a prohibited transaction is subject to a 100% tax. The term “prohibited transaction” generally includes a sale or other disposition of property (including mortgage loans, but other than foreclosure property, as discussed below) that is held primarily for sale to customers in the ordinary course of a trade or business by us or by a borrower that has issued a shared appreciation mortgage or similar debt instrument to us. We might be subject to this tax if we were to dispose of or securitize loans in a manner that was treated as a prohibited transaction for federal income tax purposes.

We conduct our operations so that no asset that we own (or are treated as owning) will be treated as, or as having been, held for sale to customers, and that a sale of any such asset will not be treated as having been in



the ordinary course of our business. As a result, we may choose not to engage in certain sales of loans at the REIT level and may limit the structures we utilize for our securitization transactions, even though the sales or structures might otherwise be beneficial to us. In addition, whether property is held “primarily for sale to customers in the ordinary course of a trade or business” depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We structure our activities to avoid prohibited transaction characterization.

To the extent we invest in construction loans, we may fail to qualify as a REIT if the IRS successfully challenges our estimates of the fair market value of land improvements that will secure those loans.

We may invest in construction loans, the interest from which will be qualifying income for purposes of the REIT income tests, provided that the loan value of the real property securing the construction loan is equal to or greater than the highest outstanding principal amount of the construction loan during any taxable year. For purposes of construction loans, the loan value of the real property is the fair market value of the land plus the reasonably estimated cost of the improvements or developments (other than personal property), which will secure the loan, and which are to be constructed from the proceeds of the loan. There can be no assurance that the IRS would not successfully challenge our estimate of the loan value of the real property and our treatment of the construction loans for purposes of the REIT income and assets tests, which may cause us to fail to qualify as a REIT.

Plans should consider ERISA risks of investing in our common stock.

Investment in our common stock may not be appropriate for a pension, profit-sharing, employee benefit, or retirement plan, considering the plan’s particular circumstances, under the fiduciary standards of ERISA, or other applicable similar laws including standards with respect to prudence, diversification and delegation of control and the prohibited transaction provisions of ERISA, the Code and any applicable similar laws.

ERISA and Section 4975 of the Code prohibit certain transactions that involve (i) certain pension, profit-sharing, employee benefit, or retirement plans or individual retirement accounts and (ii) any person who is a “party in interest” or “disqualified person” with respect to such plan. Consequently, the fiduciary of a plan contemplating an investment in our common stock should consider whether its company, any other person associated with the issuance of its common stock or any affiliate of the foregoing is or may become a “party in interest” or “disqualified person” with respect to the plan and, if so, whether an exemption from such prohibited transaction rules is applicable.

ERISA may limit our ability to attract capital from Benefit Plan Investors.

It is unlikely that we will qualify as an operating company for purposes of ERISA. Consequently, in order to avoid our assets being deemed to include so-called “plan assets” under ERISA, we will initially limit equity ownership in us by Benefit Plan Investors to less than 25% of the value of each class or series of capital stock issued by us and to prohibit transfers of our common stock to Benefit Plan Investors. Our charter prohibits Benefit Plan Investors from holding any interest in any shares of our capital stock that are not publicly traded. These restrictions on investments in us by Benefit Plan Investors (and certain similar investors) may adversely affect the ability of our stockholders to transfer their shares of our common stock and our ability to attract private equity capital in the future.



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Provisions of Maryland law and other provisions of our organizational documents may limit the ability of a third-party to acquire control of the company.

Certain provisions of the MGCL may have the effect of delaying, deferring or preventing a transaction or a change in control of the company that might involve a premium price for holders of our common stock or otherwise be in their best interests. Additionally, our charter and bylaws contain other provisions that may delay or prevent a change of control of the company.

If we have a class of equity securities registered under the Exchange Act and meet certain other requirements, Title 3, Subtitle 8 of the MGCL permits us without stockholder approval and regardless of what is currently provided in our charter or bylaws, to elect to be subject to statutory provisions that may have the effect of delaying, deferring or preventing a transaction or a change in control of the company that might involve a premium price for holders of our common stock or otherwise be in their best interest. Pursuant to Title 3, Subtitle 8 of the MGCL, once we meet the applicable requirements, our charter provides that our Board will have the exclusive power to fill vacancies on our Board. As a result, unless all of the directorships are vacant, our stockholders will not be able to fill vacancies with nominees of their own choosing. We may elect to opt into additional provisions of Title 3, Subtitle 8 of the MGCL without stockholder approval at any time that we have a class of equity securities registered under the Exchange Act and satisfy certain other requirements.

Rapid changes in the values of our target assets may make it more difficult for us to maintain our qualification as a REIT or our exemption from the 1940 Act.

If the market value or income potential of our MBS declines as a result of increased interest rates, prepayment rates, general market conditions, government actions or other factors, we may need to increase certain types of our assets and income or liquidate our non-qualifying assets to maintain our REIT qualifications or our exemption from the 1940 Act. If the decline in real estate asset values or income occurs quickly, this may be especially difficult to accomplish. We may have to make decisions that we otherwise would not make absent the REIT and the 1940 Act considerations.

Maintenance of our exclusion from the 1940 Act will impose limits on our business.

There can be no assurance that the laws and regulations governing the 1940 Act status of REITs, including guidance and interpretations from the SEC staff regarding the Section 3(c)(5)(C) exclusion, will not change in a manner that adversely affects our operations or business. For example, such changes might require us to employ less leverage in financing certain of our mortgage related investments and we may be precluded from acquiring certain types of higher yielding securities. The net effect of these factors would be to lower our net interest income. If we fail to qualify for an exclusion from registration as an investment company or an exclusion from the definition of an investment company, our ability to use leverage would be substantially reduced. Our business will be materially and adversely affected if we fail to qualify for an exclusion from regulation under the 1940 Act.

We conduct our business so as not to become regulated as an investment company under the 1940 Act. If we were to fall within the definition of investment company, we would be unable to conduct our business as described in this Annual Report on Form 10-K. Section 3(a)(1)(A) of the 1940 Act defines an investment company as any issuer that is or holds itself out as being engaged primarily in the business of investing, reinvesting or trading in securities. Section 3(a)(1)(C) of the 1940 Act also defines an investment company as any issuer that is engaged or proposes to engage in the business of investing, reinvesting, owning, holding or trading in securities and owns or proposes to acquire investment securities having a value exceeding 40% of the value of the issuer's total assets (exclusive of U.S. Government securities and cash items) on an unconsolidated basis. Excluded from the term



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“investment securities,” among other things, in Section 3(a)(1)(C) of the 1940 Act, as defined above, are U.S. Government securities and securities issued by majority-owned subsidiaries that are not themselves investment companies and are not relying on the exclusion from the definition of investment company set forth in Section 3(c)(1) or Section 3(c)(7) of the 1940 Act.

We rely on the exclusion from the definition of “investment company” provided by Section 3(c)(5)(C) of the 1940 Act. To qualify for the exclusion, we make investments so that at least 55% of the assets we own consist of “qualifying assets” and so that at least 80% of the assets we own consist of qualifying assets and other real estate related assets. We generally expect that our investments in our target assets will be treated as either qualifying assets or real estate related assets under Section 3(c)(5)(C) of the 1940 Act in a manner consistent with SEC staff no-action letters. Qualifying assets for this purpose include mortgage loans and other assets, such as whole pool Agency Securities that are considered the functional equivalent of mortgage loans for purposes of the 1940 Act. The SEC staff has not issued guidance with respect to whole pool Credit Risk and Non-Agency Securities. Accordingly, based on our own judgment and analysis of the SEC’s pronouncements with respect to agency whole pool certificates, we may also treat Credit Risk and Non-Agency Securities issued with respect to an underlying pool of mortgage loans in which we hold all the certificates issued by the pool as qualifying assets. We invest at least 55% of our assets in whole pool Agency Securities and Credit Risk and Non-Agency Securities that constitute qualifying assets in accordance with SEC staff guidance and at least 80% of our assets in qualifying assets plus other real estate related assets. Other real estate related assets would consist primarily of Agency Securities and Credit Risk and Non-Agency Securities that are not whole pools, such as CMOs and CMBS. As a result of the foregoing restrictions, we are limited in our ability to make or dispose of certain investments. To the extent that the SEC staff publishes new or different guidance with respect to these matters, we may be required to adjust our strategy accordingly. These restrictions could also result in our holding assets we might wish to sell or selling assets we might wish to hold. Although we monitor our portfolio for compliance with the Section 3(c)(5)(C) exclusion periodically and prior to each acquisition and disposition, there can be no assurance that we will be able to maintain this exclusion.

To the extent that we elect in the future to conduct our operations through majority-owned subsidiaries, such business will be conducted in such a manner as to ensure that we do not meet the definition of investment company under either Section 3(a)(1)(A) or Section 3(a)(1)(C) of the 1940 Act, because less than 40% of the value of our total assets on an unconsolidated basis would consist of investment securities. We intend to monitor our portfolio periodically to ensure compliance with the 40% test. In such case, we would be a holding company which conducts business exclusively through majority-owned subsidiaries and we would be engaged in the non-investment company business of our subsidiaries.

Loss of the 1940 Act exclusion would adversely affect us, the market price of shares of our stock and our ability to distribute dividends.

As described above, we conduct our operations so as not to become required to register as an investment company under the 1940 Act based on current laws, regulations and guidance. Although we monitor our portfolio, we may not be able to maintain this exclusion under the 1940 Act. If we were to fail to qualify for this exclusion in the future, we could be required to restructure our activities or the activities of our subsidiaries, if any, including effecting sales of assets in a manner that, or at a time when we would not otherwise choose, which could negatively affect the value of our stock, the sustainability of our business model and our ability to make distributions. The sale could occur during adverse market conditions and we could be forced to accept a price below that which we believe is appropriate.



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There can be no assurance that the laws and regulations governing the 1940 Act status of REITs, including guidance and interpretations from the SEC and its staff regarding the Section 3(c)(5)(C) exclusion, will not change in a manner that adversely affects our operations or business. The SEC or its staff may issue new interpretations of the Section 3(c)(5)(C) exclusion causing us to change the way we conduct our business, including changes that may adversely affect our ability to achieve our investment objective. We may be required at times to adopt less efficient methods of financing certain of our mortgage related investments and we may be precluded from acquiring certain types of higher yielding securities. The net effect of these factors would be to lower our net interest income. If we fail to qualify for an exclusion from registration as an investment company or an exclusion from the definition of an investment company, our ability to use leverage would be substantially reduced. Our business will be materially and adversely affected if we fail to qualify for an exclusion from regulation under the 1940 Act.

Failure to maintain an exemption from being regulated as a CPO could subject us to additional regulation and compliance requirements and may result in fines and other penalties which could materially adversely affect our business and financial condition.

Rules adopted under the Dodd-Frank Act establish a comprehensive new regulatory framework for derivative contracts commonly referred to as swaps. Under these rules, any investment fund that trades in swaps may be considered a “commodity pool,” which would cause its directors to be regulated as CPOs. Under the rules, which became effective on October 12, 2012 for those who became CPOs solely because of their use of swaps, CPOs must register with the NFA, which requires compliance with NFA's rules, and are subject to regulation by the CFTC including with respect to disclosure, reporting, record keeping and business conduct.

On December 7, 2012, the CFTC staff issued a no-action letter (CFTC Staff Letter 12-44) to provide exemptive relief to mortgage REITs that claim such relief. On December 11, 2012, we submitted our claim and our directors do not intend to register as CPOs with the NFA. To comply with CFTC Staff Letter 12-44, we are restricted to operating within certain parameters discussed in the no-action letter. For example, the exemptive relief limits our ability to enter into interest rate hedging transactions such that the initial margin and premiums for such hedges will not exceed five percent of the fair market value of our total assets.

Our hedging strategies are designed to reduce the impact on our earnings caused by the potential adverse effects of changes in interest rates on our target assets and liabilities. Subject to complying with REIT requirements, we use hedging techniques in the ordinary course of our business to limit the risk of adverse changes in interest rates on the value of our target assets as well as the differences between the interest rate adjustments on our target assets and borrowings. These techniques primarily consist of entering into interest rate swap contracts (including swaptions) and purchasing or selling futures contracts and may also include entering into interest rate cap or floor agreements, purchasing put and call options on securities or securities underlying futures contracts, or entering into forward rate agreements. Although we are not legally limited to our use of hedging, we limit our use of derivative instruments to only those techniques described above and enter into derivative transactions only with counterparties that we believe have a strong credit rating to help limit the risk of counterparty default or insolvency. These transactions are not entered into for speculative purposes. We do not use these instruments for the purpose of trading in commodity interests, and we do not consider our company or its operations to be a commodity pool as to which CPO regulation or compliance is required.

The CFTC has substantial enforcement power with respect to violations of the laws over which it has jurisdiction, including their anti-fraud and anti-manipulation provisions. Among other things, the CFTC may suspend or revoke the registration of a person who fails to comply, prohibit such a person from trading or doing business with registered entities, impose civil money penalties, require restitution and seek fines or imprisonment



for criminal violations. Additionally, a private right of action exists against those who violate the laws over which the CFTC has jurisdiction or who willfully aid, abet, counsel, induce or procure a violation of those laws. In the event we fail to maintain exemptive relief from the CFTC on this matter and our directors fail to comply with the regulatory requirements of these new rules, we may be subject to significant fines, penalties and other civil or governmental actions or proceedings, any of which could have a materially adverse effect on our business, financial condition and results of operations.

COVID-19 has had a significant effect on our results of operations. In addition, it has resulted in significant financial market volatility, and its impact on the global economy appears to be significant. A continuation or worsening of the pandemic will have a material adverse impact on our business, results of operations and financial condition and on the market price of our common stock.

On March 12, 2020, the World Health Organization declared COVID-19 to be a pandemic. There have been business closures and a substantial reduction in economic activity in countries that have had significant outbreaks of COVID-19. Significant uncertainty remains as to the potential impact of COVID-19 on our continuing operations and on the global economy as a whole. It is currently not possible to predict how long the pandemic will last or the time that it will take for economic activity to return to prior levels. COVID-19 has caused significant financial market volatility and uncertainty. A continuation or worsening of the levels of market seen could have an adverse effect on our ability to access capital, on our business, results of operations and financial condition, and on the market price of our common stock. Depending upon the duration and severity of the pandemic, as well as other future developments which cannot be accurately predicted, including the continued emergence of new strains of COVID-19, the availability of an effective vaccine and the speed with which it is administered to the public, additional or modified government actions and the actions taken to contain COVID-19 or address its impact in the short and long term, among others, the continuing effect on our results over the long term is uncertain.

Responding to COVID-19, both Fannie Mae and Freddie Mac have announced mortgage forbearance policies that will allow borrowers to delay their mortgage payments for up to one year. Individual states also have adopted or may adopt forbearance policies addressing loan payments, rent payments, foreclosures and evictions. These policies may impact our investments in many ways, some that are foreseeable, others that are not. The impact of high levels of forbearance on our securities portfolio could range from immaterial to significant depending upon not only actual losses incurred on underlying loans but also future public policy choices and actions by the GSEs, their regulator the Federal Housing Finance Authority ("FHFA"), the Fed, and federal and state governments. The nature and timing of any such future public policy choices and actions are unpredictable. We expect prepayment speeds on Agency Securities to be affected and scenarios suggesting both slowing and increasing prepayment speeds are plausible. Certain classes of our Credit Risk Transfer securities in our securities portfolio contain contractual provisions that allow the issuing GSE to declare a credit event based solely on payment delays, including forbearance (even if the issuing GSE ultimately sustains no loss on the underlying loans). While similar forbearance during prior natural disasters did not result in CRT credit events, there can be no assurance as to what stance the GSEs and the FHFA will take on this issue regarding COVID-19 forbearance.

We depend on ACM for our key personnel. The loss of those key personnel could severely and detrimentally affect our operations.

As an externally managed company, we depend on the diligence, experience and skill of ACM personnel for the selection, acquisition, structuring, hedging and monitoring of our MBS and associated borrowings. We depend on the efforts and expertise of our operating officers to manage our day-to-day operations and strategic business direction. If any of our key personnel were to leave the Company, locating individuals with specialized industry knowledge and skills similar to that of our key personnel may not be possible or could take months.



ARMOUR Residential REIT, Inc.
Risk Factors (continued)

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Because we have no employees, the loss of ACM could harm our business, financial condition, cash flow and results of operations.

We have a contract with AVM to administer clearing and settlement services for our securities and derivative transactions. We have also entered into a second contract with AVM to assist us with financing transaction services such as repurchase financings and managing the margin arrangement between us and our lenders for each of our repurchase agreements. We use the services of AVM for these aspects of our business so our executive officers can focus on our daily operations and strategic direction. Further, as our business expands, reliance on AVM to provide us with timely, effective services will increase. In the future, as we expand our staff, we may absorb internally some or all of the services provided by AVM. Until we elect to move those services in-house, we continue to use AVM or other third-parties that provide similar services. If we are unable to maintain a relationship with AVM or are unable to establish a successful relationship with other third-parties providing similar services at comparable pricing, we may have to reduce or delay our operations and/or increase our expenditures and undertake the repurchase agreement and trading and administrative activities on our own, which could have a material adverse effect on our business operations and financial condition. However, we believe that the breadth and scope of ACM's experience will enable them to fill any needs created by discontinuing a relationship with AVM.

We have very broad investment guidelines, and our Board will not approve each investment and financing decision made by ACM.

We are authorized to invest in MBS backed by fixed rate, 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. ACM is authorized to invest and obtain financing on our behalf within these guidelines. Our Board periodically reviews our investment guidelines and our investment portfolio but does not, and is not required to, review all our investments on an individual basis or in advance. In conducting periodic reviews, our Board relies primarily on information provided to it by ACM. Furthermore, ACM may use complex strategies and transactions that may be costly, difficult, or impossible to unwind if our Board determines that they are not consistent with our investment guidelines. In addition, because ACM has a certain amount of discretion in investment, financing and hedging decisions, ACM's decisions could result in investment returns that are substantially below expectations or that result in losses, which would materially and adversely affect our business, financial condition, and results of operations.

We are highly dependent on information and communications systems. System failures, security breaches or cyber-attacks of networks or systems could significantly disrupt our business and negatively affect the market price of our common stock and our ability to distribute dividends.

Our business is highly dependent on communications and information systems that allow us to monitor, value, buy, sell, finance, and hedge our investments. These systems are primarily operated by third-parties and, as a result, we have limited ability to ensure their continued operation. In the event of systems failure or interruption, we will have limited ability to affect the timing and success of systems restoration. Any failure or interruption of our systems could cause delays or other problems in our securities trading activities, including Agency Securities trading activities, which could have a material adverse effect on our operating results and negatively affect the market price of our stock and our ability to make distributions to our stockholders.

We rely on sophisticated information technology systems, networks, and infrastructure in managing our day-to-day operations. Despite cyber-security measures already in place, which we monitor on a regular basis, our information technology systems, networks, and infrastructure may be vulnerable to deliberate attacks or



ARMOUR Residential REIT, Inc.
Risk Factors (continued)

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unintentional events that could interrupt or interfere with their functionality or the confidentiality of our information. Our inability to effectively utilize our information technology systems, networks, and infrastructure, and protect our information could adversely affect our business.

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.

We are subject to financial reporting and other requirements for which our accounting, internal audit and other management systems and resources may not be adequately prepared.

We are subject to reporting and other obligations under the Securities Act and the Exchange Act, including the requirements of Section 404 of the Sarbanes-Oxley Act. These reporting and other obligations may place significant demands on our management, administrative, operational, internal audit and accounting resources and cause us to incur significant expenses. We may need to upgrade our systems or create new systems; implement additional financial and management controls, reporting systems and procedures; expand or outsource our internal audit function; and hire additional accounting, internal audit and finance staff. If we are unable to accomplish these objectives in a timely and effective fashion, our ability to comply with the financial reporting requirements and other rules that apply to reporting companies could be impaired. Any failure to maintain effective internal controls could have a material adverse effect on our business, operating results and stock price.

We have not established a minimum dividend payment level and there are no guarantees of our ability to pay dividends in the future.

We expect to continue to make regular cash distributions to our stockholders in amounts such that all or substantially all our taxable income in each year, subject to certain adjustments, is distributed. This, along with other factors, should enable us to qualify for the tax benefits accorded to a REIT under the Code. However, we have not established a minimum dividend payment level and our ability to pay dividends may be adversely affected by the risk factors described in this report. Future distributions are made at the discretion of our Board and will depend on our earnings, our financial condition, maintenance of our REIT status, restrictions on making distributions under the MGCL and such other factors as our Board may deem relevant from time to time. There are no guarantees of our ability to pay dividends in the future. In addition, some of our distributions may include a return of capital.

We have returned, and may continue to return, capital to stockholders by paying dividends in excess of our comprehensive income and/or repurchasing shares, which may adversely affect our business.

Differences in accounting methods for tax and financial reporting purposes may require us, in order to maintain our REIT tax status, to pay dividends in excess of our annual comprehensive income (or to pay dividends even when we have a comprehensive loss for the year). Dividends paid in excess of comprehensive income and share repurchases will reduce our capital base and our ability to invest in MBS without increasing financial



ARMOUR Residential REIT, Inc.
Risk Factors (continued)

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leverage. Reducing our capital base will increase our expense ratio and could potentially reduce the availability of our repurchase financing and interest rate swap hedges. We will be more likely to consider future returns of capital to stockholders when the market trading price for our common stock represents a significant discount to our book value.

Our Board of Directors considers Core Income when determining the level of dividends on our common stock. Core Income tends to be more stable over time and this practice is designed to increase the stability of our common stock dividend from month to month. However, Core Income excludes gains and losses and market value adjustments that are reflected in total comprehensive income (loss) computed in accordance with GAAP. These differences could cause us to distribute common stock dividends that differ from our total economic return. Since 2010, ARMOUR has distributed common stock dividends totaling approximately \$1,538,000 while incurring cumulative total comprehensive (loss) attributable to common stockholders of (\$555,627). Such losses include approximately (\$622,300) in 2013 and (\$539,942) in the first quarter of 2020.

We may use proceeds from equity and debt offerings and other financings to fund distributions, which will decrease the amount of capital available for purchasing our target assets.

There are no restrictions in our charter or in any agreement to which we are a party that prohibits us from using the proceeds of any offering of our equity or debt or other financings to fund distributions to stockholders. In the event that we elect to fund any distribution to our stockholders from sources other than our earnings, the amount of capital available to us to purchase our target assets would decrease, which could have an adverse effect on our overall financial results and performance.

Return of capital distributions may increase capital gains.

We may make distributions that represent a return of capital for tax purposes and thus will generally not be immediately taxable. Such return of capital distributions will generally reduce stockholders' tax basis in their shares and potentially increase the taxable gain, if any, recognized by such stockholders upon disposition of their shares. In addition, if stockholders hold our shares as a capital asset, to the extent return of capital distributions exceed their adjusted tax basis in their shares, such stockholders would be required to include those distributions in income as long-term capital gain (or short-term capital gain if their shares have been held for one year or less).

The performance of our common stock correlates to the performance of our REIT investments, which may be speculative and aggressive compared to other types of investments.

The investments we make in accordance with our investment objectives may result in a greater amount of risk as compared to alternative investment options, including relatively higher risk of volatility or loss of principal. Our investments may be speculative and aggressive, and therefore an investment in our common stock may not be suitable for someone with lower risk tolerance.

One of the factors that investors may consider in deciding whether to buy or sell shares of our common stock is our distribution rate as a percentage of the trading price of our common stock relative to market interest rates. If the market price of our common stock is based primarily on the earnings and return that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions are likely to affect adversely the market price of our common stock. For instance, if market rates rise without an increase in our distribution rate, the market price of our common stock could decrease as potential investors may require a higher distribution yield on our common stock or seek other securities paying higher distributions or



interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby reducing cash flow and our ability to service our indebtedness and pay distributions.

Any future offerings of debt securities and/or preferred stock, which would rank senior to our common stock upon our liquidation, and future offerings of equity securities, which would dilute our existing stockholders and may be senior to our common stock for the purposes of dividend and liquidation distributions, may adversely affect the market price of our common stock.

In the future, we may raise capital through the issuance of debt, preferred equity or common equity securities. Upon liquidation, holders of our debt securities and preferred stock, if any, and lenders with respect to other borrowings will be entitled to our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Additional series of preferred stock, if issued, could have a preference on liquidation distributions or a preference on dividend payments that could limit our ability to pay dividends to the holders of our common stock. Sales of substantial amounts of our common stock (including shares of our common stock issued pursuant to our 2009 Stock Incentive Plan, as amended), or the perception that these sales could occur, could have a material adverse effect on the price of our common stock. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of our future offerings. Thus, holders of our common stock bear the risk of our future offerings reducing the market price of our common stock and diluting the value of their stock holdings in us.

Future issuances or sales of stock could cause our stock price to decline.

Sales of substantial amounts of our stock in the public market, or the perception that such sales might occur, could adversely affect the market price of our stock. In addition, the sale of these shares could impair our ability to raise capital through a sale of additional equity securities.

Other issuances of our stock could have an adverse effect on the market price of our stock. In addition, future issuances of our stock may be dilutive to existing stockholders.

Our business could be negatively affected as a result of stockholder activism, which could cause us to incur significant expense, hinder execution of our business strategy and impact the trading value of our stock.

Stockholder activism, which can take many forms or arise in a variety of situations, has been increasing in publicly traded companies in recent years and we are subject to the risks associated with such activism. Stockholder activism, including potential proxy contests, requires significant time and attention by management and the Board, potentially interfering with our ability to execute our strategic plan. Additionally, such stockholder activism could give rise to perceived uncertainties as to our future direction, adversely affect our relationships with key business partners and make it more difficult to attract and retain qualified personnel. Also, we may be required to incur significant legal fees and other expenses related to activist stockholder matters. Any of these impacts could materially and adversely affect our business and operating results. Further, the market price of our common stock could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties described above.



Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We do not own or lease any real estate or other physical properties. Pursuant to the management agreements, ACM maintains our executive offices at 3001 Ocean Drive, Suite 201, Vero Beach, Florida 32963. We consider our current office space adequate for our current operations.

Item 3. Legal Proceedings

See Note 9 - Commitments and Contingencies for information on legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.



PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities ARMOUR Residential REIT, Inc.

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Our 7.00% Series C Cumulative Preferred Stock ("Series C Preferred Stock"), and our common stock are currently listed on the NYSE under the symbols "ARR-PRC" and "ARR," respectively. On February 16, 2021, the per share price of our common stock as reported on the NYSE was \$12.16.

Holders of Common Equity

As of February 16, 2021, we had 138 stockholders of record of our outstanding common stock. We believe that there are more beneficial owners of shares of our common stock.

Dividend Policy

We intend to continue to make regular cash distributions to holders of shares of common stock. Future dividends will be at the discretion of the Board and will depend on our earnings and financial condition, maintenance of our REIT qualification, restrictions on making distributions under MGCL and such other factors as our Board deems relevant. Dividends cannot be paid on our common stock unless we have paid full cumulative dividends on all classes of our preferred stock. For the year ended December 31, 2020, we paid full cumulative dividends on our preferred Stock.

For historical information on the frequency and amount of cash dividends paid to the holders of shares of our preferred stock and common stock (see Note 11 to the consolidated financial statements). See Note 16 to the consolidated financial statements for cash dividends paid to the holders of our Series C Preferred Stock and common stock subsequent to December 31, 2020.

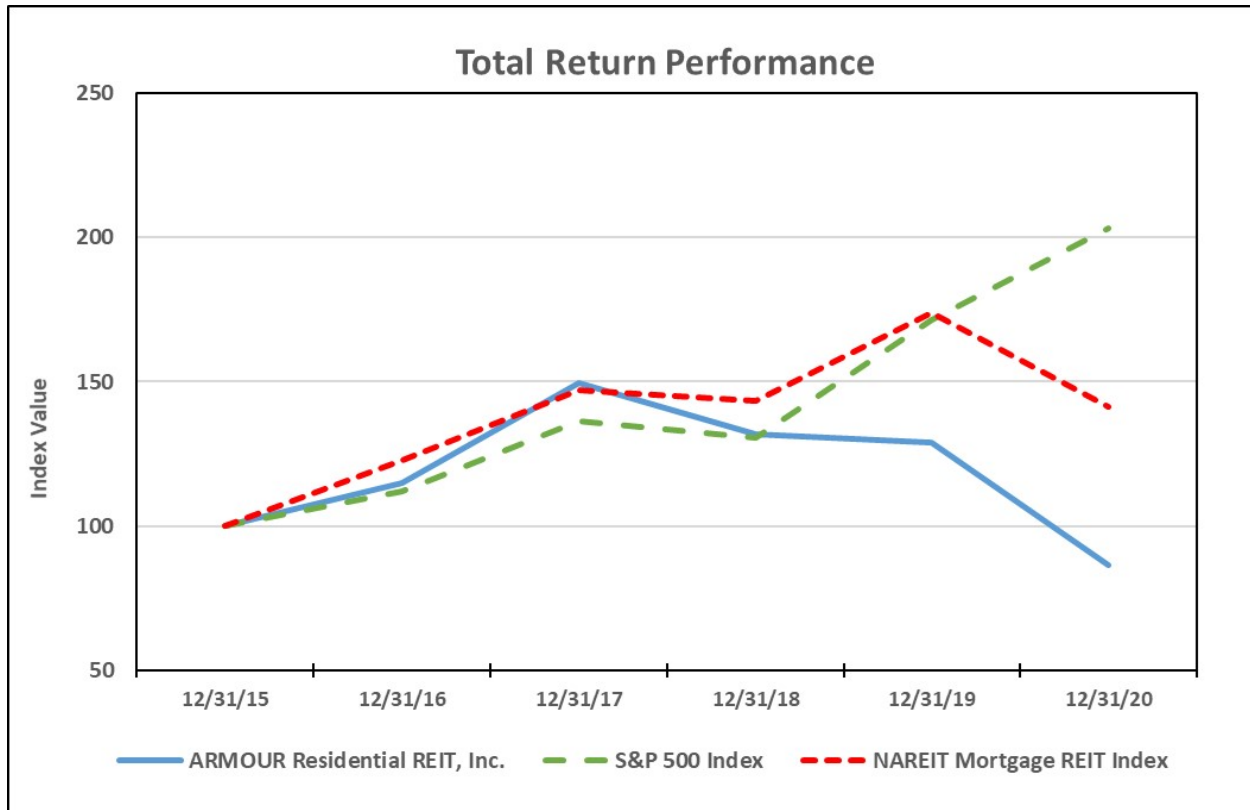
Our REIT taxable income and dividend requirements are determined on an annual basis. Total dividend payments to common stockholders were \$75,486 and dividend payments to preferred stockholders were \$11,162 (including the final dividend on the Series B Preferred Stock, called for redemption, of \$1,375 paid on February 27, 2020 to holders of record on February 15, 2020) for the year ended December 31, 2020. Our estimated REIT taxable loss available to pay dividends was \$(92,142) for the year ended December 31, 2020. Dividends in excess of REIT taxable income for the year (including taxable income carried forward from the previous year) will generally not be taxable to common stockholders. The portion of the dividends on our common stock which represented non-taxable return of capital was approximately 100.0% in 2020, 56.8% in 2019, and 83.2% in 2018.



ARMOUR Residential REIT, Inc.
Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of
Equity Securities (continued)

Performance Graph

The following graph compares the stockholder’s cumulative total return, assuming \$100 invested at December 31, 2015, with all reinvestment of dividends, as if such amounts had been invested in: (i) our common stock; (ii) the stocks included in the S&P 500 and (iii) the stocks included in the NAREIT Mortgage REIT Index.



Index	Period Ending					
	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19	12/31/20
ARMOUR Residential REIT.....	\$ 100.00	\$ 115.07	\$ 149.74	\$ 131.82	\$ 129.10	\$ 86.33
S&P 500 Index.....	\$ 100.00	\$ 111.96	\$ 136.4	\$ 130.42	\$ 171.49	\$ 203.04
NAREIT Mortgage REIT Index.....	\$ 100.00	\$ 122.86	\$ 147.16	\$ 143.45	\$ 174.05	\$ 141.38

The information in the performance graph and table has been obtained from sources believed to be reliable, but neither its accuracy nor its completeness can be guaranteed. The historical information set forth above is not necessarily indicative of future performance. Accordingly, we do not make or endorse any predictions as to future performance.



Item 6. Selected Financial Data
ARMOUR Residential REIT, Inc.

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The following table sets forth selected historical financial information derived from our audited consolidated financial statements for the years listed. The following data should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements including the notes thereto, included elsewhere in this Annual Report on Form 10-K and in our previous Annual Reports on Form 10-K.

	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Balance Sheet Data:					
Investments in securities, at fair value:					
Agency Securities	\$ 5,178,322	\$ 11,941,766	\$ 7,051,954	\$ 7,478,966	\$ 6,511,164
Credit Risk and Non-Agency Securities	\$ —	\$ 883,601	\$ 819,915	\$ 975,829	\$ 1,052,170
Interest-Only Securities	\$ —	\$ —	\$ 20,623	\$ 25,752	\$ 33,627
U.S. Treasury Securities	\$ —	\$ —	\$ 98,646	\$ —	\$ —
Total Assets	\$ 5,524,486	\$ 13,272,420	\$ 8,464,610	\$ 8,928,917	\$ 7,978,161
Repurchase agreements	\$ 4,536,065	\$ 11,354,547	\$ 7,037,651	\$ 7,555,917	\$ 6,818,453
Total Stockholders' Equity	\$ 938,304	\$ 1,436,707	\$ 1,125,313	\$ 1,326,051	\$ 1,092,065
Statement of Operations Data:					
Total Interest Income	\$ 169,754	\$ 439,565	\$ 283,148	\$ 254,433	\$ 263,995
Interest expense-repurchase agreements	(62,939)	(288,229)	(154,230)	(94,558)	(73,107)
Interest expense-U.S. Treasury Securities sold short	(32)	—	—	—	—
Net Interest Income	\$ 106,783	\$ 151,336	\$ 128,918	\$ 159,875	\$ 190,888
Total Other Income (Loss)	(289,929)	(362,761)	(197,859)	57,110	(198,902)
Total Expenses	(40,821)	(38,480)	(37,025)	(35,831)	(37,503)
Management fees waived	8,855	—	—	—	—
Net Income (Loss)	\$ (215,112)	\$ (249,905)	\$ (105,966)	\$ 181,154	\$ (45,517)
Dividends on preferred stock	(9,787)	(15,634)	(17,032)	(15,880)	(15,622)
Net Income (Loss) available (related) to common stockholders	\$ (224,899)	\$ (265,538)	\$ (122,998)	\$ 165,274	\$ (61,139)
Total Comprehensive Income (Loss)	\$ (391,554)	\$ 149,438	\$ (129,725)	\$ 190,177	(7,349)
Net Income (loss) per common share, Basic	\$ (3.57)	\$ (4.59)	\$ (2.92)	\$ 4.22	\$ (1.67)
Net Income (loss) per common share, Diluted	\$ (3.57)	\$ (4.59)	\$ (2.92)	\$ 4.17	\$ (1.67)
Total Comprehensive Income (loss) per common share, Basic	\$ (6.36)	\$ 2.31	\$ (3.48)	\$ 4.45	\$ (0.63)
Total Comprehensive Income (loss) per common share, Diluted	\$ (6.36)	\$ 2.30	\$ (3.48)	\$ 4.40	\$ (0.63)
Dividends declared per common share	\$ 1.20	\$ 2.16	\$ 2.28	\$ 2.28	\$ 3.02



ARMOUR Residential REIT, Inc.
Selected Financial Data (continued)

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Key Portfolio Statistics *	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017	December 31, 2016
Average Securities Portfolio ⁽¹⁾	\$7,834,588	\$12,461,442	\$9,566,838	\$9,502,424	\$10,755,853
Average Repurchase Agreements ⁽²⁾	\$7,771,509	\$12,044,113	\$9,054,133	\$9,129,879	\$8,983,091
Average Portfolio Yield ⁽³⁾	2.59 %	3.63 %	3.30 %	3.03 %	2.71 %
Average Cost of Funds ⁽⁴⁾	1.03 %	2.19 %	1.70 %	1.40 %	1.32 %
Interest Rate Spread ⁽⁵⁾	1.56 %	1.44 %	1.60 %	1.63 %	1.39 %
Return on Equity, net income (loss) ⁽⁶⁾	(22.93)%	(17.39)%	(9.42)%	13.66 %	(4.17)%
Return on Equity, comprehensive income (loss) ⁽⁷⁾	(41.73)%	10.40 %	(11.53)%	14.34 %	(0.67)%
Average Annual Portfolio Repayment Rate ⁽⁸⁾	15.40 %	10.41 %	5.96 %	7.28 %	9.81 %
Debt to Stockholders' Equity ⁽⁹⁾	4.83:1	7.90:1	6.25:1	5.70:1	6.24:1
Leverage Ratio ⁽¹⁰⁾	7.61:1	8.60:1	7.05:1	6.90:1	8.85:1

* All percentages represent daily weighted averages annualized.

- (1) Our average securities portfolio was calculated by dividing the sum of our securities portfolio each day (including TBA Agency Securities) during the year by the number of days in the period. See the section titled *Available for Sale Securities-TBA Agency Securities*, in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (2) Our average repurchase agreements was calculated by dividing the sum of our outstanding balances under our repurchase agreements each day (including TBA purchase liability) during the year by the number of days in the period.
- (3) Our average portfolio yield was calculated by dividing our interest income, plus TBA drop income, by our average securities portfolio.
- (4) Our average cost of funds was calculated by dividing our total interest expense (including realized loss on derivatives) by our average repurchase agreements.
- (5) Our interest rate spread was calculated by subtracting our average cost of funds from our average portfolio yield.
- (6) Our return on equity, net income (loss) was calculated by dividing net income (loss) for the year by total stockholders' equity at the end of the year.
- (7) Our return on equity, comprehensive income (loss) was calculated by dividing comprehensive income (loss) for the year by total stockholders' equity at the end of the year.
- (8) Our average annual portfolio repayment rate is calculated by taking the average of the actual monthly CPR for each month during the year.
- (9) Our debt-to-stockholders' equity ratio was calculated by dividing the amount outstanding under our repurchase agreements at period end by total stockholders' equity at period end.
- (10) Our leverage ratio was calculated by dividing the amount outstanding under our repurchase agreements, including notional on TBA Agency Securities, at period end by total stockholders' equity at period end.



Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ARMOUR Residential REIT, Inc.

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You should read the following discussion and analysis of our financial condition and results of operations together with "Risk Factors," and "Special Note Regarding Forward-Looking Statements," that appear elsewhere in this Form 10-K. This discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those presented under "Risk Factors" included in this Form 10-K.

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

ARMOUR is a Maryland corporation formed in 2008 and managed by ACM, an investment advisor registered with the SEC (see Note 9 and Note 15 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 December 31, 2020, we invested exclusively 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 may also invest 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.



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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 look to invest across the spectrum of mortgage investments, from Agency Securities, for which the principal and interest payments are guaranteed by a GSE, to Credit Risk and Non-Agency Securities and non-prime mortgage loans. As such, we expect our investments to be subject to risks arising from delinquencies and foreclosures, thereby exposing our investment portfolio to potential losses. We are exposed to changing credit spreads, which could result in declines in the fair value of our investments. We believe ACM's in-depth investment expertise across multiple sectors of the mortgage market, prudent asset selection and our hedging strategy enable us to minimize our credit losses, our market value losses and financing costs.

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



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- the requirements to qualify for an exclusion under the 1940 Act and other regulatory and accounting policies related to our business.

Management

See sections titled *Management* in Item 1. Business and also in Note 9 and Note 15 to the consolidated financial statements.

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

Fourth Quarter 2020 Trends

COVID-19 continues to have a real-time impact on all business sectors. The extent of the ultimate impact of COVID-19 on the Company's operational and financial performance will depend on various developments, including the duration of the outbreak and the spread of the virus and the federal government's and states' future responses to the virus, which cannot be reasonably predicted at this time. While the Company is not able to estimate the future impact of COVID-19 at this time, it could continue to materially affect the Company's future financial and operational results.

The strong intervention by the Federal Reserve helped stabilize the agency residential and commercial mortgage-backed securities and recover a large amount of the spread widening that took place during the month of March. ARMOUR acted aggressively to mitigate risk, moderate leverage and maximize liquidity and activated its remote work environment protocol to minimize health and operational risks. The Company's remote work environment protocol has allowed our operations to remain fully functional while we continue to work remotely. The Company remains focused on prioritizing liquidity through this period of increased market volatility and financial risks. The Company continues to meet all of its obligations to repurchase agreement counterparties in a timely manner, while prudently managing the risk of its assets and hedges portfolios. See Item 1A. "Risk Factors" for further discussion of the possible impact of COVID-19 on our business.

During the fourth quarter, we continued to designate Agency Securities 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.

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



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pricing, supply, liquidity and value of the Agency Securities in which we invest and otherwise materially adversely affect our business, operations and financial condition.

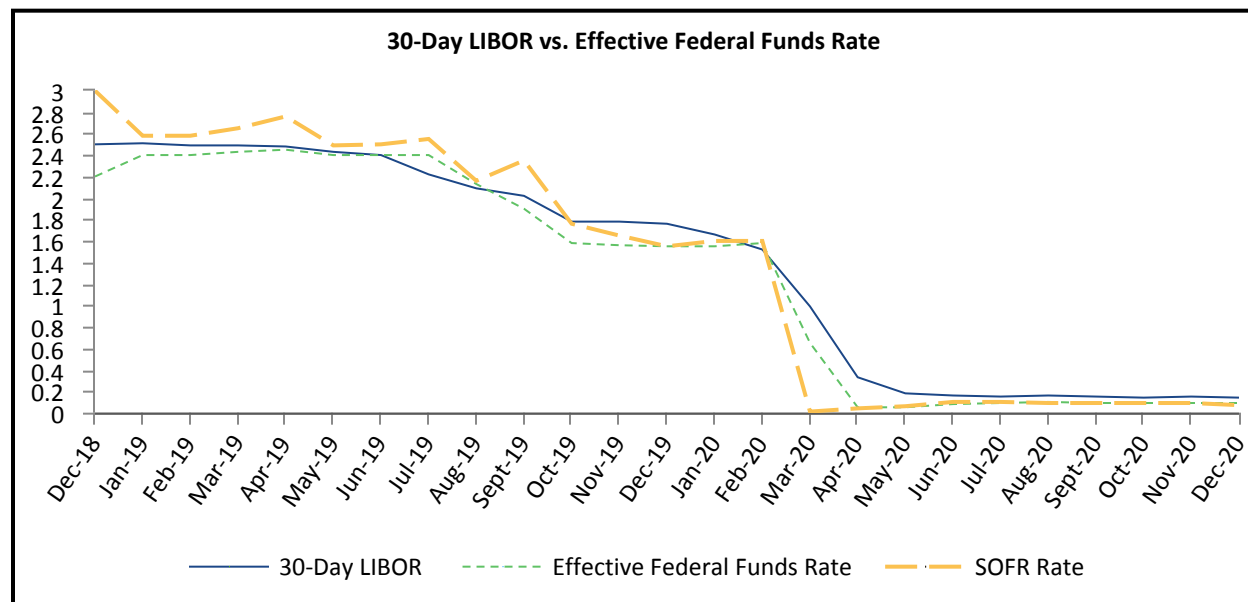
Short-term Interest Rates and Funding Costs

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 from December 2018 to December 2020.

Meeting Date	Lower Bound	Higher Bound
March 16, 2020	0.00 %	0.25 %
March 3, 2020	1.00 %	1.25 %
October 2019	1.50 %	1.75 %
September 2019	1.75 %	2.00 %
July 2019	2.00 %	2.25 %
December 2018	2.25 %	2.50 %

Our borrowings in the repurchase market have historically closely tracked the Federal Funds Rate and LIBOR, and more recently, SOFR. Traditionally, a lower borrowing 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. The expected discontinuation of LIBOR may impact our liquidity and the value of our MBS. SOFR is currently scheduled to replace LIBOR as a reference rate. We are currently assessing the impact on our securities portfolio and will continue to do so.

The following graph shows 30-day LIBOR as compared to the Effective Federal Funds Rate and SOFR Rate on a monthly basis from December 31, 2018 to December 31, 2020.



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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.

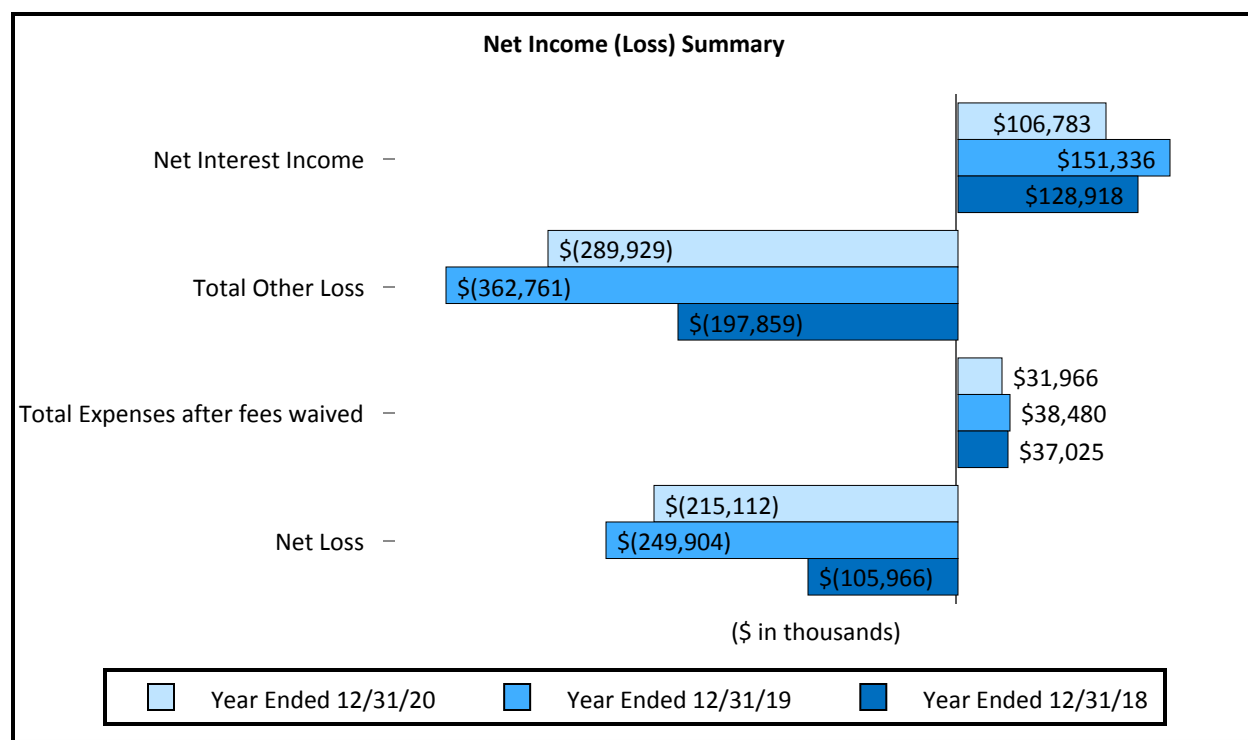
Mortgage spreads can vary due to movements in securities valuations, movements in long-term interest rates or a combination of both. We mainly use interest rate swap contracts (including swaptions) to economically hedge against changes in the valuation of our securities. We do not use such hedging contracts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

We reduce our net TBA Agency Securities exposure by entering in to certain TBA short positions. The TBA short positions represent different securities and maturities than our 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

Net Loss Summary

The following is a summary of our consolidated results of operations for the periods presented:



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Our results for the year ended December 31, 2020 were significantly impacted by COVID-19 that started in the second week of March 2020. To increase liquidity, we significantly reduced our portfolio of Agency Securities (including TBA Agency Securities) by 39.1% from December 31, 2019. During the third quarter of 2020, we completed the liquidation of our Credit Risk and Non-Agency Securities and are now focused exclusively on an all Agency Securities portfolio. The net loss for the year ended December 31, 2020 reflected losses on derivatives due to the termination of interest rate swap contracts and losses on Credit Risk Transfer and Non-Agency Securities that were offset by gains on sales of Agency Securities and gains on TBA Agency Securities.

Net Interest Income

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

2020 vs. 2019

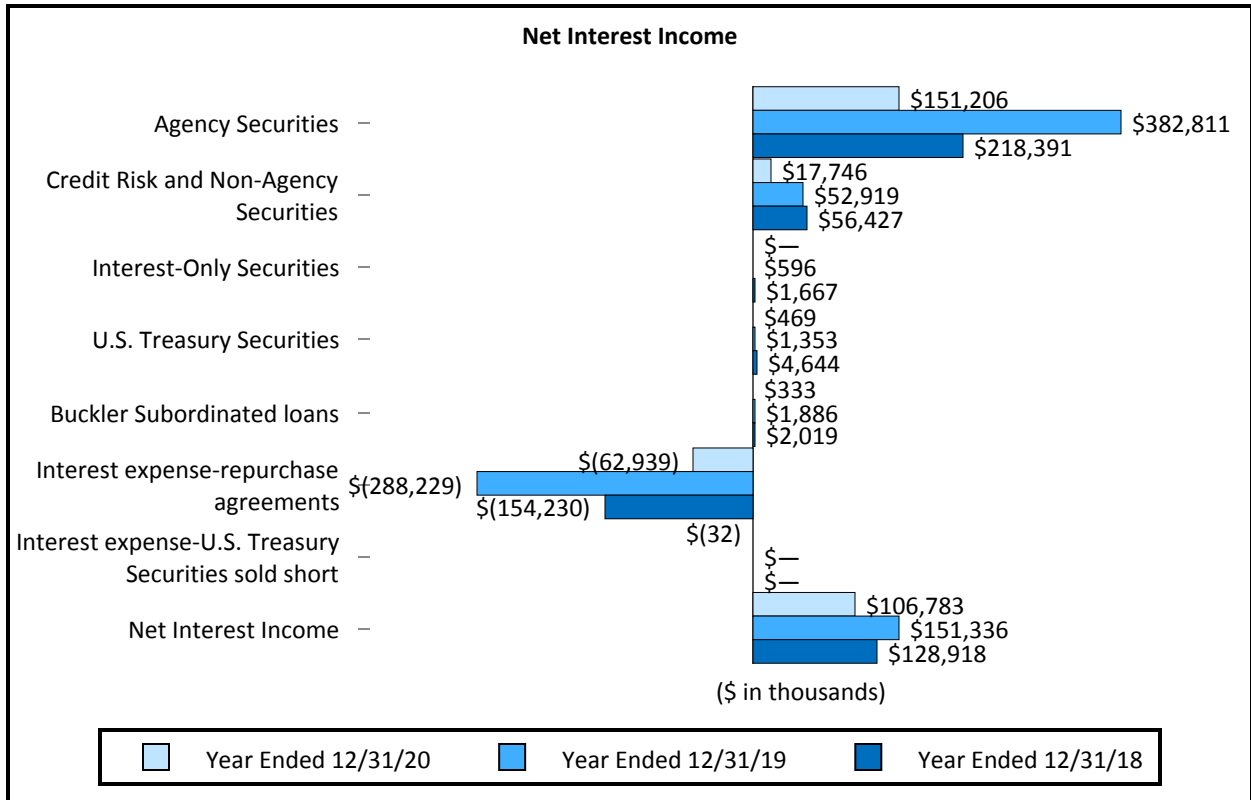
- Our average securities portfolio decreased 37.1% from \$12,461,442 for the year ended December 31, 2019 to \$7,834,588 for the year ended December 31, 2020.
- Our average securities portfolio yield decreased 1.04% and our average cost of funds decreased 1.16% year over year.
- Our net interest rate spread increased 0.12% year over year, however net interest income decreased due to a lower average securities portfolio balance.

2019 vs. 2018

- Our average securities portfolio increased 30.3% from \$9,566,838 for the year ended December 31, 2018 to \$12,461,442 for the year ended December 31, 2019.
- Our average securities portfolio yield increased 0.33% while our cost of funds increased 0.49% year over year.
- Net interest income increased from 2018 to 2019 due to a higher average securities portfolio balance. This was partially offset by the increase in the effective interest rate on our financing and the increase in our portfolio yield. Our net interest rate spread was 1.60% and 1.44% for the years ended December 31, 2018 and December 31, 2019, respectively.



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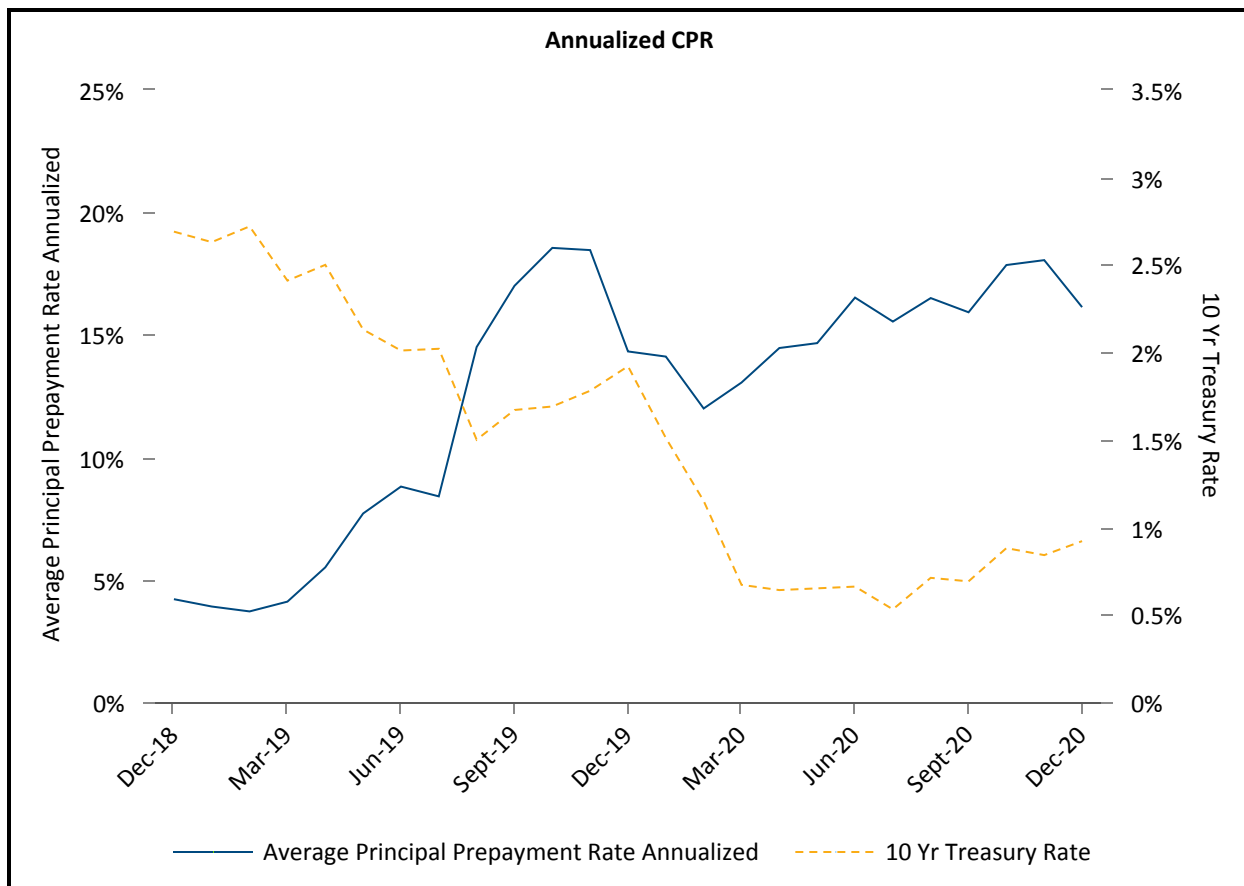
The following table presents the components of the yield earned on our securities portfolio for the quarterly periods ended on the dates shown below:

	Asset Yield	Cost of Funds	Net Interest Margin	Interest Expense on Repurchase Agreements
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 %
December 2019.....	3.63 %	2.14 %	1.49 %	2.14 %
September 2019.....	3.56 %	2.25 %	1.31 %	2.55 %
June 2019.....	3.70 %	2.30 %	1.40 %	2.69 %
March 2019.....	3.65 %	2.03 %	1.62 %	2.71 %
December 2018.....	3.59 %	1.92 %	1.67 %	2.55 %
September 2018.....	3.46 %	1.82 %	1.64 %	2.30 %
June 2018.....	3.13 %	1.57 %	1.56 %	2.10 %
March 2018.....	3.05 %	1.53 %	1.52 %	1.77 %
December 2017.....	3.02 %	1.47 %	1.55 %	1.54 %



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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)

2020 vs. 2019

- Gains (losses) on Agency Securities resulted from the proceeds from sales of Agency Securities during the year ended December 31, 2020 of \$10,959,587 compared to \$2,894,339 during the year ended December 31, 2019.
- During the year ended December 31, 2020, we evaluated our available for sale securities to determine if the available for sale securities in an unrealized loss position were impaired. It was determined in the first quarter that, as we may have been required to sell certain securities in the near future, we recognized an impairment of \$1,012 in our consolidated statements of operations. No credit loss expense was required for the remaining quarters of 2020.
- Gains on Agency Securities, trading, resulted from the change in fair value of the securities as well as losses on sales during the year ended December 31, 2020. The change in fair value of the securities was



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\$20,691 for the year ended December 31, 2020. For the year ended December 31, 2020, we sold \$158,708 of these securities which resulted in a loss of \$1,134.

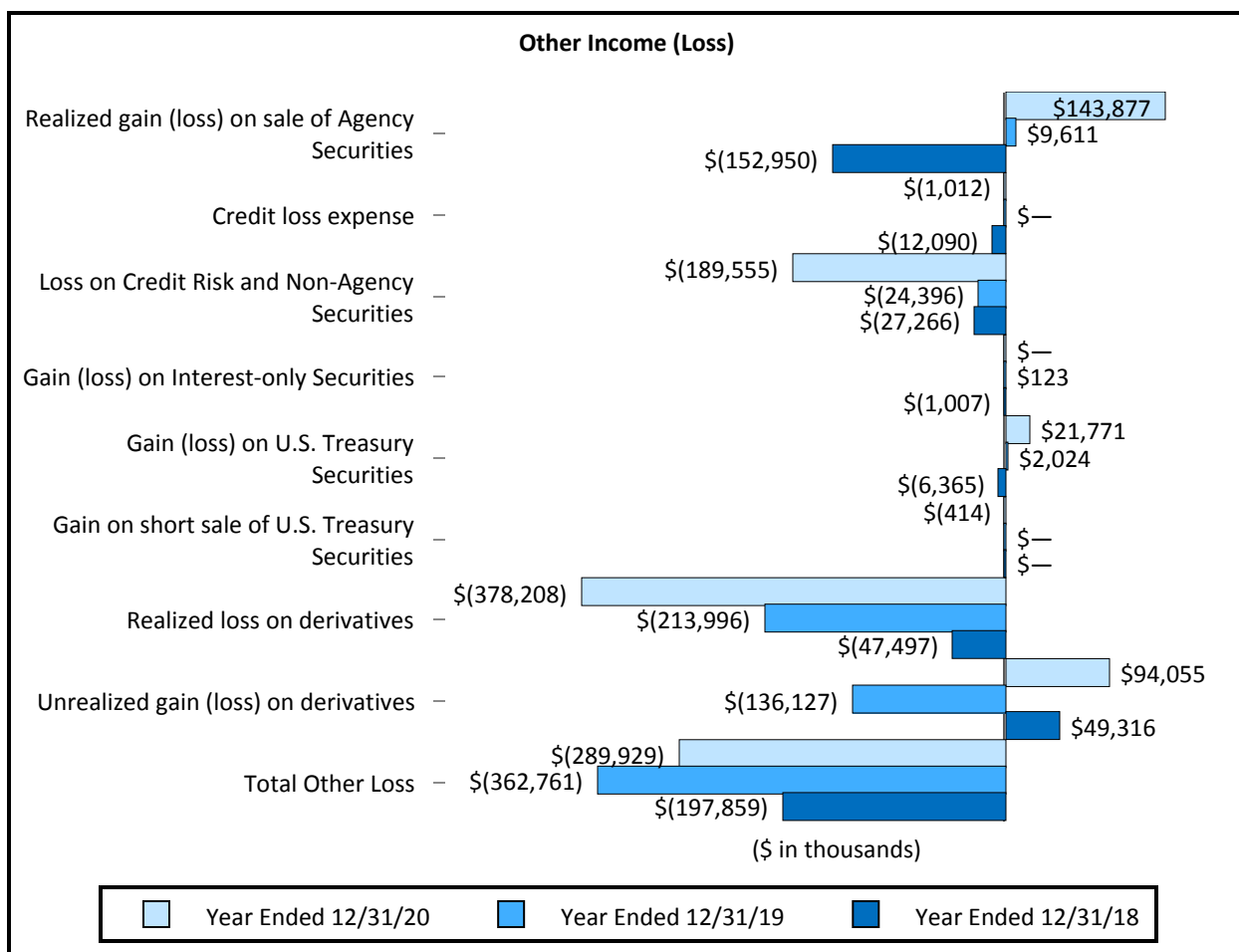
- Gain (loss) on Credit Risk and Non-Agency Securities resulted from the sale of securities as well as the change in fair value of the securities. We did not have any Credit Risk and Non-Agency Securities at December 31, 2020.
- Gain on Interest-Only Securities for the year ended December 31, 2019, resulted from a change in the fair value of these securities of \$682 in Q1 2019 as well as a loss of \$(805) in Q2 2019 from the sale of \$18,822 Interest-Only Securities. We did not have Interest-Only Securities at December 31, 2020 or December 31, 2019.
- Sales of U.S. Treasury Securities of \$3,785,248 resulted in a realized gain of \$21,771 for the year ended December 31, 2020. Sales of U.S. Treasury Securities of \$1,786,090 for the year ended December 31, 2019 resulted in realized gain of \$1,967. The change in fair value of the securities was \$57 for the year ended December 31, 2019.
- Gain (losses) on Derivatives resulted from a combination of the following:
 - Interest rate swap contracts' aggregate notional balance decreased from \$7,975,000 at December 31, 2019 to \$5,337,000 at December 31, 2020.
 - The increase in TBA prices and in our total TBA Agency Securities aggregate notional balance from \$1,000,000 at December 31, 2019 to \$2,600,000 at December 31, 2020 resulted in income of \$111,927 for the year ended December 31, 2020 compared to the prior period loss of \$(5,465).

2019 vs. 2018

- Gains (losses) on Agency Securities resulted from the sales of Agency Securities during the year ended December 31, 2019 of \$2,894,339 compared to \$4,496,015 during the year ended December 31, 2018.
- At December 31, 2019 and December 31, 2018, we also considered whether we intended to sell Agency Securities and whether it was more likely than not that we could meet our liquidity requirements and contractual obligations without selling Agency Securities. No OTTI was recognized for the year ended December 31, 2019.
- Gain (loss) on Credit Risk and Non-Agency Securities results from the sales of Credit Risk and Non-Agency Securities as well as the change in fair value of the securities. We did not sell any Credit Risk and Non-Agency Securities in 2019. For the year ended December 31, 2018, we sold \$97,758 of Credit Risk and Non-Agency Securities which resulted in gains of \$16,886. The change in the unrealized loss was \$(44,152) for the year ended December 31, 2018.
- Gain (loss) on Interest-Only Securities resulted from the change in the fair value of these securities in Q1 2019 of \$682 as well as the sale of \$18,822 Interest-Only Securities in Q2 2019, which resulted in a loss of \$(805).
- Gain (loss) on U.S. Treasury Securities resulted from the sales of U.S. Treasury Securities during the year ended December 31, 2019 of \$1,786,090, which resulted in a realized gain of \$1,967. The change in fair value for the year ended December 31, 2019 was \$57. Sales were \$661,883 during the year ended December 31, 2018, which resulted in a realized loss of \$(6,365).
- Losses on Derivatives resulted from a combination of the following:
 - Changes in interest rates and TBA prices.
 - The increase in our total interest rate swap contracts aggregate notional balance from \$7,350,000 at December 31, 2018 to \$7,975,000 at December 31, 2019.
 - The decrease in our total TBA Agency Securities aggregate notional balance from \$900,000 at December 31, 2018 to \$1,000,000 at December 31, 2019.



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Expenses

The Company is managed by ACM, pursuant to management agreements with ARMOUR and JAVELIN. The ARMOUR 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 ARMOUR management fee rate decreased to 0.75% per annum for gross equity raised in excess of \$1.0 billion pursuant to the ARMOUR management agreement, the effective average management fee rate declines as equity is raised. At December 31, 2020, December 31, 2019 and December 31, 2018, the effective ARMOUR management fee, prior to management fees waived was 1.00%, 1.00% and 1.03% based on gross equity raised of \$2,944,169, \$2,965,163 and \$2,658,969, respectively. ACM began waiving 40% of its management fee during the second quarter of 2020. As of December 31, 2020, ACM has waived management fees of \$8,855. 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 until further notice (see Note 16 to the consolidated financial statements).



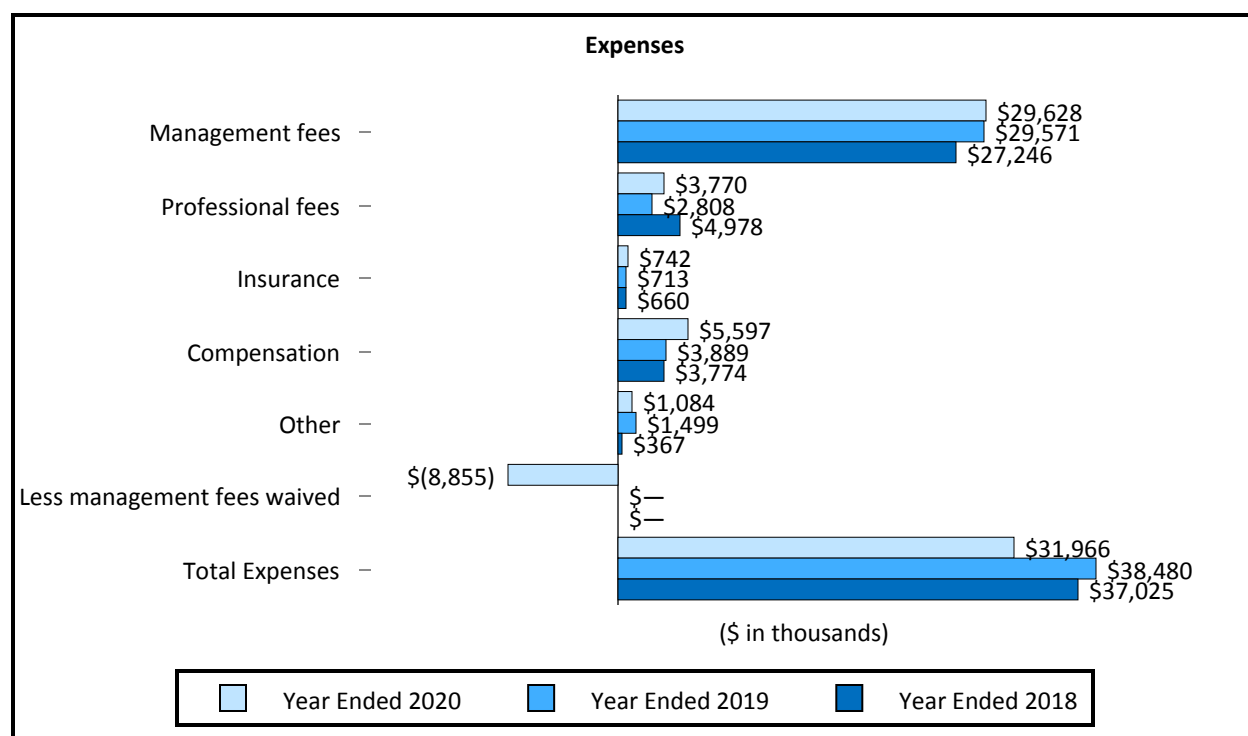
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Professional fees include securities clearing, legal, audit and consulting costs and are generally driven by the size and complexity of our securities portfolio, the volume of transactions we execute and the extent of research and due diligence activities 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 14 to the consolidated financial statements).

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 13 to the consolidated financial statements).



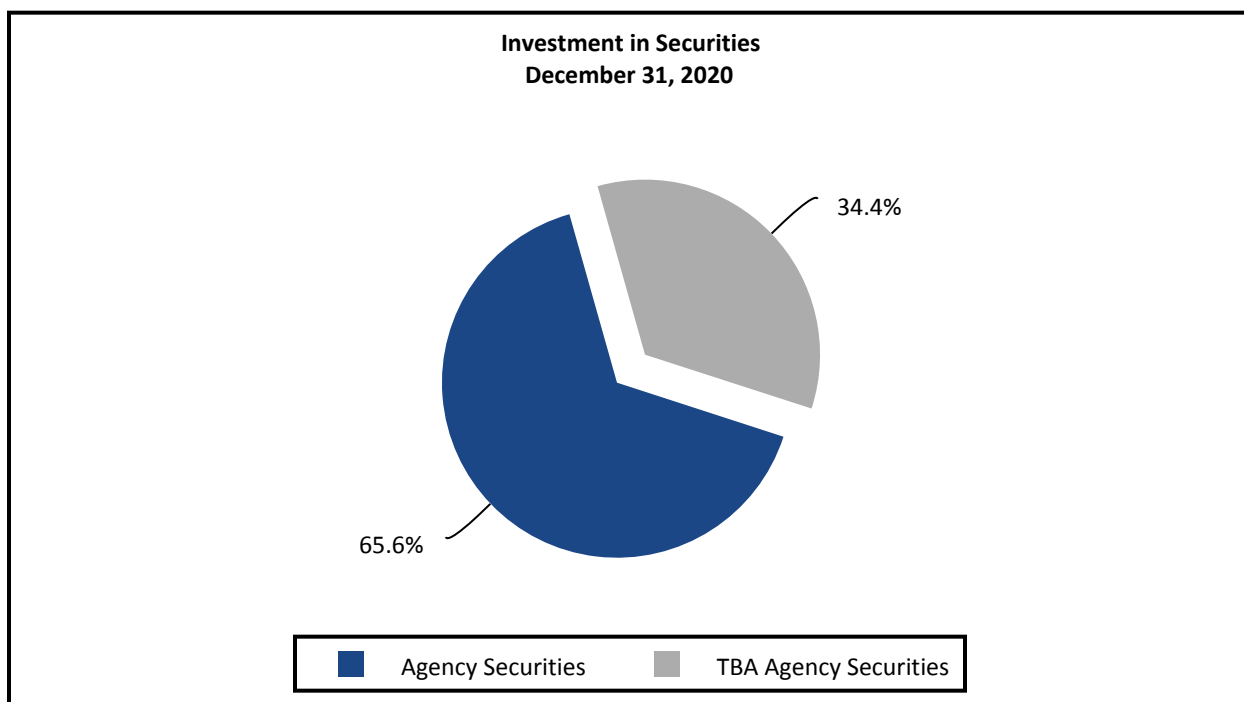
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Financial Condition

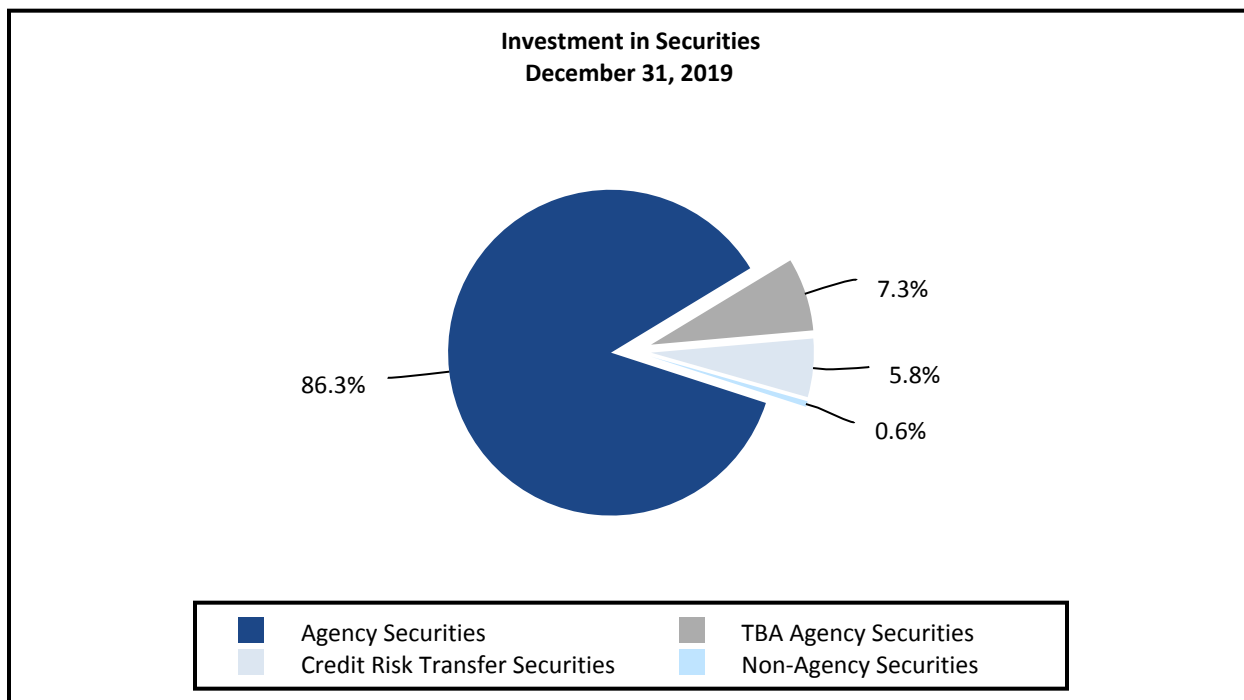
Investment In Securities

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 8 to the consolidated financial statements).

The charts below present our investment in securities by percentage of our total investment in securities, at fair value as of the dates indicated.



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Agency Securities

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,



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typically LIBOR or 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.

Credit Risk and Non-Agency Securities

We did not have any Credit Risk and Non-Agency Securities at December 31, 2020. 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 those assets. If actual prepayment speeds, defaults, delinquencies and severities differ from our expectations, actual yields could be higher or lower. Credit Risk and Non-Agency Securities are subject to risk of loss with regard to principal and interest payments. Each investment is evaluated based on the characteristics of the underlying collateral and securitization structure, rather than relying on the ratings assigned by rating agencies.

The table below summarizes the credit ratings of our Credit Risk and Non-Agency Securities at December 31, 2019.

	<u>Investment Grade</u>	<u>Non-Investment Grade</u>	<u>Non-Rated</u>	<u>Total</u>
December 31, 2019.....	\$ 570,332	\$ 233,418	\$ 79,851	\$ 883,601



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The table below summarizes certain characteristics of our investments in securities at December 31, 2020 and December 31, 2019.

Asset Type	Principal Amount	Fair Value	Weighted Average Coupon	CPR ⁽¹⁾	Weighted Average Months to Maturity	Percent of Total
December 31, 2020						
Agency Securities:						
Total Fannie Mae	\$ 3,779,964	\$ 4,158,987	3.2 %	14.8 %	255	52.7 %
Total Freddie Mac	925,036	993,173	3.3 %	23.9 %	262	12.6
Total Ginne Mae	25,388	26,162	2.9 %	7.6 %	206	0.3
Total Agency Securities	\$ 4,730,388	\$ 5,178,322	3.3 %	16.6 %	256	65.6 %
TBA Agency Securities:						
15 Year Long ⁽²⁾	1,400,000	1,459,136	1.9 %	n/a	n/a	18.5
30 Year Long ⁽²⁾	1,200,000	1,252,842	2.1 %	n/a	n/a	15.9
Total TBA Agency Securities	\$ 2,600,000	\$ 2,711,978	2.0 %	n/a	n/a	34.4 %
Total Investments in Securities ...	\$ 7,330,388	\$ 7,890,300				100.0 %
December 31, 2019						
Agency Securities:						
Total Fannie Mae	\$ 8,779,331	\$ 9,269,786	3.7 %	14.4 %	239	67.0 %
Total Freddie Mac	2,522,870	2,648,795	3.9 %	20.7 %	329	19.2
Total Ginne Mae	22,504	23,185	3.7 %	11.6 %	233	0.1
Total Agency Securities	\$ 11,324,705	\$ 11,941,766	3.8 %	15.8 %	259	86.3 %
TBA Agency Securities:						
15 Year Long ⁽²⁾	500,000	511,885	3.0 %	n/a	n/a	3.7 %
30 Year Long ⁽²⁾	500,000	494,395	2.5 %	n/a	n/a	3.6
Total TBA Agency Securities	\$ 1,000,000	\$ 1,006,280	2.8 %	n/a	n/a	7.3 %
Credit Risk and Non-Agency Securities:						
Credit Risk Transfer	\$ 754,729	\$ 803,964	5.9 %	n/a	114	5.8 %
Non-Agency Securities	93,723	79,637	5.2 %	n/a	226	0.6
Total for Credit Risk and Non-Agency Securities	\$ 848,452	\$ 883,601	5.8 %	n/a	124	6.4 %
Total Investments in Securities ...	\$ 13,173,157	\$ 13,831,647				100.0 %

(1) Weighted average CPR during the fourth quarter for the securities owned at December 31, 2020 and December 31, 2019.

(2) Our TBA Agency Securities are recorded as derivative instruments in our accompanying consolidated financial statements. Our TBA Agency Securities are reported at net carrying value of \$19,747 and \$(592), at December



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31, 2020 and December 31, 2019, respectively, and are reported in Derivatives, at fair value on our consolidated balance sheets (see Note 8 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 and LIBOR. We have established borrowing relationships with numerous investment banking firms and other lenders, 18 of which had open repurchase agreements with us at December 31, 2020 and 25 of which had open repurchases agreements with us at December 31, 2019. We had outstanding balances under our repurchase agreements at December 31, 2020 and December 31, 2019 of \$4,536,065 and \$11,354,547, respectively, consistent with the increase in our MBS in our securities portfolio.

Our repurchase agreements require excess collateral, known as a "haircut." At December 31, 2020, the average haircut percentage was 3.13% compared to 5.16% at December 31, 2019. 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, SOFR or LIBOR. 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:

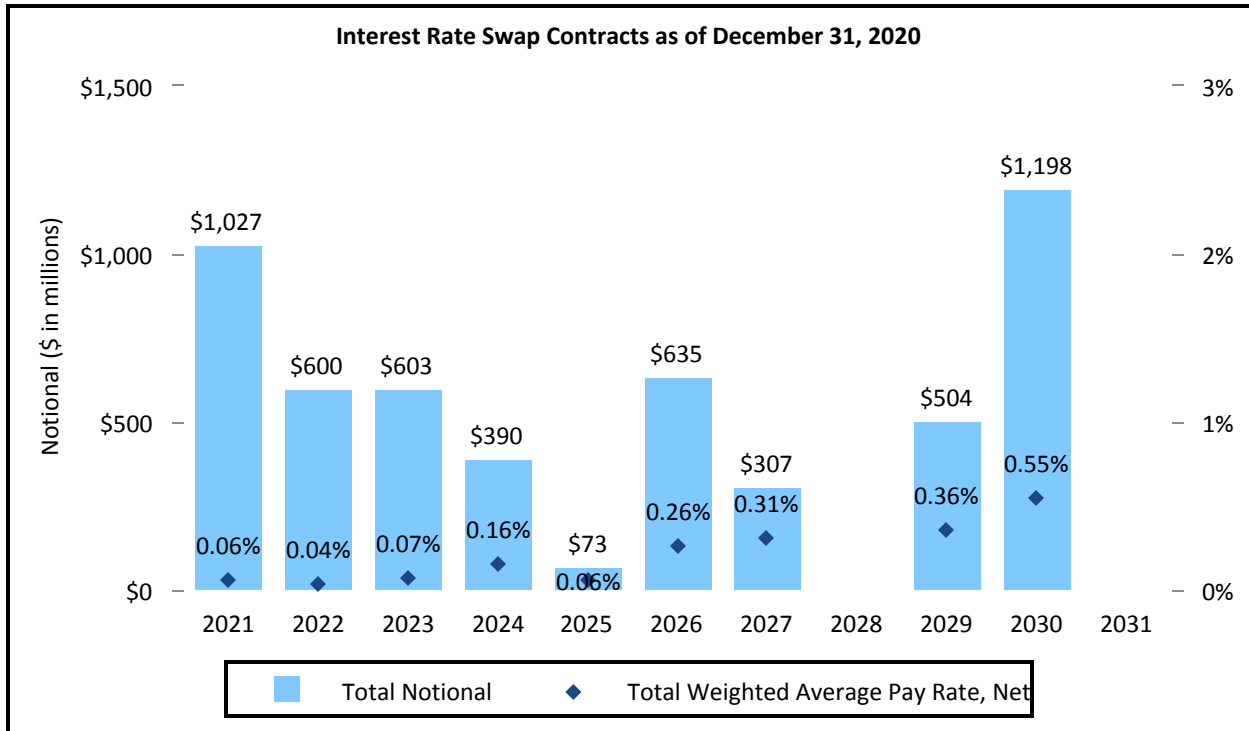
- available derivatives may not correspond directly with the interest rate risk for which protection is sought (e.g., the difference in interest rate movements for long-term U.S. Treasury Securities compared to Agency Securities);
- the duration of the derivatives may not match the duration of the related 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



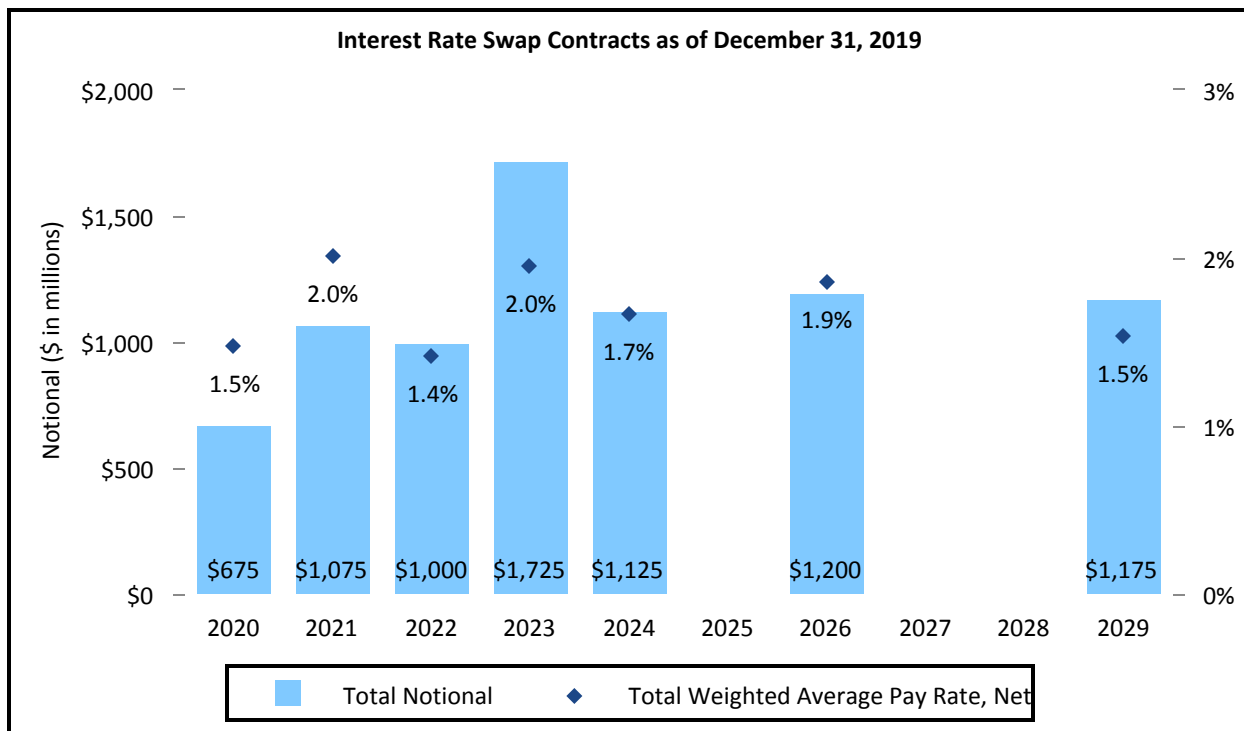
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- the value of derivatives may be adjusted from time to time in accordance with GAAP to reflect changes in fair value; downward adjustments, or “mark-to-market losses,” would reduce our net income or increase any net loss.

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



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At December 31, 2020 and December 31, 2019, we had derivatives with a net fair value of \$53,469 and \$(47,223), respectively. At December 31, 2020 and December 31, 2019, we had interest rate swap contracts with an aggregate notional balance of \$5,337,000 and \$7,975,000, respectively. Counterparty risk of derivatives are limited to some degree because of daily mark-to-market and collateral requirements. These derivative transactions are designed to: (1) lock in a portion of funding costs for financing activities associated with our assets in such a way as to help assure the realization of attractive net interest margins and (2) vary inversely in value with our MBS. Such contracts are based on assumptions about prepayments which, if not realized, will cause results to differ from expectations.

We also had TBA Agency Securities with an aggregate notional balance of \$2,600,000 and \$1,000,000 at December 31, 2020 and December 31, 2019, respectively.

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 off-set difficult. We recognized net gains (losses) of \$(284,153), \$(350,123) and \$1,819, for the years ended December 31, 2020, December 31, 2019, and December 31, 2018, 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.



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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.

Contractual Obligations and Commitments

We had the following contractual obligations at December 31, 2020:

Obligations	Payments Due By Period				
	Total	< 1 Year	≥ 1 and < 3 Years	≥ 3 and < 5 Years	≥ 5 Years
Repurchase agreements ⁽¹⁾	\$ 4,536,065	\$ 4,536,065	\$ —	\$ —	\$ —
Interest expense on repurchase agreements	2,208	2,208	—	—	—
Related Party Fees ⁽²⁾	207,070	29,581	59,163	59,163	59,163
Board of Directors fees ⁽³⁾	9,457	1,351	2,702	2,702	2,702
Total	\$ 4,754,800	\$ 4,569,205	\$ 61,865	\$ 61,865	\$ 61,865

- (1) At December 31, 2020, BUCKLER accounted for 66.1% of our aggregate borrowings and had an amount at risk of 8.3% of our total stockholders' equity with a weighted average maturity of 21 days on repurchase agreements (refer to Note 7 to the consolidated financial statements).
- (2) Represents fees to be paid to ACM under the terms of the management agreements (refer to Note 9 and Note 15 to the consolidated financial statements).
- (3) Represents compensation to be paid to the Board in the form of cash and common equity.

We had contractual commitments under derivatives at December 31, 2020. We had interest rate swap contracts with an aggregate notional balance of \$5,337,000, a weighted average swap rate of 0.24% and a weighted average term of 58 months at December 31, 2020. We also entered into \$2,600,000 notional of TBA Agency Securities during the year ended December 31, 2020.

Liquidity and Capital Resources

At December 31, 2020, our liquidity totaled \$619,409, consisting of \$167,671 of cash plus \$451,738 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 11 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



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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 December 31, 2020 and December 31, 2019.

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 December 31, 2020 and December 31, 2019, we financed our securities portfolio with \$4,536,065 and \$11,354,547 of borrowings under repurchase agreements. Our debt to equity ratios at December 31, 2020 and December 31, 2019, were 4.83:1 and 7.90:1, respectively. Our leverage ratios, including notional on our TBA Agency Securities, were 7.61:1 and 8.60:1 at December 31, 2020 and December 31, 2019, respectively.

During the year ended December 31, 2020, we purchased \$10,698,641 of securities using proceeds from repurchase agreements and principal repayments. During the year ended December 31, 2020, we received cash of \$1,262,930 from principal repayments on our MBS. We had a net cash decrease from our repurchase agreements of \$(6,818,482) for the year ended December 31, 2020 and made cash interest payments of approximately \$183,365 on our liabilities for the year ended December 31, 2020.

During the year ended December 31, 2019, we purchased \$11,120,526 of securities using proceeds from repurchase agreements and principal repayments. During the year ended December 31, 2019, we received cash of \$1,755,047 from principal payments on our MBS. We had a net cash decrease from our repurchase agreements of \$4,316,896 for the year ended December 31, 2019 and made cash interest payments of approximately \$425,746 on our liabilities for the year ended December 31, 2019.

During the year ended December 31, 2018, we purchased \$5,748,841 of securities using proceeds from repurchase agreements and principal repayments. During the year ended December 31, 2018, we received cash of \$725,771 from principal payments on our MBS. We had a net cash decrease from our repurchase agreements of \$(518,266) for the year ended December 31, 2018 and made cash interest payments of approximately \$252,393 on our liabilities for the year ended December 31, 2018.

Cash and cash collateral posted to counterparties provided by (used in) operating activities was \$(257,824), \$(40,717) and \$75,223, respectively, for the years ended December 31, 2020, December 31, 2019 and December 31, 2018. The decrease in cash and cash collateral posted to counterparties related to operating activities from 2019 to 2020 was primarily due to the liquidation of our Credit Risk and Non-Agency Securities as we determined that securities that exhibit these characteristics did not fit with our current investment strategy. Our average securities portfolio was \$7,834,588 and \$12,461,442 for the year ended December 31, 2020 and December 31, 2019, respectively. During the year ended December 31, 2020, we sold 5,347 of Series C Preferred stock for an increase in equity of \$130,138. During the year ended December 31, 2020 we also fully redeemed all 8,383 issued and outstanding shares of our Series B Preferred Stock (\$25.00 per share, \$209,583 in the aggregate liquidation preference). During the year ended ended December 31, 2020 we sold 6,287 shares of our common stock, for an increase in equity of \$54,575 (see Note 11 to the consolidated financial statements). The decrease in



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cash and cash collateral posted to counterparties related to operating activities from 2018 to 2019 is related to the termination of some of our derivatives.

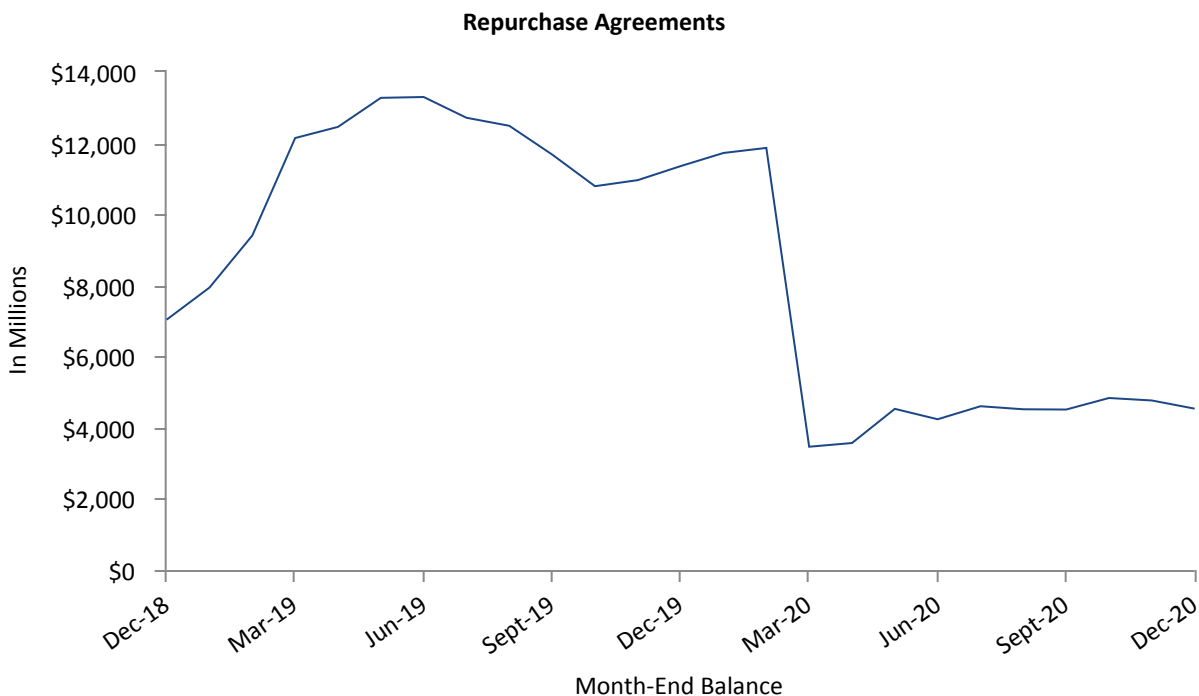
We currently believe that we have sufficient liquidity and capital resources available for the acquisition of additional investments, repayments on repurchase borrowings, reacquisition of securities to be returned to borrowers and the payment of cash dividends as required for continued qualification 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 7 and Note 15 to the consolidated financial statements).



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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. During the year ended December 31, 2020, where required, we amended ISDAs that had financial covenants to reflect current circumstances.

We generally seek to borrow (on a recourse basis) between six and ten times the amount of our total stockholders' equity. At December 31, 2020 and December 31, 2019, we financed our securities portfolio with \$4,536,065 and \$11,354,547 of borrowings under repurchase agreements. Our debt to equity ratios at December 31, 2020 and December 31, 2019, were 4.83:1 and 7.90:1, respectively. Our leverage ratios, including notional on our TBA Agency Securities, were 7.61:1 and 8.60:1 at December 31, 2020 and December 31, 2019, respectively.

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 agreements 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 long-term (greater than one year) liquidity. 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 11 to the consolidated financial statements.

Off-Balance Sheet Arrangements

At December 31, 2020 and December 31, 2019, we had not maintained any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance, or special purpose or variable interest entities, established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. Furthermore, at December 31, 2020 and December 31, 2019, we had not guaranteed any obligations of any unconsolidated entities or entered into any commitment or intent to provide funding to any such entities. All of our transactions with BUCKLER are reflected in our consolidated balance sheets.



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Critical Accounting Policies

See Note 3 to the consolidated financial statements for our significant accounting policies.

Valuation

The unrealized changes in fair value on our available for sale securities are reflected in total stockholders' equity as accumulated other comprehensive income or loss. Changes in fair value of our trading securities are reported in the consolidated statements of operations as income or loss. We do not use hedge accounting for our derivatives for financial reporting purposes and therefore changes in fair value are reflected in net income as other gain or loss. To the extent that fair value changes on derivatives offset fair value changes in our MBS, the fluctuation in our stockholders' equity will be lower. For example, rising interest rates may tend to result in an overall increase in our reported net income even while our total stockholders' equity declines.

Fair value for our MBS and derivatives are based on obtaining a valuation for each 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, collateral type, bond structure, prepayment speeds, priority of payments, defaults, delinquencies and 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.

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

Realized Gains and Losses

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.

Available for Sale Securities

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



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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.

Trading Securities

We carry our trading securities at fair value and reflect changes in those fair values in net income as other gains and losses.

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 16 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 this 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 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;



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- 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.



Item 7A. Quantitative and Qualitative Disclosures about Market Risk
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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 and the one-year LIBOR 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 LIBOR 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.



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Market Risk Disclosures (continued)

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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 December 31, 2020 and December 31, 2019. 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.

Change in Interest Rates	Percentage Change in Projected		
	Net Interest Income	Portfolio Including Derivatives	Shareholder's Equity
December 31, 2020			
1.00%	27.41%	(1.45)%	(12.20)%
0.50%	13.19%	(0.52)%	(4.40)%
(0.50)%	1.48%	0.06%	0.50%
(1.00)%	(2.52)%	(0.30)%	(2.50)%
December 31, 2019			
1.00%	(16.52)%	(1.54)%	(14.77)%
0.50%	(7.87)%	(0.59)%	(5.63)%
(0.50)%	3.58%	0.07%	0.62%
(1.00)%	(10.16)%	(0.53)%	(5.12)%

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.



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Market Risk Disclosures (continued)

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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 December 31, 2020 and December 31, 2019. 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.

Change in MBS spread	December 31, 2020		December 31, 2019	
	Percentage Change in Projected		Percentage Change in Projected	
	Portfolio Value	Shareholders' Equity	Portfolio Value	Shareholders' Equity
+25 BPS	(1.18)%	(9.88)%	(1.21)%	(11.64)%
+10 BPS	(0.47)%	(3.95)%	(0.48)%	(4.65)%
-10 BPS	0.47%	3.95%	0.48%	4.65%
-25 BPS	1.18%	9.88%	1.21%	11.64%

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+.

We 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,



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

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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. Our Credit Risk and Non-Agency Securities are subject to risk of loss with regard to principal and interest payments. At December 31, 2020, we did not own any Credit Risk and Non-Agency Securities. At December 31, 2019, 64.5% of our Credit Risk and Non-Agency Securities were assigned an investment grade rating and 35.5% were assigned below an investment grade rating or were not rated.

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.



Item 8. Financial Statements and Supplementary Data

Reference is made to the Index to Consolidated Financial Statements that appears on page F-1 of this Annual Report on Form 10-K. The Report of Independent Registered Public Accounting Firm, the Consolidated Financial Statements and the Financial Statement Notes, listed in the Index to Consolidated Financial Statements, which appear beginning on page F-2 of this Annual Report on Form 10-K, are incorporated by reference to this Item 8.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Co-CEOs and 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 Exchange Act) as of the end of our fiscal year that ended on December 31, 2020. Based on their participation in that evaluation, our Co-CEOs and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2020 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 December 31, 2020. That evaluation did not identify any changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management Report On Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our Board, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. As a result, even systems determined to be effective can provide only reasonable assurance regarding the preparation and presentation of financial statements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

There have been no changes in our internal controls over financial reporting that occurred during the quarter ended December 31, 2020, that have materially affected, or are reasonably likely to affect our internal control over financial reporting.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020. Management used criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework (2013) when making this assessment.

Based on management's assessment, management concluded that, as of December 31, 2020, the Company's internal control over financial reporting was effective. The Company's independent registered public accounting firm, Deloitte & Touche LLP, has issued its attestation report on the Company's internal control over financial reporting. This report appears on page F-3 of this Annual Report on Form 10-K.

Item 9B. Other Information

None.



PART III

ARMOUR Residential REIT, Inc.

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Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 of this Annual Report on Form 10-K will be contained in and is hereby incorporated by reference to, the proxy statement for our 2021 annual meeting of stockholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report.

Item 11. Executive Compensation

The information required by Item 11 of this Annual Report on Form 10-K will be contained in and is hereby incorporated by reference to, the proxy statement for our 2021 annual meeting of stockholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 of this Annual Report on Form 10-K will be contained in and is hereby incorporated by reference to, the proxy statement for our 2021 annual meeting of stockholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 of this Annual Report on Form 10-K will be contained in and is hereby incorporated by reference to, the proxy statement for our 2021 annual meeting of stockholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 of this Annual Report on Form 10-K will be contained in and is hereby incorporated by reference to, the proxy statement for our 2021 annual meeting of stockholders, which will be filed with the SEC pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this report.



GLOSSARY OF TERMS
ARMOUR Residential REIT, Inc.

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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.
AVM	A securities broker dealer, which we contract with for administering clearing and settlement services for our securities and derivative transactions, as well as assistance with financing transaction services such as repurchase financing.
Basis swap contracts	Derivative contracts that allow us to exchange one floating interest rate basis for another, for example, 3 month LIBOR and 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.
CFTC	U.S. Commodity Futures Trading Commission.
Co-CEOs	Co-Chief Executive Officers of ARMOUR, Jeffrey Zimmer and Scott Ulm.
Core Income	Core Income, including TBA Drop income, excludes gains or losses from securities sales and early termination of derivatives, market value adjustments (including impairments) and certain non-recurring expenses.
CPOs	Commodity pool operators.
CMBS	Commercial mortgage backed securities.
CMOs	Collateralized mortgage obligations.
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.
ERISA	Employee Retirement Income Security Act.
Exchange Act	Securities Exchange Act of 1934.
Fannie Mae	The Federal National Mortgage Association.
Fed	The U.S. Federal Reserve.
FICC	Fixed Income Clearing Corporation. An agency that deals with the confirmation, settlement and delivery of fixed-income assets in the U.S. They ensure the systematic and efficient settlement of MBS and U.S. government securities.
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.
GDP	Gross domestic product.
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.



ARMOUR Residential REIT, Inc.
Glossary of Terms (continued)

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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.
IRS	The Internal Revenue Service.
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.
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 (“Acquisition”) with and into JAVELIN on April 6, 2016.
MGCL	Maryland General Corporation Law
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.
NYSE	New York Stock Exchange.
OTTI	Other than temporary impairment.
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.
Sarbanes-Oxley Act	A U.S. federal law that set new or enhanced standards for all U.S. public company boards, management and public accounting firms. Section 302 requires senior management to certify the accuracy of the financial statements. Section 404 requires that management and auditors establish internal controls and reporting methods on the adequacy of those controls.
SEC	The Securities and Exchange Commission.
S&P 500	Standard and Poor's 500 Stock Index.
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.



Part IV

Item 15. Exhibits, Financial Statement Schedules ARMOUR Residential REIT, Inc.

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(1) Financial Statements

See Item 8 – Financial Statements and Supplementary Data.

(2) Financial Statement Schedules

All supplemental schedules have been omitted since the required information is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the consolidated financial statements or notes thereto.

(3) Exhibits

See Exhibit Index.

EXHIBIT INDEX

Exhibit Number	Description
3.1	<u>Articles of Amendment and Restatement of Articles of Incorporation of ARMOUR Residential REIT, Inc. (Incorporated by reference to Exhibit 3.4 to ARMOUR's Current Report on Form 8-K filed with the SEC on November 12, 2009)</u>
3.2	<u>Articles of Amendment to Articles of Amendment and Restatement (Incorporated by reference to Exhibit 3.1 to ARMOUR's Current Report on Form 8-K filed with the SEC on August 8, 2011)</u>
3.3	<u>Articles of Amendment to Articles of Amendment and Restatement (Incorporated by reference to Exhibit 3.1 to ARMOUR's Current Report on Form 8-K filed with the SEC on December 1, 2011)</u>
3.4	<u>Articles of Amendment to Articles of Amendment and Restatement of ARMOUR Residential REIT, Inc. (Incorporated by reference to Exhibit 3.3 to ARMOUR's Quarterly Report on Form 10-Q filed with the SEC on November 1, 2012)</u>
3.5	<u>Articles Supplementary of 7.875% Series B Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.1 to ARMOUR's Current Report on Form 8-K filed with the SEC on February 12, 2013)</u>
3.6	<u>Articles of Amendment to the Articles of Amendment and Restatement of ARMOUR Residential REIT, Inc, effective July 31, 2015(Incorporated by reference to Exhibit 3.1 to ARMOUR's Current Report on Form 8-K filed with the SEC on August 3, 2015)</u>
3.7	<u>Articles of Amendment to the Articles of Amendment and Restatement of ARMOUR Residential REIT, Inc, effective July 31, 2015(Incorporated by reference to Exhibit 3.2 to ARMOUR's Current Report on Form 8-K filed with the SEC on August 3, 2015)</u>
3.8	<u>Articles Supplementary classifying additional shares of 7.875% Series B Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.1 to ARMOUR's Current Report on Form 8-K filed with the SEC on August 31, 2017)</u>
3.9	<u>Articles Supplementary classifying additional shares of 7.875% Series B Cumulative Redeemable Preferred Stock (Incorporated by reference to Exhibit 3.1 to ARMOUR's Current Report on Form 8-K filed with the SEC on June 26, 2019)</u>
3.10	<u>Amended and Restated Bylaws of ARMOUR Residential REIT, Inc., as amended on October 28, 2014 (Incorporated by reference to Exhibit 3.1 to ARMOUR's Quarterly Report on Form 10-Q filed with the SEC on October 29, 2014)</u>
4.1	<u>Description of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 †</u>
4.2	<u>Specimen Common Stock Certificate of ARMOUR Residential REIT, Inc. (incorporated by reference to Exhibit 4.2 of ARMOUR's Registration Statement on Form S-4 (Reg. No. 333-160870))</u>



ARMOUR Residential REIT, Inc.
Exhibits, Financial Statement Schedules (continued)

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- 4.4 Specimen 7.00% Series C Cumulative Redeemable Preferred Stock Certificate of ARMOUR Residential REIT, Inc. (incorporated by reference to Exhibit 4.3 to ARMOUR's Registration Statement on Form 8-A (Reg. No. 001-34766) filed with the SEC on January 28, 2020)
- 10.1 ARMOUR Residential REIT, Inc. Second Amended and Restated 2009 Stock Incentive Plan (Incorporated by reference to Exhibit 10.1 to ARMOUR's Current Report on Form 8-K filed with the SEC on May 9, 2014) †††
- 10.2 Seventh Amended and Restated Management Agreement, dated and effective as of July 21, 2020, by and between ARMOUR Residential REIT, Inc. and ARMOUR Capital Management LP (Incorporated by reference to Exhibit 10.1 to ARMOUR's Quarterly Report on Form 10-Q filed with the SEC on July 22, 2020)
- 10.3 First Amended and Restated Sub-Management Agreement, dated February 23, 2015, by and among Staton Bell Blank Check LLC, ARMOUR Capital Management LP and ARMOUR Residential REIT, Inc. (Incorporated by reference to Exhibit 10.6 to ARMOUR's Annual Report on Form 10-K filed with the SEC on February 24, 2015)
- 10.4 Equity Sales Agreement, dated February 15, 2019, by and among ARMOUR Residential REIT, Inc., ARMOUR Capital Management LP, BUCKLER Securities LLC, JMP Securities LLC and Ladenburg Thalmann & Co. Inc. (incorporated by reference to Exhibit 1.1 to the Current Report on Form 8-K, filed by ARMOUR Residential REIT, Inc. with the SEC on February 15, 2019)
- 10.5 Amendment No. 1 to the Equity Sales Agreement, dated April 3, 2020, by and among ARMOUR Residential REIT, Inc. and ARMOUR Capital Management LP, and BUCKLER Securities LLC, JMP Securities LLC, Ladenburg Thalmann & Co. Inc., and B. Riley FBR, Inc., as sales agents (incorporated by reference to Exhibit 1.1 to the Current Report on Form 8-K, filed by ARMOUR Residential REIT, Inc. with the SEC on April 6, 2020)
- 10.6 Amendment No. 2 to the Equity Sales Agreement, dated May 4, 2020, by and among ARMOUR Residential REIT, Inc. and ARMOUR Capital Management LP, and BUCKLER Securities LLC, JMP Securities LLC, Ladenburg Thalmann & Co. Inc., and B. Riley FBR, Inc., as sales agents (incorporated by reference to Exhibit 1.1 to the Current Report on Form 8-K, filed by ARMOUR Residential REIT, Inc. with the SEC on May 6, 2020)
- 10.7 Equity Sales Agreement, dated January 29, 2020, among ARMOUR Residential REIT, Inc., ARMOUR Capital Management LP, B. Riley FBR, Inc. and BUCKLER Securities LLC (incorporated by reference to Exhibit 1.1 to the Current Report on Form 8-K, filed by ARMOUR Residential REIT, Inc. with the SEC on January 31, 2020)
- 23.1 Consent of Deloitte & Touche LLP †
- 31.1 Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a) †
- 31.2 Certification of Chief Executive Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a) †
- 31.3 Certification of Chief Financial Officer Pursuant to SEC Rule 13a-14(a)/15d-14(a) †
- 32.1 Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350 ††
- 32.2 Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350 ††
- 32.3 Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350 ††
- 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 †
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document †
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document †
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document †
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document †
- 104 Cover Page Interactive Data (formatted as Inline XBRL and contained in Exhibit 101)



ARMOUR Residential REIT, Inc.
Exhibits, Financial Statement Schedules (continued)

- † Filed herewith.
- †† Furnished herewith.
- ††† Management contract or compensatory plan, contract or arrangement.



None.



Index to Consolidated Financial Statements
ARMOUR Residential REIT, Inc.

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To the Stockholders and Board of Directors of
ARMOUR Residential REIT, Inc.
Vero Beach, Florida

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of ARMOUR Residential REIT, Inc. and subsidiaries (the “Company”) as of December 31, 2020 and 2019, the related statements of operations, comprehensive income (loss), stockholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 17, 2021, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Investment in Securities—Valuation—Refer to Notes 3 and 6 to the consolidated financial statements

Critical Audit Matter Description

Certain investments in residential mortgage-backed securities issued or guaranteed by a United States government-sponsored entity or a government agency are classified as available-for-sale and are reported at fair value in the financial statements. The Company's evaluation of investment impairment on available-for-sale securities is performed at each reporting period or more frequently when economic or market concerns warrant such evaluation. An investment is impaired if the fair value of the investment is less than its cost. The Company considers an impairment to be other-than-temporary if there is (1) an intent to sell the securities, (2) a belief that it is more likely than not that there will be a requirement to sell the securities before recovery (for example, because of liquidity requirements or contractual obligations), or (3) a determination that a credit loss exists.

Auditing management's considerations and conclusions in determining whether an other-than-temporary impairment exists involved especially subjective judgment as it pertained to evaluating management's intent.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the evaluation of management's intent to sell the securities included the following, among others:

- We tested the effectiveness of control over identifying whether a credit loss exists.
- We inspected the population of available-for-sale securities that were in an unrealized loss position at each reporting date and performed an evaluation of whether a credit loss existed by considering:
 - The nature of the underlying securities
 - Management's rationale supporting their judgments regarding their intent to sell or hold securities in a continuous unrealized loss position while considering the severity and duration of the securities' decline in fair value

We evaluated securities sales subsequent to the reporting period to determine if such sales contradicted our understanding of management's intent.

/s/ Deloitte & Touche LLP

Miami, Florida
February 17, 2021

We have served as the Company's auditor since 2011.

To the Stockholders and Board of Directors of
ARMOUR Residential REIT, Inc.
Vero Beach, Florida

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of ARMOUR Residential REIT, Inc., and subsidiaries (the “Company”) as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 17, 2021, expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management report on internal control over financial reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Miami, Florida
February 17, 2021

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

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	<u>December 31, 2020</u>	<u>December 31, 2019</u>
Assets		
Cash.....	\$ 167,671	\$ 181,395
Cash collateral posted to counterparties.....	3,997	91,771
Investments in securities, at fair value:.....		
Agency Securities (including pledged securities of \$4,726,584 at December 31, 2020 and \$11,188,502 at December 31, 2019).....	5,178,322	11,941,766
Credit Risk and Non-Agency Securities (including pledged securities of \$810,549 at December 31, 2019).....	—	883,601
Derivatives, at fair value.....	54,686	24,751
Accrued interest receivable.....	12,833	35,085
Prepaid and other.....	1,977	9,051
Subordinated loan to BUCKLER.....	105,000	105,000
Total Assets	<u><u>\$ 5,524,486</u></u>	<u><u>\$ 13,272,420</u></u>
Liabilities and Stockholders' Equity		
Liabilities:		
Repurchase agreements.....	\$ 4,536,065	\$ 11,354,547
Cash collateral posted by counterparties.....	44,704	14,958
Payable for unsettled purchases.....	—	358,712
Derivatives, at fair value.....	1,217	71,974
Accrued interest payable- repurchase agreements.....	1,625	31,932
Accounts payable and other accrued expenses.....	2,571	3,590
Total Liabilities	<u><u>\$ 4,586,182</u></u>	<u><u>\$ 11,835,713</u></u>
Commitments and contingencies (Note 9)		
Stockholders' Equity:		
Preferred stock, \$0.001 par value, 50,000 shares authorized;		
7.875% Series B Cumulative Preferred Stock; 8,383 shares issued and outstanding (\$209,583 aggregate liquidation preference) at December 31, 2019.....	—	8
7.00% Series C Cumulative Preferred Stock; 5,347 issued and outstanding (\$133,675 aggregate liquidation preference) at December 31, 2020.....	5	—
Common stock, \$0.001 par value, 125,000 shares authorized, 65,290 and 58,877 shares issued and outstanding at December 31, 2020 and December 31, 2019.....	65	59
Additional paid-in capital.....	3,033,025	3,054,604
Accumulated deficit.....	(2,273,822)	(1,973,437)
Accumulated other comprehensive income.....	179,031	355,473
Total Stockholders' Equity	<u><u>\$ 938,304</u></u>	<u><u>\$ 1,436,707</u></u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 5,524,486</u></u>	<u><u>\$ 13,272,420</u></u>

See financial statement notes.



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

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	For the Years Ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Interest Income:			
Agency Securities, net of amortization of premium and fees.....	\$ 151,206	\$ 382,811	\$ 218,391
Credit Risk and Non-Agency Securities, including discount accretion.....	17,746	52,919	56,427
Interest-Only Securities.....	—	596	1,667
U.S. Treasury Securities.....	469	1,353	4,644
BUCKLER Subordinated loan.....	333	1,886	2,019
Total Interest Income	\$ 169,754	\$ 439,565	\$ 283,148
Interest expense- repurchase agreements.....	(62,939)	(288,229)	(154,230)
Interest expense- U.S. Treasury Securities sold short.....	(32)	—	—
Net Interest Income	\$ 106,783	\$ 151,336	\$ 128,918
Other Loss:			
Realized gain (loss) on sale of available for sale Agency Securities (reclassified from Other comprehensive income (loss)).....	143,877	9,611	(152,950)
Credit loss expense.....	(1,012)	—	(12,090)
Gain on Agency Securities, trading.....	19,557	—	—
Loss on Credit Risk and Non-Agency Securities.....	(189,555)	(24,396)	(27,266)
Gain (loss) on Interest-Only Securities.....	—	123	(1,007)
Gain (loss) on U.S. Treasury Securities.....	21,771	2,024	(6,365)
Loss on short sale of U.S. Treasury Securities.....	(414)	—	—
Subtotal.....	\$ (5,776)	\$ (12,638)	\$ (199,678)
Realized loss on derivatives ⁽¹⁾	(378,208)	(213,996)	(47,497)
Unrealized gain (loss) on derivatives.....	94,055	(136,127)	49,316
Subtotal.....	\$ (284,153)	\$ (350,123)	\$ 1,819
Total Other Loss	\$ (289,929)	\$ (362,761)	\$ (197,859)
Expenses:			
Management fees.....	29,628	29,571	27,246
Professional fees.....	3,770	2,808	4,978
Insurance.....	742	713	660
Compensation.....	5,597	3,889	3,774
Other.....	1,084	1,499	367
Total Expenses	\$ 40,821	\$ 38,480	\$ 37,025
Less management fees waived.....	(8,855)	—	—
Total Expenses after fees waived	\$ 31,966	\$ 38,480	\$ 37,025

Continued



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

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Net Loss	\$ (215,112)	\$ (249,905)	\$ (105,966)
Dividends on preferred stock.....	(9,787)	(15,634)	(17,032)
Net Loss related to common stockholders	<u>\$ (224,899)</u>	<u>\$ (265,539)</u>	<u>\$ (122,998)</u>

Net Loss per share related to common stockholders (Note 12):

Basic.....	<u>\$ (3.57)</u>	<u>\$ (4.59)</u>	<u>\$ (2.92)</u>
Diluted.....	<u>\$ (3.57)</u>	<u>\$ (4.59)</u>	<u>\$ (2.92)</u>
Dividends declared per common share.....	<u>\$ 1.20</u>	<u>\$ 2.16</u>	<u>\$ 2.28</u>
Weighted average common shares outstanding:			
Basic.....	<u>63,070</u>	<u>57,833</u>	<u>42,128</u>
Diluted.....	<u>63,070</u>	<u>57,833</u>	<u>42,128</u>

(1) Interest expense related to our interest rate swap contracts is recorded as realized loss on derivatives on the consolidated statements of operations. For additional information, see Note 8 to the consolidated financial statements.

See financial statement notes.



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

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	For the Years Ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Net Loss	\$ (215,112)	\$ (249,905)	\$ (105,966)
Other comprehensive income (loss):			
Reclassification adjustment for realized (gain) loss on sale of available for sale Agency Securities.....	(143,877)	(9,611)	152,950
Reclassification adjustment for credit loss expense on available for sale Agency Securities.....	1,012	—	12,090
Net unrealized gain (loss) on available for sale Agency Securities.....	(33,577)	408,954	(188,799)
Other comprehensive income (loss)	\$ (176,442)	\$ 399,343	\$ (23,759)
Comprehensive Income (Loss)	\$ (391,554)	\$ 149,438	\$ (129,725)

See financial statement notes.



ARMOUR Residential REIT, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per share amounts)

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	Preferred Stock						Common Stock		Total Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	8.250% Series A		7.875% Series B		7.00% Series C		Shares	Par				
	Shares	Par	Shares	Par	Shares	Par	Shares	Par				
Balance January 1, 2018	2,181	\$ 2	6,262	\$ 6	—	\$ —	41,877	\$42	\$ 2,709,335	\$ (1,363,223)	\$ (20,111)	\$ 1,326,051
Series A Preferred dividends	—	—	—	—	—	—	—	—	—	(4,498)	—	(4,498)
Series B Preferred dividends	—	—	—	—	—	—	—	—	—	(12,534)	—	(12,534)
Common stock dividends	—	—	—	—	—	—	—	—	—	(97,024)	—	(97,024)
Issuance of Series B Preferred stock, net	—	—	107	—	—	—	—	—	2,632	—	—	2,632
Issuance of common stock, net	—	—	—	—	—	—	1,723	2	38,012	—	—	38,014
Stock based compensation, net of withholding requirements	—	—	—	—	—	—	102	—	2,397	—	—	2,397
Net Loss	—	—	—	—	—	—	—	—	—	(105,966)	—	(105,966)
Other comprehensive loss	—	—	—	—	—	—	—	—	—	—	(23,759)	(23,759)
Balance, December 31, 2018	<u>2,181</u>	<u>\$ 2</u>	<u>6,369</u>	<u>\$ 6</u>	<u>—</u>	<u>\$ —</u>	<u>43,702</u>	<u>\$44</u>	<u>\$ 2,752,376</u>	<u>\$ (1,583,245)</u>	<u>\$ (43,870)</u>	<u>\$ 1,125,313</u>
Cumulative impact of adopting accounting standard ASU 2018-07	—	—	—	—	—	—	—	—	176	(176)	—	—
Adjusted Balance, January 1, 2019	<u>2,181</u>	<u>\$ 2</u>	<u>6,369</u>	<u>\$ 6</u>	<u>—</u>	<u>\$ —</u>	<u>43,702</u>	<u>\$44</u>	<u>\$ 2,752,552</u>	<u>\$ (1,583,421)</u>	<u>\$ (43,870)</u>	<u>\$ 1,125,313</u>
Series A Preferred dividends	—	—	—	—	—	—	—	—	—	(2,249)	—	(2,249)
Series B Preferred dividends	—	—	—	—	—	—	—	—	—	(13,385)	—	(13,385)
Common stock dividends	—	—	—	—	—	—	—	—	—	(124,477)	—	(124,477)
Series A Preferred stock, called for redemption	(2,181)	(2)	—	—	—	—	—	—	(54,512)	—	—	(54,514)
Issuance of Series B Preferred stock, net	—	—	2,014	2	—	—	—	—	49,793	—	—	49,795
Issuance of common stock, net	—	—	—	—	—	—	16,064	16	321,844	—	—	321,860
Stock based compensation, net of withholding requirements	—	—	—	—	—	—	111	—	2,694	—	—	2,694
Common stock repurchased, net	—	—	—	—	—	—	(1,000)	(1)	(17,767)	—	—	(17,768)
Net Loss	—	—	—	—	—	—	—	—	—	(249,905)	—	(249,905)
Other comprehensive income	—	—	—	—	—	—	—	—	—	—	399,343	399,343
Balance, December 31, 2019	<u>—</u>	<u>\$ —</u>	<u>8,383</u>	<u>\$ 8</u>	<u>—</u>	<u>\$ —</u>	<u>58,877</u>	<u>\$59</u>	<u>\$ 3,054,604</u>	<u>\$ (1,973,437)</u>	<u>\$ 355,473</u>	<u>\$ 1,436,707</u>

Continued



ARMOUR Residential REIT, Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands, except per share amounts)

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	Preferred Stock						Common Stock		Total Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total
	8.250% Series A		7.875% Series B		7.00% Series C		Shares	Par				
	Shares	Par	Shares	Par	Shares	Par						
Balance, December 31, 2019	—	—	8,383	8	—	—	58,877	59	3,054,604	(1,973,437)	355,473	1,436,707
Series B Preferred dividends	—	—	—	—	—	—	—	—	—	(1,375)	—	(1,375)
Series C Preferred dividends	—	—	—	—	—	—	—	—	—	(8,412)	—	(8,412)
Common stock dividends	—	—	—	—	—	—	—	—	—	(75,486)	—	(75,486)
Series B Preferred stock, called for redemption	—	—	(8,383)	(8)	—	—	—	—	(209,575)	—	—	(209,583)
Issuance of Series C Preferred stock, net of expenses	—	—	—	—	5,347	5	—	—	130,133	—	—	130,138
Issuance of common stock, net	—	—	—	—	—	—	6,287	6	54,569	—	—	54,575
Stock based compensation, net of withholding requirements	—	—	—	—	—	—	166	—	4,071	—	—	4,071
Common stock repurchased, net	—	—	—	—	—	—	(40)	—	(777)	—	—	(777)
Net Loss	—	—	—	—	—	—	—	—	—	(215,112)	—	(215,112)
Other comprehensive loss	—	—	—	—	—	—	—	—	—	—	(176,442)	(176,442)
Balance, December 31, 2020	—	\$ —	—	\$ —	5,347	\$ 5	65,290	\$65	\$ 3,033,025	\$ (2,273,822)	\$ 179,031	\$ 938,304

See financial statement notes.



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

F-12

	For the Years Ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Cash Flows From Operating Activities:			
Net Loss.....	\$ (215,112)	\$ (249,905)	\$ (105,966)
Adjustments to reconcile net loss to net cash and cash collateral posted to counterparties provided by (used in) operating activities:			
Net amortization of premium on Agency Securities.....	53,322	53,909	32,989
Accretion of net discount on Credit Risk and Non-Agency Securities.....	(2,849)	(2,956)	(2,946)
Net amortization of Interest-Only Securities.....	—	1,924	4,122
Net amortization of U.S. Treasury Securities.....	84	(362)	(1,066)
Realized (gain) loss on sale of Agency Securities, available for sale.....	(143,877)	(9,611)	152,950
Credit loss expense.....	1,012	—	12,090
Gain on Agency Securities, trading.....	(19,557)	—	—
Loss on Credit Risk and Non-Agency Securities.....	189,555	24,396	27,266
(Gain) loss on Interest-Only Securities.....	—	(123)	1,007
(Gain) loss on U.S. Treasury Securities.....	(21,771)	(2,024)	6,365
Loss on short sale of U.S. Treasury Securities.....	414	—	—
Stock based compensation.....	4,071	2,694	2,397
Changes in operating assets and liabilities:			
Increase (decrease) in accrued interest receivable.....	21,828	(12,443)	(53)
Increase (decrease) in prepaid and other assets.....	7,074	(1,690)	(255)
Change in derivatives, at fair value.....	(100,692)	134,631	(58,145)
Increase (decrease) in accrued interest payable- repurchase agreements.....	(30,307)	21,664	3,816
Increase (decrease) in accounts payable and other accrued expenses.....	(1,019)	(821)	652
Net cash and cash collateral posted to counterparties provided by (used in) operating activities.....	\$ (257,824)	\$ (40,717)	\$ 75,223
Cash Flows From Investing Activities:			
Purchases of Agency Securities.....	(5,838,937)	(8,937,989)	(4,816,961)
Purchases of Credit Risk and Non-Agency Securities.....	(237,928)	(138,767)	—
Purchases of U.S. Treasury Securities.....	(4,621,776)	(1,685,058)	(765,828)
Principal repayments of Agency Securities.....	1,217,164	1,701,406	691,934
Principal repayments of Credit Risk and Non-Agency Securities.....	45,766	53,641	33,837
Proceeds from sales of Agency Securities.....	10,959,587	2,894,339	4,496,015
Proceeds from sales of Credit Risk and Non-Agency Securities.....	889,057	—	97,758

Continued



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

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Proceeds from sales of Interest-Only Securities.....	—	18,822	—
Proceeds from sales of U.S. Treasury Securities.....	4,643,049	1,786,090	661,883
Disbursements on reverse repurchase agreements.....	(858,156)	—	—
Receipts from reverse repurchase agreements.....	858,156	—	—
Increase (decrease) in cash collateral posted by counterparties.....	29,746	(82,255)	67,620
Net cash and cash collateral posted to counterparties provided by (used in) investing activities.....	<u>\$ 7,085,728</u>	<u>\$ (4,389,771)</u>	<u>\$ 466,258</u>

Cash Flows From Financing Activities:

Redemption of Series A Preferred stock, net of expenses.....	—	(54,514)	—
Redemption of Series B Preferred stock, net of expenses.....	(209,583)	—	—
Issuance of Series B Preferred stock, net of expenses.....	—	44,289	2,632
Issuance of Series C Preferred stock, net of expenses.....	130,138	—	—
Issuance of common stock, net of expenses.....	54,575	321,860	38,014
Proceeds from repurchase agreements.....	67,986,298	173,216,266	185,437,769
Principal repayments on repurchase agreements.....	(74,804,780)	(168,899,370)	(185,956,035)
Series A Preferred stock dividends paid.....	—	(2,249)	(4,498)
Series B Preferred stock dividends paid.....	(1,375)	(13,385)	(12,534)
Series C Preferred stock dividends paid.....	(8,412)	—	—
Common stock dividends paid.....	(75,486)	(124,477)	(97,024)
Common stock repurchased, net.....	(777)	(16,965)	—

Net cash and cash collateral posted to counterparties provided by (used in) financing activities.....	<u>\$ (6,929,402)</u>	<u>\$ 4,471,455</u>	<u>\$ (591,676)</u>
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Net increase (decrease) in cash and cash collateral posted to counterparties.....	(101,498)	40,967	(50,195)
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Cash and cash collateral posted to counterparties - beginning of year.....	<u>273,166</u>	<u>232,199</u>	<u>282,394</u>
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Cash and cash collateral posted to counterparties - end of year.....	<u>\$ 171,668</u>	<u>\$ 273,166</u>	<u>\$ 232,199</u>
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Supplemental Disclosure:

Cash paid during the year for interest.....	\$ 183,365	\$ 425,746	\$ 252,393
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Non-Cash Investing Activities:

Payable for unsettled purchases.....	\$ —	\$ 358,712	\$ 166,052
Net unrealized gain (loss) on available for sale Agency Securities..	\$ (33,577)	\$ 408,954	\$ (188,799)

Non-Cash Financing Activities:

Amounts receivable for issuance of preferred stock.....	\$ —	\$ 5,506	\$ —
Amounts payable for common stock repurchased.....	\$ —	\$ (803)	\$ —

See financial statement notes.



ARMOUR Residential REIT, Inc.
FINANCIAL STATEMENT NOTES
(in thousands, except per share)

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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% 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 SEC (see *Note 9 - Commitments and Contingencies* and *Note 15 - 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 December 31, 2020, we invest exclusively 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 may also invest 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 consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. (“GAAP”). The 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 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 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.



ARMOUR Residential REIT, Inc.
FINANCIAL STATEMENT NOTES
(in thousands, except per share)

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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 (including swaptions and basis swap contracts), and 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"). 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.



ARMOUR Residential REIT, Inc.
FINANCIAL STATEMENT NOTES
(in thousands, except per share)

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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 December 31, 2020 and December 31, 2019.

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 and basis swap 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



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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 Credit Risk and Non-Agency Securities and Interest-Only Securities is recognized using the effective yield method over the life of the securities based on the future cash flows expected to be received. Future cash flow projections and related effective yields are determined for each security and updated quarterly. Impairment losses establish a new cost basis in the security for purposes of calculating effective yields, recognized when the fair value of a security is less than its cost basis and there has been an adverse change in the future cash flows expected to be received. Other changes in future cash flows expected to be received are recognized prospectively over the remaining life of the security. 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 changes in equity during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period, except those resulting from investments by owners and distributions to owners.

Note 4 - Recent Accounting Pronouncements

We consider the applicability and impact of all Accounting Standards Updates ("ASU") issued by the Financial Accounting Standards Board. Those not listed below were deemed to be either not applicable, are not expected to have a significant impact on our consolidated financial statements when adopted, or did not have a significant impact on our consolidated financial statements upon adoption.

Accounting Standard	Description
ASU 2016-13, <i>Financial Instruments—Credit Losses</i> (Topic 326)	The standard introduces a new model for recognizing credit losses on financial instruments based on an estimate of current expected credit losses. The standard applies to (1) loans, accounts receivable, trade receivables, and other financial assets measured at amortized cost, (2) loan commitments and certain other off-balance sheet credit exposures, (3) debt securities and other financial assets measured at fair value through other comprehensive income, and (4) beneficial interests in securitized financial assets. The standard was effective for fiscal years beginning after December 15, 2019. The adoption of the standard on January 1, 2020 did not have a significant impact on the Company, since at that time we did not intend to sell our investments in available for sale Agency Securities. The Company determined that it was not more likely than not that we would be required to sell the investments before recovery of their amortized cost bases as the contractual cash flows of these federal agency mortgage backed securities are guaranteed by an agency of the U.S. government and we expected that all securities would not be settled at a price less than their amortized cost.

Note 5 - 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



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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.

Investment 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.

Derivatives:

The fair values of our interest rate swap contracts, interest rate swaptions and basis swaps 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. We estimate the fair value of TBA Agency Securities based on similar methods used to value our Agency Securities. Management compares the pricing information received to dealer quotes to ensure that the current market conditions are properly reflected. The fair values of our derivatives are classified as Level 2.



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The following table provides a summary of our assets and liabilities that are measured at fair value on a recurring basis at December 31, 2020 and December 31, 2019.

December 31, 2020	(Level 1)	(Level 2)	(Level 3)	Balance
Assets at Fair Value:				
Agency Securities	\$ —	\$ 5,178,322	\$ —	\$ 5,178,322
Derivatives	\$ —	\$ 54,686	\$ —	\$ 54,686
Liabilities at Fair Value:				
Derivatives	\$ —	\$ 1,217	\$ —	\$ 1,217
December 31, 2019	(Level 1)	(Level 2)	(Level 3)	Balance
Assets at Fair Value:				
Agency Securities	\$ —	\$11,941,766	\$ —	\$11,941,766
Credit Risk and Non-Agency Securities	\$ —	\$ 883,601	\$ —	\$ 883,601
Derivatives	\$ —	\$ 24,751	\$ —	\$ 24,751
Liabilities at Fair Value:				
Derivatives	\$ —	\$ 71,974	\$ —	\$ 71,974

There were no transfers of assets or liabilities between the levels of the fair value hierarchy during the year ended December 31, 2020 or for the year ended December 31, 2019.

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 December 31, 2020 and December 31, 2019.

Note 6 - Investments in Securities

As of December 31, 2020 and December 31, 2019, our securities portfolio consisted of \$5,178,322 and \$12,825,367 of investment securities, at fair value, respectively, and \$2,711,977 and \$1,006,280 of TBA Agency Securities, at fair value, respectively. Our TBA Agency Securities are reported at net carrying value of \$19,747 and \$(592), at December 31, 2020 and December 31, 2019, respectively, and are reported in Derivatives, at fair value on our consolidated balance sheets (see *Note 8 - 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 investment in securities as of December 31, 2020 and December 31, 2019, excluding TBA Agency Securities (see *Note 8 - 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 will continue to be reported in other comprehensive income as required by GAAP.



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	Available for Sale Securities		Trading Securities			Totals
	Agency	Agency	Credit Risk and Non-Agency	Interest-Only	U.S. Treasuries	
December 31, 2020						
Balance, December 31, 2019	\$11,941,766	\$ —	\$ 883,601	\$ —	\$ —	\$12,825,367
Purchases ⁽¹⁾	1,768,688	3,711,961	237,928	—	4,621,776	10,340,353
Proceeds from sales	(10,800,879)	(158,708)	(889,057)	—	(4,643,049)	(16,491,693)
Principal repayments	(873,650)	(343,514)	(45,766)	—	—	(1,262,930)
Gains (losses)	(32,565)	19,557	(189,555)	—	21,357	(181,206)
Credit loss expense	(1,012)	—	—	—	—	(1,012)
Amortization/accretion	(31,446)	(21,876)	2,849	—	(84)	(50,557)
Balance, December 31, 2020	\$ 1,970,902	\$ 3,207,420	\$ —	\$ —	\$ —	\$5,178,322
Percentage of Portfolio	38.06 %	61.94 %	— %	— %	— %	100.00 %
December 31, 2019						
Balance, December 31, 2018	\$ 7,051,954	—	\$ 819,915	\$20,623	\$ 98,646	\$7,991,138
Purchases ⁽¹⁾	9,130,512	—	138,767	—	1,685,058	\$10,954,337
Sales	(2,894,339)	—	—	(18,822)	(1,786,090)	\$(4,699,251)
Principal Repayments	(1,701,406)	—	(53,641)	—	—	\$(1,755,047)
Losses	408,954	—	(24,396)	123	2,024	\$ 386,705
Amortization/accretion	(53,909)	—	2,956	(1,924)	362	\$ (52,515)
Balance, December 31, 2019	\$11,941,766	\$ —	\$ 883,601	\$ —	\$ —	\$12,825,367
Percentage of Portfolio	93.11 %	— %	6.89 %	— %	— %	100.00 %

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

Available for Sale Securities:

During year ended December 31, 2020, we evaluated our available for sale securities to determine if the available sale securities in an unrealized loss position were impaired. In the first quarter of 2020, we recognized an impairment of \$1,012 in our consolidated statements of operations as we had determined that we may have been required to sell certain securities in the near future. No credit loss expense was required for the remainder of 2020. We do not have an allowance for credit losses as all of our available for sale securities consist of Agency MBS.



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At December 31, 2019 and December 31, 2018, we evaluated our available for sale securities with unrealized losses to determine whether there was an other than temporary impairment ("OTTI"). At those dates, we also considered whether we intended to sell available for sale securities and whether it was more likely than not that we could meet our liquidity requirements and contractual obligations without selling available for sale securities. No OTTI was recognized for the year ended December 31, 2019. During the first quarter of 2018, we recognized additional losses on available for sale securities, previously identified during 2017, totaling \$12,090 in our consolidated financial statements of operations. We determined that there was no OTTI of our remaining available for sale securities for the year ended December 31, 2018.

The table below presents the components of the carrying value and the unrealized gain or loss position of our available for sale securities at December 31, 2020 and December 31, 2019. Our available for sale securities had a weighted average coupon of 3.25% and 3.76% at December 31, 2020 and December 31, 2019.

Agency Securities	Principal Amount	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value
December 31, 2020					
Total Fannie Mae.....	\$ 1,359,136	\$ 1,397,206	\$ (1)	\$ 159,603	\$ 1,556,808
Total Freddie Mac.....	354,382	368,686	—	19,246	387,932
Total Ginnie Mae.....	25,388	25,979	(43)	226	26,162
Total.....	<u>\$ 1,738,906</u>	<u>\$ 1,791,871</u>	<u>\$ (44)</u>	<u>\$ 179,075</u>	<u>\$ 1,970,902</u>
December 31, 2019					
Total Fannie Mae.....	\$ 8,779,331	\$ 8,975,140	\$ (291)	\$ 294,937	\$ 9,269,786
Total Freddie Mac.....	2,522,870	2,587,512	(40)	61,323	2,648,795
Total Ginnie Mae.....	22,504	23,641	(461)	5	23,185
Total.....	<u>\$ 11,324,705</u>	<u>\$ 11,586,293</u>	<u>\$ (792)</u>	<u>\$ 356,265</u>	<u>\$ 11,941,766</u>

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 December 31, 2020 and December 31, 2019. 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+.

Agency Securities	Unrealized Loss Position For:					
	< 12 Months		≥ 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020.....	\$ 8,811	\$ (44)	\$ —	\$ —	\$ 8,811	\$ (44)
December 31, 2019.....	\$ 2,136	\$ (10)	\$ 43,939	\$ (782)	\$ 46,075	\$ (792)

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 December 31, 2020 and December 31, 2019.



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Weighted Average Life of Available for Sale Securities	December 31, 2020		December 31, 2019	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
< 1 year.....	\$ 71	\$ 72	\$ —	\$ —
≥ 1 year and < 3 years.....	548,352	520,657	22,237	22,254
≥ 3 years and < 5 years.....	282,739	269,716	6,542,389	6,365,623
≥ 5 years.....	1,139,740	1,001,426	5,377,140	5,198,416
Total Available for Sale Securities.....	\$ 1,970,902	\$ 1,791,871	\$ 11,941,766	\$ 11,586,293

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 December 31, 2020 and December 31, 2019 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.

Trading Securities:

The components of the carrying value of our trading securities at December 31, 2020 and December 31, 2019 are presented in the table below. We did not have any Credit Risk and Non-Agency Securities, U.S. Treasury Securities or Interest-Only Securities at December 31, 2020. We did not have any U.S. Treasury Securities or Interest-Only Securities at December 31, 2019.

	Principal Amount	Amortized Cost	Gross Unrealized Loss	Gross Unrealized Gain	Fair Value
December 31, 2020					
Agency Securities:					
Total Fannie Mae.....	\$ 2,420,828	\$ 2,585,409	\$ (1,441)	\$ 18,211	\$ 2,602,179
Total Freddie Mac.....	570,654	601,320	(430)	4,351	605,241
Total Trading Securities.....	\$ 2,991,482	\$ 3,186,729	\$ (1,871)	\$ 22,562	\$ 3,207,420
December 31, 2019					
Credit Risk Transfer.....	\$ 754,729	\$ 751,940	\$ —	\$ 52,024	\$ 803,964
Non-Agency Securities.....	93,723	72,904	(3)	6,736	79,637
Total Trading Securities.....	\$ 848,452	\$ 824,844	\$ (3)	\$ 58,760	\$ 883,601



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Our Credit Risk Transfer securities were collateralized by residential mortgage loans meeting agency criteria. However, our securities' principal and interest are not guaranteed by the agencies. Credit Risk Transfer securities include tranches issued since 2014. Our Non-Agency Securities are collateralized by residential mortgage loans not guaranteed by any agency and include legacy securities issued between 2005 and 2007.

The following table summarizes the weighted average lives of our trading securities at December 31, 2020 and December 31, 2019.

Estimated Weighted Average Life of Trading Securities	December 31, 2020		December 31, 2019	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
< 1 year.....	\$ —	\$ —	\$ —	\$ —
≥ 1 year and < 3 years.....	649,425	650,328	389,883	369,600
≥ 3 years and < 5 years.....	1,522,509	1,506,035	407,656	375,030
≥ 5 years.....	1,035,486	1,030,366	86,062	80,214
Total	<u>\$ 3,207,420</u>	<u>\$ 3,186,729</u>	<u>\$ 883,601</u>	<u>\$ 824,844</u>

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 December 31, 2020 and December 31, 2019 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.

Note 7 - Repurchase Agreements

At December 31, 2020, we had MRAs with 33 counterparties and had \$4,536,065 in outstanding borrowings with 18 of those counterparties. At December 31, 2019, we had MRAs with 49 counterparties and had \$11,354,547 in outstanding borrowings with 25 of those counterparties.



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The following table represents the contractual repricing regarding our repurchase agreements to finance MBS purchases at December 31, 2020 and December 31, 2019. No amounts below are subject to offsetting.

	Balance	Weighted Average Contractual Rate	Weighted Average Maturity in days	Haircut ⁽¹⁾
December 31, 2020				
Agency Securities				
≤ 30 days	\$ 3,618,255	0.23 %	15	3.12 %
> 30 days to ≤ 60 days	917,810	0.23 %	45	3.20 %
Total or Weighted Average	\$ 4,536,065	0.23 %	21	3.13 %
December 31, 2019				
Agency Securities				
≤ 30 days	\$ 10,241,137	2.56 %	8	4.35 %
> 30 days to ≤ 60 days	426,147	1.99 %	34	4.61 %
Total or Weighted Average	10,667,284	2.54 %	9	4.36 %
Credit Risk and Non-Agency Securities				
≤ 30 days	687,263	2.45 %	15	16.25 %
Total or Weighted Average	\$ 11,354,547	2.54 %	9	5.16 %

(1) The Haircut represents the weighted average margin requirement, or the percentage amount by which the collateral value must exceed the loan amount.

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 December 31, 2020 and December 31, 2019, BUCKLER accounted for 66.1% and 45.0%, respectively, of our aggregate borrowings and had an amount at risk of 8.3% and 14.8%, respectively, of our total stockholders' equity with a weighted average maturity of 21 days and 7 days, respectively, on repurchase agreements (See *Note 15 - Related Party Transactions*).

In addition, at December 31, 2020, we had 1 repurchase agreement counterparty that individually accounted for between 5% and 10% of our aggregate borrowings. In total, this counterparty accounted for approximately 9.0% of our repurchase agreement borrowings outstanding at December 31, 2020. At December 31, 2019, we had 2 repurchase agreement counterparties that individually accounted for between 5% and 10% of our aggregate borrowings. In total, these counterparties accounted for 12.7% of our repurchase agreement borrowings at December 31, 2019.



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Note 8 - 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. During the year ended December 31, 2020, we received waivers from certain ISDA counterparties related to significant reductions in equity capital that would have otherwise caused a default or termination event.



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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 December 31, 2020 and December 31, 2019.

Assets	Gross Amounts ⁽¹⁾	Gross Amounts Not Offset		Total Net
		Financial Instruments	Cash Collateral	
December 31, 2020				
Interest rate swap contracts	\$ 34,588	\$ (866)	\$ (27,773)	\$ 5,949
TBA Agency Securities	20,098	(351)	(13,942)	5,805
Totals	\$ 54,686	\$ (1,217)	\$ (41,715)	\$ 11,754
December 31, 2019				
Interest rate swap contracts	\$ 23,659	\$ (70,290)	\$ 83,066	\$ 36,435
TBA Agency Securities	1,092	(1,092)	—	—
Totals	\$ 24,751	\$ (71,382)	\$ 83,066	\$ 36,435

(1) See Note 5, "Fair Value of Financial Instruments" for additional discussion.

Liabilities	Gross Amounts ⁽¹⁾	Gross Amounts Not Offset		Total Net
		Financial Instruments	Cash Collateral	
December 31, 2020				
Interest rate swap contracts	\$ (866)	\$ 866	\$ —	\$ —
TBA Agency Securities	(351)	351	—	—
Totals	\$ (1,217)	\$ 1,217	\$ —	\$ —
December 31, 2019				
Interest rate swap contracts	\$ (70,290)	\$ 70,290	\$ —	\$ —
TBA Agency Securities	(1,684)	1,092	377	(215)
Totals	\$ (71,974)	\$ 71,382	\$ 377	\$ (215)

(1) See Note 5, "Fair Value of Financial Instruments" for additional discussion.



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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 years ended December 31, 2020, December 31, 2019 and December 31, 2018.

Derivatives	Location on consolidated statements of operations	Income (Loss) Recognized		
		For the Years Ended		
		December 31, 2020	December 31, 2019	December 31, 2018
Interest rate swap contracts:				
Realized gain (loss).....	Realized loss on derivatives	\$ (461,374)	\$ (237,725)	\$ 2,655
Interest income.....	Realized loss on derivatives	30,076	187,899	124,714
Interest expense.....	Realized loss on derivatives	(46,069)	(162,529)	(124,241)
Changes in fair value.....	Unrealized gain (loss) on derivatives	81,287	(132,303)	43,755
		<u>\$ (396,080)</u>	<u>\$ (344,658)</u>	<u>\$ 46,883</u>
TBA Agency Securities:				
Realized gain (loss).....	Realized loss on derivatives	99,159	(1,641)	(50,625)
Changes in fair value.....	Unrealized gain (loss) on derivatives	12,768	(3,824)	5,561
		<u>\$ 111,927</u>	<u>\$ (5,465)</u>	<u>\$ (45,064)</u>
Totals		<u><u>\$ (284,153)</u></u>	<u><u>\$ (350,123)</u></u>	<u><u>\$ 1,819</u></u>

The following tables present information about our derivatives at December 31, 2020 and December 31, 2019.

Interest Rate Swaps ⁽¹⁾	Notional Amount	Weighted Average Remaining Term (Months)	Weighted Average Rate
December 31, 2020			
< 3 years.....	\$ 2,230,000	12	0.06 %
≥ 3 years and < 5 years.....	463,000	45	0.14 %
≥ 5 years and < 7 years.....	942,000	72	0.28 %
≥ 7 years.....	1,702,000	113	0.50 %
Total or Weighted Average ⁽²⁾	<u><u>\$ 5,337,000</u></u>	58	0.24 %
December 31, 2019			
< 3 years.....	\$ 2,750,000	19	1.66 %
≥ 3 years and < 5 years.....	2,850,000	47	1.84 %
≥ 5 years and < 7 years.....	1,200,000	83	1.86 %
≥ 7 years.....	1,175,000	118	1.54 %
Total or Weighted Average ⁽³⁾	<u><u>\$ 7,975,000</u></u>	53	1.74 %

(1) Pay Fixed/Receive Variable



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- (2) Of this amount, \$2,230,000 notional are SOFR based swaps, the last of which matures in 2023; and \$3,107,000 notional are Fed Funds based swaps, the last of which matures in 2030.
- (3) Of this amount, \$1,025,000 notional are LIBOR based swaps, the last of which matures in 2023; \$375,000 notional are SOFR based swaps, the last of which matures in 2024; and \$6,575,000 notional are Fed Funds based swaps, the last of which matures in 2029.

TBA Agency Securities	Notional Amount	Cost Basis	Fair Value
December 31, 2020			
15 Year Long.....			
1.5%.....	\$ 200,000	\$ 204,758	\$ 205,781
2.0%.....	1,200,000	1,248,015	1,253,354
30 Year Long.....			
2.0%.....	600,000	619,031	622,934
2.5%.....	800,000	838,047	841,314
3.5%.....	(200,000)	(211,055)	(211,406)
Total ⁽¹⁾	\$ 2,600,000	\$ 2,698,796	\$ 2,711,977
December 31, 2019			
15 Year Long.....			
3.0%.....	\$ 500,000	\$ 511,055	\$ 511,885
30 Year Long.....			
2.5%.....	500,000	494,813	494,395
Total ⁽²⁾	\$ 1,000,000	\$ 1,005,868	\$ 1,006,280

(1) \$1,250,000 notional are forward settling.

(2) \$1,000,000 notional are forward settling.



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Note 9 - Commitments and Contingencies

Management

The Company is managed by ACM, pursuant to management agreements with ARMOUR and JAVELIN (see also Note 15, “*Related Party Transactions*”). The management agreements entitle ACM to receive a management fee payable monthly in arrears. Currently, the monthly ARMOUR 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 dividend representing a return of capital for tax purposes will reduce the amount of gross equity raised used to calculate the monthly management fee. At December 31, 2020, December 31, 2019 and December 31, 2018, the effective ARMOUR management fee, prior to management fees waived was 1.00%, 1.00% and 1.03% based on gross equity raised of \$2,944,169, \$2,965,163 and \$2,658,969, respectively. ACM began waiving 40% of its management fee during the second quarter of 2020. As of December 31, 2020, ACM has waived management fees of \$8,855. 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 until further notice (see *Note 16 - Subsequent Events*). The ACM 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 incurred solely on behalf of ARMOUR or JAVELIN other than the various overhead expenses specified in the terms of the management agreements. ACM is further entitled to receive termination fees from ARMOUR and JAVELIN 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 December 31, 2020 and December 31, 2019.

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



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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 September 27, 2019, the court further deferred the matter for six months. On June 15, 2020, co-counsel for the plaintiff filed a notice of supplemental authority requesting to move the matter forward. On August 19, 2020, a Notification To Parties of Contemplated Dismissal was sent out by the Clerk of the Circuit Court to all parties. Counsel for the plaintiff responded on August 24, 2020, with a Motion to Defer Dismissal. No further action has been taken by the court.

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 all of these suits, ARMOUR is not able at this time to estimate their outcome.

Note 10 - 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 December 31, 2020, there were 677 shares available for future issuance under the Plan. In January 2021, we granted 535 RSUs to ACM and 100 RSUs to the Board, leaving 42 shares available for issuance.

Transactions related to awards for the years ended December 31, 2020, December 31, 2019 and December 31, 2018 are summarized below:

	December 31, 2020		December 31, 2019		December 31, 2018	
	Number of Awards	Weighted Average Grant Date Fair Value per Award	Number of Awards	Weighted Average Grant Date Fair Value per Award	Number of Awards	Weighted Average Grant Date Fair Value per Award
Unvested RSU Awards						
Outstanding beginning of period.....	247	\$ 24.82	360	\$ 24.82	472	\$ 24.82
Granted ⁽¹⁾	502	\$ 17.85	6	\$ 18.71	—	\$ —
Vested.....	(205)	\$ 20.41	(119)	\$ 18.05	(112)	\$ 22.70
Forfeited.....	(48)	\$ 23.14	—	\$ —	—	\$ —
Unvested RSU Awards						
Outstanding end of period.....	496	\$ 19.77	247	\$ 24.82	360	\$ 24.82

(1) During the year ended December 31, 2020, we granted 358 RSUs to ACM and 144 RSUs to the Board.



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At December 31, 2020, there was approximately \$9,817 of unvested stock based compensation related to the Awards (based on a weighted average grant date price of \$19.77 per share), that we expect to recognize as an expense over the remaining average service period of 2.3 years. Our policy is to account for forfeitures as they occur. We also pay our non-executive Board quarterly fees of \$33, which is 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 had the option to participate in the Company's Non-Management Director Compensation and Deferral Program (the "Deferral Program"), beginning with their quarterly fees paid for services through March 31, 2020. 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.

Note 11 - Stockholders' Equity

Preferred Stock

At December 31, 2020 and December 31, 2019, 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. On June 24, 2019, we filed Articles Supplementary with the State Department of Assessments and Taxation of the State of Maryland (the "Department") to designate 10,320 shares of the Company's authorized preferred stock, par value \$0.001 per share, as additional shares of 7.875% Series B Preferred Stock, thereby increasing the aggregate number of shares of preferred stock designated as Series B Preferred Stock to 17,970 shares. Shares designated as Series B Preferred Stock but unissued totaled 9,587 at December 31, 2019. On January 28, 2020, we filed Articles Supplementary with the Department to designate 10,000 shares of the Company's authorized preferred stock, par value \$0.001 per share, as shares of 7.00% Series C Preferred Stock with the powers, designations, preferences and other rights as set forth therein. At December 31, 2020, a total of 31,617 shares of our authorized preferred stock remained available for designation as future series.

Called for Redemption

8.250% Series A Cumulative Preferred Stock, "Series A Preferred Stock"

On June 25, 2019, the Company mailed a notice of full redemption of all 2,181 issued and outstanding shares of its Series A Preferred Stock (\$25.00 liquidation preference per share) to the holders of record of its Series A Preferred Stock as of June 14, 2019. Pursuant to the redemption, each share of Series A Preferred Stock was canceled and represented solely the right to receive cash in the amount of \$25.00 per share of Series A Preferred Stock on July 26, 2019. Pursuant to the terms of the Series A Preferred Stock, holders of record of the Series A Preferred Stock on July 15, 2019 received the full monthly dividend for July 2019. The final dividend amount of \$375 was paid on July 29, 2019 and was recorded as other expense in our consolidated statements of operations.

7.875% Series B Cumulative Preferred Stock, "Series B Preferred Stock"

On January 24, 2020, the Company mailed a notice of full redemption of all 8,383 issued and outstanding shares of its Series B Preferred Stock (\$25.00 liquidation preference per share) to the holders of record of its Series B Preferred Stock as of January 13, 2020. Pursuant to the redemption, each share of Series B Preferred Stock was canceled and represented solely the right to receive cash in the amount of \$25.00 per share of Series B Preferred Stock on February 27, 2020. Pursuant to the terms of the Series B Preferred Stock, holders of record of the Series B Preferred Stock on February 15, 2020 received the full monthly dividend for February 2020. The final dividend amount of \$1,375 was paid on February 27, 2020 and was recorded as other expense in our consolidated statements of operations.



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At December 31, 2019, we had 8,383 shares of Series B Preferred Stock issued and outstanding with a par value of \$0.001 per share and a liquidation preference of \$25.00 per share, or \$209,583 in the aggregate. Shares designated as Series B Preferred Stock but unissued totaled 9,587 at December 31, 2019. At December 31, 2019, there were no accrued or unpaid dividends on the Series B Preferred Stock.

On March 2, 2020, we terminated the Equity Sales Agreement (the "Preferred B ATM Sales Agreement") with BUCKLER, and B. Riley FBR, Inc., as sales agents, relating to an "at-the-market" offering program for our Series B Preferred Stock, dated June 24, 2019. The Preferred B ATM Sales Agreement allowed us to offer and sell, over a period of time and from time to time, up to 9,000 shares of our Series B Preferred Stock. At the date of termination, we sold 1,914 shares under this agreement for proceeds of \$47,306, net of issuance costs and commissions of approximately \$689. We did not incur any termination penalties as a result of this termination.

On March 4, 2020, we terminated the 2019 Series B Preferred Stock Dividend Reinvestment and Stock Purchase Plan (the "2019 Plan") relating to the offer and sale of up to 2,500 shares of our Series B Preferred Stock pursuant to the terms of the 2019 Plan (the "DRIP Offering") dated June 24, 2019. The 2019 Plan permitted (i) current holders of our Series B Preferred Stock to reinvest all or a portion of the cash dividends on their shares of Series B Preferred Stock into shares of Series B Preferred Stock and to separately purchase additional shares of Series B Preferred Stock and (ii) other interested investors to purchase shares of Series B Preferred Stock. At the date of termination, we issued sixteen shares under the DRIP Offering.

Issued and Outstanding

Series C Cumulative Redeemable Preferred Stock "Series C Preferred Stock"

At December 31, 2020, we had 5,347 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 \$133,675 in the aggregate. Shares designated as Series C Preferred Stock but unissued totaled 4,653 at December 31, 2020. At December 31, 2020, there were no accrued or unpaid dividends on the Series C Preferred Stock.

On January 23, 2020, the Company and ACM, entered into an Underwriting Agreement (the "Underwriting Agreement") with B. Riley FBR, Inc., as representative of the several underwriters named therein (collectively, the "Underwriters"), including, but not limited to, BUCKLER, with respect to (i) the sale by the Company of 3,000 shares (the "Firm Shares") of the Company's new 7.00% Series C Preferred Stock (\$25.00 liquidation preference per share), \$0.001 par value, to the Underwriters with an offering price to the public of \$25.00 per share, and (ii) the grant by the Company to the Underwriters of an option to purchase all or part of 450 additional shares of the Series C Preferred Stock during the 30-day period following the execution of the Underwriting Agreement with the same offering price per share to the public to cover over-allotments. On January 24, 2020, the Underwriters exercised the option to purchase all 450 additional shares of the Series C Preferred Stock. On January 28, 2020, the Company completed the sale of 3,450 total shares. Total proceeds were \$83,282, net of issuance costs and commissions of \$2,968.

On January 29, 2020, the Company entered into an Equity Sales Agreement with 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 Equity Sales Agreement relates to a proposed "at-the-market" offering. The Company intends to use the net proceeds from the offering as a portion of the funds used to redeem 100% of the outstanding Series C Preferred Stock as described above. During the year ended December 31, 2020, we sold 1,897 shares under this agreement for proceeds of \$46,856, net of issuance costs and commissions of approximately \$726.



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Common Stock

At December 31, 2020 and December 31, 2019, we were authorized to issue up to 125,000 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 65,290 shares of common stock issued and outstanding at December 31, 2020 and 58,877 shares of common stock issued and outstanding at December 31, 2019.

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, 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 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. The Common stock ATM Sales Agreement relates to an "at-the-market" offering program. Under the 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 agreement. During the year ended December 31, 2020, we sold 6,287 shares under this agreement for proceeds of \$54,575, net of issuance costs and commissions of approximately \$954.

See *Note 15 - Related Party Transactions* for discussion of additional transactions with BUCKLER.

Common Stock Repurchased

At December 31, 2020 and December 31, 2019, there were 8,210 and 8,250 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 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.



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Equity Capital Raising Activities

The following tables present our equity transactions for the years ended December 31, 2020, December 31, 2019 and December 31, 2018.

Transaction Type	Completion Date	Number of Shares	Per Share price ⁽¹⁾	Net Proceeds
December 31, 2020				
Preferred C Underwritten Offering.....	January 28, 2020	3,450	\$ 24.14	\$ 83,282
Preferred C ATM Sales Agreement.....	January 30, 2020 - December 23, 2020	1,897	\$ 24.70	\$ 46,856
Common Stock ATM Sales Agreement.....	April 7, 2020 - December 15, 2020	6,287	\$ 8.68	\$ 54,575
Common stock repurchases, net..	February 26, 2020 - March 3, 2020	(40)	\$ 19.42	\$ (777)
December 31, 2019				
Preferred B ATM Sales Agreement.....	June 6, 2019-June 19, 2019	100	\$ 24.81	\$ 2,489
Preferred B ATM Sales Agreement.....	June 25, 2019-December 31, 2019	1,914	\$ 24.74	\$ 47,306
Common Stock ATM Sales Agreement.....	January 4, 2019-January 11, 2019	884	\$ 20.98	\$ 18,540
January Public Offering.....	January 17, 2019	6,900	\$ 20.00	\$ 137,946
February Public Offering.....	February 22, 2019-February 27, 2019	8,280	\$ 19.98	\$ 165,374
Common stock repurchases.....	May 31, 2019-December 31, 2019	(1,000)	\$ 17.77	\$ (17,768)
December 31, 2018				
Series B Preferred equity distribution agreement.....	January 2, 2018-January 26, 2018	107	\$ 24.62	\$ 2,632
DRIP.....	August 21, 2018-December 10, 2018	840	\$ 22.61	\$ 19,001
Common stock ATM Sales Agreement.....	December 11, 2018-December 19, 2018	883	\$ 21.53	\$ 19,013

(1) Weighted average price



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Dividends

The following table presents our Series A Preferred Stock dividend transactions prior to full redemption for the year ended December 31, 2019. The table below does not include the final dividend amount of \$375 that was paid on July 29, 2019 to holders of record on July 15, 2019. This amount was recorded in other expense in our consolidated statements of operations.

2019 Record Date	Payment Date	Rate per Series A Preferred Share	Aggregate amount paid to holders of record
January 15, 2019.....	January 28, 2019	\$ 0.17	374.8
February 15, 2019.....	February 27, 2019	\$ 0.17	374.8
March 15, 2019.....	March 27, 2019	\$ 0.17	374.8
April 15, 2019.....	April 29, 2019	\$ 0.17	374.8
May 15, 2019.....	May 28, 2019	\$ 0.17	374.8
June 15, 2019.....	June 27, 2019	\$ 0.17	374.8
Total dividends paid.....			<u>\$ 2,249</u>

The following tables present our Series A Preferred Stock dividend transactions for the year ended December 31, 2018.

2018 Record Date	Payment Date	Rate per Series A Preferred Share	Aggregate amount paid to holders of record
January 15, 2018.....	January 29, 2018	\$ 0.17	\$ 374.8
February 15, 2018.....	February 27, 2018	\$ 0.17	374.8
March 15, 2018.....	March 27, 2018	\$ 0.17	374.8
April 15, 2018.....	April 27, 2018	\$ 0.17	374.8
May 15, 2018.....	May 29, 2018	\$ 0.17	374.8
June 15, 2018.....	June 27, 2018	\$ 0.17	374.8
July 15, 2018.....	July 27, 2018	\$ 0.17	374.8
August 15, 2018.....	August 27, 2018	\$ 0.17	374.8
September 15, 2018.....	September 27, 2018	\$ 0.17	374.8
October 15, 2018.....	October 29, 2018	\$ 0.17	374.8
November 15, 2018.....	November 27, 2018	\$ 0.17	374.8
December 15, 2018.....	December 27, 2018	\$ 0.17	374.8
Total dividends paid.....			<u>\$ 4,498</u>



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The following table presents our Series B Preferred Stock dividend transactions prior to full redemption. The table below does not include the final dividend amount of \$1,375 that was paid on February 27, 2020 to holders of record on February 15, 2020. This amount was recorded in other expense in our consolidated statements of operations.

<u>2020 Record Date</u>	<u>Payment Date</u>	<u>Rate per Series B Preferred Share</u>	<u>Aggregate amount paid to holders of record</u>
January 15, 2020.....	January 27, 2020	\$ 0.16	\$ 1,375

The following table present our Series B Preferred Stock dividend transactions for the years ended December 31, 2019 and December 31, 2018.

<u>2019 Record Date</u>	<u>Payment Date</u>	<u>Rate per Series B Preferred Share</u>	<u>Aggregate amount paid to holders of record</u>
January 15, 2019.....	January 28, 2019	\$ 0.16	1,045
February 15, 2019.....	February 27, 2019	\$ 0.16	1,045
March 15, 2019.....	March 27, 2019	\$ 0.16	1,045
April 15, 2019.....	April 29, 2019	\$ 0.16	1,045
May 15, 2019.....	May 28, 2019	\$ 0.16	1,045
June 15, 2019.....	June 27, 2019	\$ 0.16	1,059
July 15, 2019.....	July 29, 2019	\$ 0.16	1,100
August 15, 2019.....	August 27, 2019	\$ 0.16	1,142
September 15, 2019.....	September 27, 2019	\$ 0.16	1,168
October 15, 2019.....	October 28, 2019	\$ 0.16	1,190
November 15, 2019.....	November 27, 2019	\$ 0.16	1,210
December 15, 2019.....	December 27, 2019	\$ 0.16	1,291
Total dividends paid.....			<u>\$ 13,385</u>



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2018 Record Date	Payment Date	Rate per Series B Preferred Share	Aggregate amount paid to holders of record
January 15, 2018.....	January 29, 2018	\$ 0.16	\$ 1,039
February 15, 2018.....	February 27, 2018	\$ 0.16	1,045
March 15, 2018.....	March 27, 2018	\$ 0.16	1,045
April 15, 2018.....	April 27, 2018	\$ 0.16	1,045
May 15, 2018.....	May 29, 2018	\$ 0.16	1,045
June 15, 2018.....	June 27, 2018	\$ 0.16	1,045
July 15, 2018.....	July 27, 2018	\$ 0.16	1,045
August 15, 2018.....	August 27, 2018	\$ 0.16	1,045
September 15, 2018.....	September 27, 2018	\$ 0.16	1,045
October 15, 2018.....	October 29, 2018	\$ 0.16	1,045
November 15, 2018.....	November 27, 2018	\$ 0.16	1,045
December 15, 2018.....	December 27, 2018	\$ 0.16	1,045
Total dividends paid.....			<u>\$ 12,534</u>

The following table presents our Series C Preferred Stock dividend transactions for the year ended December 31, 2020.

2020 Record Date	Payment Date	Rate per Series C Preferred Share	Aggregate amount paid to holders of record
February 15, 2020	February 27, 2020	\$ 0.14583	\$ 678.1
March 15, 2020	March 27, 2020	\$ 0.14583	773.4
April 15, 2020	April 27, 2020	\$ 0.14583	773.4
May 15, 2020	May 27, 2020	\$ 0.14583	773.4
June 15, 2020	June 29, 2020	\$ 0.14583	773.4
July 15, 2020	July 27, 2020	\$ 0.14583	773.4
August 15, 2020	August 27, 2020	\$ 0.14583	773.4
September 15, 2020	September 28, 2020	\$ 0.14583	773.4
October 15, 2020	October 27, 2020	\$ 0.14583	773.4
November 15, 2020	November 27, 2020	\$ 0.14583	773.4
December 15, 2020	December 28, 2020	\$ 0.14583	773.4
Total dividends paid			<u>\$ 8,412</u>



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The following tables present our common stock dividend transactions for the years ended December 31, 2020, December 31, 2019 and December 31, 2018.

2020 Record Date	Payment Date	Rate per common share	Aggregate amount paid to holders of record
January 15, 2020.....	January 30, 2020	\$ 0.17	\$ 10,126
February 14, 2020.....	February 27, 2020	\$ 0.17	10,131
March 16, 2020.....	March 27, 2020	\$ 0.17	10,120
June 15, 2020.....	June 29, 2020	\$ 0.09	5,876
July 15, 2020.....	July 30, 2020	\$ 0.10	6,531
August 17, 2020.....	August 28, 2020	\$ 0.10	6,530
September 15, 2020.....	September 29, 2020	\$ 0.10	6,529
October 15, 2020.....	October 29, 2020	\$ 0.10	6,531
November 16, 2020.....	November 27, 2020	\$ 0.10	6,531
December 15, 2020.....	December 29, 2020	\$ 0.10	6,581
Total dividends paid.....			<u>\$ 75,486</u>

2019 Record Date	Payment Date	Rate per common share	Aggregate amount paid to holders of record
January 15, 2019.....	January 28, 2019	\$ 0.19	\$ 8,540
February 15, 2019.....	February 28, 2019	\$ 0.19	9,851
March 15, 2019.....	March 27, 2019	\$ 0.19	11,423
April 15, 2019.....	April 29, 2019	\$ 0.19	11,424
May 15, 2019.....	May 28, 2019	\$ 0.19	11,424
June 17, 2019.....	June 27, 2019	\$ 0.19	11,350
July 16, 2019.....	July 29, 2019	\$ 0.17	10,114
August 15, 2019.....	August 27, 2019	\$ 0.17	10,099
September 16, 2019.....	September 27, 2019	\$ 0.17	10,075
October 15, 2019.....	October 28, 2019	\$ 0.17	10,059
November 15, 2019.....	November 27, 2019	\$ 0.17	10,059
December 16, 2019.....	December 27, 2019	\$ 0.17	10,059
Total dividends paid.....			<u>\$ 124,477</u>



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2018 Record Date	Payment Date	Rate per common share	Aggregate amount paid to holders of record
January 16, 2018.....	January 29, 2018	\$ 0.19	\$ 8,046
February 15, 2018.....	February 27, 2018	\$ 0.19	8,046
March 15, 2018.....	March 28, 2018	\$ 0.19	8,045
April 13, 2018.....	April 27, 2018	\$ 0.19	8,046
May 15, 2018.....	May 30, 2018	\$ 0.19	8,046
June 15, 2018.....	June 28, 2018	\$ 0.19	8,045
July 16, 2018.....	July 27, 2018	\$ 0.19	8,045
August 15, 2018.....	August 28, 2018	\$ 0.19	8,045
September 17, 2018.....	September 27, 2018	\$ 0.19	8,117
October 15, 2018.....	October 29, 2018	\$ 0.19	8,118
November 15, 2018.....	November 27, 2018	\$ 0.19	8,118
December 17, 2018.....	December 27, 2018	\$ 0.19	8,307
Total dividends paid.....			<u>\$ 97,024</u>

Note 12 - Net Income (Loss) per Common Share

The following table presents a reconciliation of net loss and the shares used in calculating weighted average basic and diluted earnings per common share for the years ended December 31, 2020, December 31, 2019 and December 31, 2018.

	For the Years Ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Net Loss.....	\$ (215,112)	\$ (249,905)	\$ (105,966)
Less: Preferred dividends.....	(9,787)	(15,634)	(17,032)
Net Loss related to common stockholders.....	<u>\$ (224,899)</u>	<u>\$ (265,539)</u>	<u>\$ (122,998)</u>
Weighted average common shares outstanding – basic.....	63,070	57,833	42,128
Add: Effect of dilutive non-vested awards, assumed vested.....	—	—	—
Weighted average common shares outstanding – diluted.....	<u>63,070</u>	<u>57,833</u>	<u>42,128</u>

For the years ended December 31, 2020, December 31, 2019 and December 31, 2018, 496, 247 and 360, respectively, of potentially dilutive non-vested awards outstanding were excluded from the computation of diluted Net Loss related to common stockholders because to have included them would have been anti-dilutive for the period.



ARMOUR Residential REIT, Inc.
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Note 13 - 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 years ended December 31, 2020, December 31, 2019 and December 31, 2018.

	For the Years Ended		
	December 31, 2020	December 31, 2019	December 31, 2018
Comprehensive Income (Loss).....	\$ (391,554)	\$ 149,438	\$ (129,725)
Less: Preferred dividends.....	(9,787)	(15,634)	(17,032)
Comprehensive Income (Loss) available (related) to common stockholders.....	<u>\$ (401,341)</u>	<u>\$ 133,804</u>	<u>\$ (146,757)</u>
Net Comprehensive Income (Loss) per share available (related) to common stockholders:			
Basic.....	\$ (6.36)	\$ 2.31	\$ (3.48)
Diluted.....	\$ (6.36)	\$ 2.30	\$ (3.48)
Weighted average common shares outstanding:			
Basic.....	63,070	57,833	42,128
Add: Effect of dilutive non-vested awards, assumed vested.....	—	247	—
Diluted.....	63,070	58,080	42,128

For the years ended December 31, 2020 and December 31, 2018, 496 and 360 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.



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Note 14 - Income Taxes

The following table reconciles our GAAP net loss to estimated REIT taxable income (loss) for the years ended December 31, 2020, December 31, 2019 and December 31, 2018.

	For the Years Ended		
	December 31, 2020	December 31, 2019	December 31, 2018
GAAP net loss.....	\$ (215,112)	\$ (249,905)	\$ (105,966)
Book to tax differences:			
TRS income.....	(51)	(147)	(265)
Premium amortization expense.....	(261)	—	(1,132)
Agency Securities, trading.....	(19,557)	—	—
Credit Risk and Non-Agency Securities.....	188,075	24,459	26,509
Interest-Only Securities.....	—	85	318
U.S. Treasury Securities.....	(21,357)	(2,024)	6,365
Changes in interest rate contracts.....	268,159	375,493	(1,346)
Reversal of (Gain) Loss on Security sales.....	(143,877)	(9,611)	152,950
Credit loss expense/OTTI.....	1,012	—	12,090
Amortization of deferred hedging costs.....	(152,092)	(69,302)	(56,378)
Series A Cumulative Preferred Stock dividend- Called for redemption.....	—	375	—
Series B Cumulative Preferred Stock dividend- Called for redemption.....	1,375	—	—
Other.....	1,544	18	16
Estimated taxable income (loss).....	<u>\$ (92,142)</u>	<u>\$ 69,441</u>	<u>\$ 33,161</u>

Interest rate 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 December 31, 2020, we had approximately \$717,000 in interest rate swap expense amortizing through the year 2029.

Net capital losses realized	Amount	Available to offset capital gains though
2016	(31,204)	2021
2017	(7,375)	2022
2018	(216,634)	2023

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. During the years ended December 31, 2020 and December 31, 2019, we recorded \$36 and \$25, respectively of income tax expense attributable to our TRS.



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The aggregate tax basis of our assets and liabilities was greater than our total Stockholders' Equity at December 31, 2020, by approximately \$323,071, or approximately \$4.95 per common share (based on the 65,290 common shares then outstanding).

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 year ended December 31, 2020, were \$86,648 (including the final dividend on the Series B Preferred Stock, called for redemption of \$1,375 paid on February 27, 2020 to holders of record on February 15, 2020). Total dividend payments to stockholders for the year ended December 31, 2019, were \$140,486 (including the final dividend on the Series A Preferred Stock, called for redemption of \$375 paid on July 29, 2019 to holders of record on July 15, 2019). Total dividend payments to stockholders for the year ended December 31, 2018 were \$114,056.

Our estimated REIT taxable income (loss) available for distribution as dividends was \$(92,142), \$69,441 and \$33,161 for the years ended December 31, 2020, December 31, 2019 and December 31, 2018, 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. The portion of the dividends on our common stock which represented non-taxable return of capital was approximately 100.0% in 2020, 56.8% in 2019 and 83.2% in 2018.

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 15 - Related Party Transactions

ACM

Management:

The Company is managed by ACM, pursuant to management agreements with ARMOUR and JAVELIN. 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 ARMOUR management agreement runs through June 18, 2027 and is thereafter automatically renewed for an additional five-year term unless terminated under certain circumstances. The JAVELIN management agreement renewed on October 5, 2017, for a one-year period, with the annual management fee thereunder reduced to one dollar for the entirety of the renewal term. It will automatically renew for successive one-year terms unless terminated under certain circumstances. Either party must provide 180 days prior written notice of any such termination.

Under the terms of the management agreements, 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



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- Providing executive and administrative personnel, office space and other appropriate services required in rendering management services to us.

The following table reconciles the fees incurred in accordance with the ARMOUR management agreement for the years ended December 31, 2020, December 31, 2019 and December 31, 2018. ACM began waiving 40% of its management fee during the second quarter of 2020. 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 until further notice (see *Note 16 - Subsequent Events*).

	For the Years Ended		
	December 31, 2020	December 31, 2019	December 31, 2018
ARMOUR management fees	\$ 29,580	\$ 29,513	\$ 27,190
Less management fees waived	(8,855)	—	—
Total Management fee expense	\$ 20,725	\$ 29,513	\$ 27,190

In accordance with the JAVELIN management agreement, we paid management fees of one dollar for each of the years ended December 31, 2020 and December 31, 2019 and December 31, 2018.

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 agreements. For the years ended December 31, 2020, December 31, 2019 and December 31, 2018 we reimbursed ACM \$157, \$114 and \$206, respectively for other expenses incurred on our behalf. In 2013, 2017 and 2020, we elected to grant restricted stock unit awards to our executive officers and other ACM employees through ACM that vest over various periods through 2027. In November 2017 and January 2020, we elected to grant restricted stock unit awards to the Board. We recognized stock based compensation expense of \$515, \$348 and \$436 for the years ended, December 31, 2020, December 31, 2019 and December 31, 2018, respectively.

BUCKLER

In March 2017, we contributed \$352 for a 10% 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 \$634 at December 31, 2020 and \$381 at December 31, 2019 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 the year ended December 31, 2020, we earned \$1,408 from BUCKLER as an allocated share of Financing Gross Profit for a reduction of interest on repurchase agreements



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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 2021 (see Note 11 - Stockholders' Equity for discussion of equity transactions with BUCKLER).

We previously entered into three subordinated loan agreements with BUCKLER, totaling \$105,000. On March 18, 2019, these three subordinated loan agreements were consolidated into one loan of \$105,000, maturing on April 1, 2022, with automatic renewals. During the second quarter of 2020, we agreed to extend the maturity of the loan to May 1, 2025. BUCKLER may, at its option after obtaining the approval of the Financial Industry Regulatory Authority, 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 years ended December 31, 2020, December 31, 2019 and December 31, 2018, the Company earned \$333, \$1,886 and \$2,019 in interest on this loan.

The table below summarizes other transactions with BUCKLER as of and for the years ended December 31, 2020 and December 31, 2019.

Transactions with BUCKLER	December 31, 2020	December 31, 2019
Repurchase agreements ⁽¹⁾	\$ 2,998,111	\$ 5,107,101
Interest on repurchase agreements	\$ 38,663	\$ 120,090
Collateral posted on repurchase agreements	\$ 3,117,929	\$ 5,341,487

(1) See also Note 7 - Repurchase Agreements, for transactions with BUCKLER.

Note 16 - Subsequent Events

Except as set forth below, no subsequent events were identified through the date of issuance.

Coronavirus pandemic ("COVID-19")

COVID-19 continues to have a real-time impact on all business sectors. The extent of the ultimate impact of COVID-19 on the Company's operational and financial performance will depend on various developments, including the duration of the outbreak and the spread of the virus and the federal government's and states' future responses to the virus, which cannot be reasonably predicted at this time. While the Company is not able to estimate the future impact of COVID-19 at this time, it could continue to materially affect the Company's future financial and operational results.

ACM Management Agreement

On April 30, 2020, ACM notified ARMOUR that ACM was voluntarily waiving a portion of the Base Management Fee due and payable to ACM pursuant to the Seventh Amended and Restated Management Agreement, effective as of November 17, 2017 (as further amended and restated on July 21, 2020, the "Agreement"), until further notice. This previously disclosed voluntary waiver was deemed prudent by ACM to maintain a competitive cost structure for ARMOUR considering the COVID-19 related decline in the stockholders' equity of ARMOUR.

In early January 2021, ACM reviewed (and will continue to review quarterly) the level of such fee waiver considering current economic circumstances and noted that from May 1, 2020 to December 31, 2020, the stockholders' equity of ARMOUR has increased (before issuance of additional shares), resulting in a partial recovery of the COVID-19 related decline. On January 13, 2021, ACM notified ARMOUR that it intended to adjust



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the fee waiver to the rate of \$2,400 for the first quarter of 2021 and \$800 per month thereafter until ACM provides further notice to ARMOUR. ACM may terminate this waiver for any month by providing notice to ARMOUR on or before the 25th day of the preceding month. This waiver does not constitute a waiver of any other amounts due to ACM from ARMOUR under the Agreement or otherwise, including but not limited to any expense reimbursements, any amounts calculated by reference to the contractual Base Management Fee, or any awards under the Second Amended and Restated 2009 Stock Incentive Plan.

Series C Preferred Stock

On January 27, 2021, a cash dividend of \$0.14583 per outstanding share of Series C Preferred Stock, or \$780 in the aggregate, was paid to holders of record on January 15, 2021. We have also declared cash dividends of \$0.14583 payable February 26, 2021 and March 29, 2021 to holders of record on February 15, 2021 and March 15, 2021, respectively.

Between January 19, 2021 and February 16, 2021, we issued 434 shares under our Preferred C ATM Sales Agreement for proceeds of \$10,594, net of issuance costs and commissions of \$108.

Common Stock

On January 28, 2021, a cash dividend of \$0.10 per outstanding common share, or \$6,646 in the aggregate, was paid to holders of record on January 15, 2021. We have also declared cash dividends of \$0.10 per outstanding common share payable February 26, 2021 to holders of record on February 16, 2021 and payable March 29, 2021 to holders of record on March 15, 2021.



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Note 17 - Quarterly Financial Data (unaudited)

The following tables are a comparative breakdown of our unaudited quarterly financial results for the immediately preceding eight quarters.

	Quarter Ended			
	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Agency Securities, net of amortization of premium and fees.....	\$ 79,776	\$ 23,648	\$ 25,188	\$ 22,594
Credit Risk and Non-Agency Securities, including discount accretion.....	12,355	4,873	518	—
U.S. Treasury Securities.....	469	—	—	—
BUCKLER Subordinated loan.....	258	29	24	22
Interest expense- repurchase agreements.....	(51,520)	(5,389)	(2,954)	(3,076)
Interest expense- U.S. Treasury Securities sold short.....	—	(32)	—	—
Net Interest Income	\$ 41,338	\$ 23,129	\$ 22,776	\$ 19,540
Realized gain (loss) on sale of Agency Securities (reclassified from Other comprehensive income (loss)).....	93,325	36,008	9,468	5,076
Credit loss expense.....	(1,012)	—	—	—
Gain on Agency Securities, trading.....	—	7,911	12,149	(503)
Gain (Loss) on Credit Risk and Non-Agency Securities.....	(183,111)	190	(6,633)	(1)
Gain (loss) U.S. Treasury Securities.....	21,771	—	—	—
Loss on short sale of U.S. Treasury Securities.....	—	(414)	—	—
Realized gain (loss) on derivatives ⁽¹⁾	(235,148)	(180,567)	20,866	16,641
Unrealized gain (loss) on derivatives.....	(133,887)	173,325	6,866	47,751
Expenses.....	(9,935)	(10,781)	(10,059)	(10,046)
Management fees waived.....	—	2,947	2,953	2,955
Net Income (Loss)	\$ (406,659)	\$ 51,748	\$ 58,386	\$ 81,413
Dividends declared on preferred stock.....	(2,827)	(2,320)	(2,320)	(2,320)
Net Income (Loss) available (related) to common stockholders	\$ (409,486)	\$ 49,428	\$ 56,066	79,093
Net income (loss) available (related) per share to common stockholders – Basic.....	\$ (6.95)	\$ 0.78	\$ 0.87	\$ 1.22
Net income (loss) available (related) per share to common stockholders – Diluted.....	\$ (6.95)	\$ 0.77	\$ 0.86	\$ 1.21
Dividends declared per common share.....	\$ 0.51	\$ 0.09	\$ 0.30	\$ 0.30
Weighted average common shares outstanding – Basic.....	58,884	63,741	64,724	64,895
Weighted average common shares outstanding – Diluted.....	58,884	64,340	65,272	65,392



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	Quarter Ended			
	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Agency Securities, net of amortization of premium and fees.....	\$ 79,832	\$ 113,438	\$ 102,134	\$ 87,407
Credit Risk and Non-Agency Securities, including discount accretion.....	13,592	13,383	13,158	12,785
Interest-Only Securities.....	345	251	—	—
U.S. Treasury Securities.....	482	744	128	—
BUCKLER Subordinated loan.....	539	544	479	324
Interest expense- repurchase agreements.....	(60,978)	(87,504)	(80,293)	(59,454)
Net Interest Income	\$ 33,812	\$ 40,856	\$ 35,606	\$ 41,062
Realized loss on sale of Agency Securities (reclassified from Other comprehensive income (loss)).....	(2,910)	(44)	4,569	7,996
Gain (Loss) on Credit Risk and Non-Agency Securities.....	496	(17,699)	(8,842)	1,650
Gain (Loss) on Interest-Only Securities.....	(368)	490	—	—
Gain (loss) U.S. Treasury Securities.....	(693)	3,453	(736)	—
Realized gain (loss) on derivatives ⁽¹⁾	(22,131)	(92,990)	(85,076)	(13,799)
Unrealized gain (loss) on derivatives.....	(113,067)	(107,304)	3,845	80,399
Expenses.....	(9,520)	(10,012)	(10,321)	(8,627)
Net Income (Loss)	\$ (114,381)	\$ (183,250)	\$ (60,955)	\$ 108,681
Dividends declared on preferred stock.....	(4,259)	(4,274)	(3,410)	(3,691)
Net Income (Loss) available (related) to common stockholders	\$ (118,640)	\$ (187,524)	\$ (64,365)	\$ 104,990
Net income (loss) available (related) per share to common stockholders – Basic.....	\$ (2.21)	\$ (3.14)	\$ (1.09)	\$ 1.78
Net income (loss) available (related) per share to common stockholders – Diluted.....	\$ (2.21)	\$ (3.14)	\$ (1.09)	\$ 1.78
Dividends declared per common share.....	\$ 0.57	\$ 0.57	\$ 0.51	\$ 0.51
Weighted average common shares outstanding – Basic.....	53,630	59,654	59,077	58,902
Weighted average common shares outstanding – Diluted.....	53,630	59,654	59,077	59,149

(1) Interest expense related to our interest rate swap contracts is recorded in realized loss on derivatives on the consolidated statements of operations.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: February 17, 2021

ARMOUR RESIDENTIAL REIT, INC.

/s/ James R. Mountain

James R. Mountain
Chief Financial Officer and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
<u>/s/ Scott J. Ulm</u> Scott J. Ulm	Co-Chief Executive Officer, Head of Risk Management and Co-Vice Chairman (Principal Executive Officer)	February 17, 2021
<u>/s/ Jeffrey J. Zimmer</u> Jeffrey J. Zimmer	Co-Chief Executive Officer, President, Co-Vice Chairman (Principal Executive Officer)	February 17, 2021
<u>/s/ James R. Mountain</u> James R. Mountain	Chief Financial Officer and Secretary (Principal Financial Officer)	February 17, 2021
<u>/s/ Gordon M. Harper</u> Gordon M. Harper	VP Finance, Controller and Treasurer (Principal Accounting Officer)	February 17, 2021
<u>/s/ Daniel C. Staton</u> Daniel C. Staton	Chairman of the Board of Directors	February 17, 2021
<u>/s/ Marc H. Bell</u> Marc H. Bell	Director	February 16, 2021
<u>/s/ Z. Jamie Behar</u> Z. Jamie Behar	Director	February 16, 2021
<u>/s/ Carolyn Downey</u> Carolyn Downey	Director	February 17, 2021
<u>/s/ Thomas K. Guba</u> Thomas K. Guba	Director	February 16, 2021
<u>/s/ Robert C. Hain</u> Robert C. Hain	Director	February 17, 2021
<u>/s/ John P. Hollihan, III</u> John P. Hollihan, III	Director	February 16, 2021
<u>/s/ Stewart J. Paperin</u> Stewart J. Paperin	Director	February 16, 2021

Certification Pursuant to 18 U.S.C Section 1350, Adopted 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 annual report on Form 10-K for the period ended December 31, 2020 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: February 17, 2021

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ Scott J. Ulm

Scott J. Ulm

Co-Chief Executive Officer

Certification Pursuant to 18 U.S.C Section 1350, Adopted 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 report on Form 10-K for the period ended December 31, 2020 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: February 17, 2021

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ Jeffrey J. Zimmer

Jeffrey J. Zimmer

Co-Chief Executive Officer

Certification Pursuant to 18 U.S.C Section 1350, Adopted 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 report on Form 10-K for the period ended December 31, 2020 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: February 17, 2021

ARMOUR RESIDENTIAL REIT, INC.

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

**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 Annual Report of ARMOUR Residential REIT, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2020 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: February 17, 2021

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ Scott J. Ulm

Scott J. Ulm

Co-Chief Executive Officer

**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 Annual Report of ARMOUR Residential REIT, Inc. (the "Company") on Form 10-K for the period ended December 31, 2020 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: February 17, 2021

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ Jeffrey J. Zimmer

Jeffrey J. Zimmer

Co-Chief Executive Officer

**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 Annual Report of ARMOUR Residential REIT, Inc. (the “Company”) on Form 10-K for the period ended December 31, 2020 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: February 17, 2021

ARMOUR RESIDENTIAL REIT, INC.

By: /s/ James R. Mountain

James R. Mountain

Chief Financial Officer

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ARMOUR RESIDENTIAL REIT, INC.

**Board of Directors
and
Executive Officers**

Board of Directors

Scott J. Ulm, Co-Vice Chairman
Jeffrey J. Zimmer, Co-Vice Chairman
Daniel C. Staton, Non-Executive Chairman
Marc H. Bell
Z. Jamie Behar
Carolyn Downey
Thomas K. Guba
Robert C. Hain
John P. Hollihan, III
Stewart J. Paperin

Executive Officers

Scott J. Ulm	Co-Chief Executive Officer and Chief Risk Officer
Jeffrey J. Zimmer	Co-Chief Executive Officer and President
James R. Mountain	Chief Financial Officer and Secretary
Mark Gruber	Chief Investment Officer
Gordon Harper	Vice President of Finance, Controller and Treasurer

