

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended **June 30, 2022**

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: **000-55621**

**TEXAS REPUBLIC CAPITAL CORPORATION**

(Exact name of registrant as specified in its charter)

**Texas**

(State or other jurisdiction of incorporation or organization)

**45-5311713**

(I.R.S. Employer Identification Number)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common stock \$0.01 par	-	None

**13215 Bee Cave Parkway, Ste. A120**

**Austin, Texas 78738**

(Address of principal executive offices)

**(512) 330-0099**

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Exchange Act during the past 12 months (or for 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provide pursuant to Section 13(a) of the Exchange Act.

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: Common stock .01 par value as of August 1, 2022: 14,813,177 shares

**TEXAS REPUBLIC CAPITAL CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
**FOR QUARTERLY PERIOD ENDED JUNE 30, 2022**

**TABLE OF CONTENTS**

<b>PART I. FINANCIAL INFORMATION</b>	<b>Page Number</b>
<a href="#"><u>Item 1. Consolidated Financial Statements</u></a>	
<a href="#"><u>Consolidated Statements of Financial Position as of June 30, 2022 (Unaudited) and December 31, 2021</u></a>	3
<a href="#"><u>Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2022 and 2021 (Unaudited)</u></a>	4
<a href="#"><u>Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2022 and 2021 (Unaudited)</u></a>	5
<a href="#"><u>Consolidated Statements of Changes in Shareholders' Equity for the Three and Six Months Ended June 30, 2022 and 2021 (Unaudited)</u></a>	6
<a href="#"><u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2022 and 2021 (Unaudited)</u></a>	7
<a href="#"><u>Notes to Consolidated Financial Statements (Unaudited)</u></a>	8
<a href="#"><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	22
<a href="#"><u>Item 4. Controls and Procedures</u></a>	28
<b>Part II. OTHER INFORMATION</b>	
<a href="#"><u>Item 1. Legal Proceedings</u></a>	29
<a href="#"><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	29
<a href="#"><u>Item 3. Defaults upon Senior Securities</u></a>	29
<a href="#"><u>Item 4. Mine Safety Disclosures</u></a>	29
<a href="#"><u>Item 5. Other Information</u></a>	29
<a href="#"><u>Item 6. Exhibits</u></a>	29
<a href="#"><u>Signatures</u></a>	30
Exhibit No. 31.1	
Exhibit No. 31.2	
Exhibit No. 32.1	
Exhibit No. 32.2	
Exhibit No. 101.INS	
Exhibit No. 101.SCH	
Exhibit No. 101.CAL	
Exhibit No. 101.DEF	
Exhibit No. 101.LAB	
Exhibit No. 101.PRE	
Exhibit No. 104. FIL	

---

PART I – FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Texas Republic Capital Corporation and Subsidiaries  
Consolidated Statements of Financial Position

	June 30, 2022 (Unaudited)	December 31, 2021
<b>Assets</b>		
Available-for-sale fixed maturity securities at fair value (Amortized cost: \$7,152,357 and \$8,244,018 as of June 30, 2022 and December 31, 2021, respectively)	\$ 6,846,417	\$ 9,042,091
Mortgage loans, net of allowance	13,807,591	13,149,073
Other long-term investments	3,023,852	2,980,325
Total investments	23,677,860	25,171,489
Cash and cash equivalents	6,060,147	8,224,914
Accrued investment income	184,396	190,299
Due premium	26,893	19,664
Deferred policy acquisition costs	1,952,250	1,518,260
Deferred sales inducement costs	569,358	716,153
Advances and notes receivable, net of allowance	123,739	267,301
Leased property - right to use	41,383	82,766
Prepaid assets	96,041	14,661
Intangible assets, net of accumulated amortization	298,819	321,806
Furniture and equipment, net	13,443	17,505
Other assets	3,650,661	837,115
<b>Total assets</b>	<b>\$ 36,694,990</b>	<b>\$ 37,381,933</b>
<b>Liabilities and Shareholders' Equity</b>		
Policy liabilities		
Policyholders' account balances	\$ 28,832,134	\$ 28,603,861
Future policy benefits	1,537,583	1,214,014
Policy claims and other benefits	168,043	537,214
Liability for deposit-type contracts	296,945	68,770
Other policyholder liabilities	27,984	57,178
Total policy liabilities	30,862,689	30,481,037
Lease liability	41,383	82,766
Other liabilities	307,635	206,161
<b>Total liabilities</b>	<b>31,211,707</b>	<b>30,769,964</b>
<b>Shareholders' equity</b>		
Common stock, par value \$.01 per share, 25,000,000 shares authorized, 14,867,097 issued as of June 30, 2022 and December 31, 2021, 14,813,177 and 14,801,027 outstanding as of June 30, 2022 and December 31, 2021, respectively, and 162,540 subscribed as of June 30, 2022	150,296	148,671
Additional paid-in capital	18,512,233	17,538,618
Treasury stock, at cost (53,920 and 66,070 shares as of June 30, 2022 and December 31, 2021, respectively)	(52,130)	(64,280)
Accumulated other comprehensive income (loss)	(305,940)	798,073
Accumulated deficit	(12,821,176)	(11,809,113)
<b>Total shareholders' equity</b>	<b>5,483,283</b>	<b>6,611,969</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 36,694,990</b>	<b>\$ 37,381,933</b>

See notes to consolidated financial statements (unaudited).

**Texas Republic Capital Corporation and Subsidiaries**  
**Consolidated Statements of Operations**  
(Unaudited)

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
<b>Revenues</b>				
Premiums and other considerations	\$ 507,849	\$ 161,105	\$ 937,529	\$ 330,721
Net investment income	444,853	301,776	808,311	592,744
Net realized gains (losses) on investments	(669)	7,554	17,635	6,679
Commission income	38,703	55,956	66,969	65,207
<b>Total revenues</b>	<b>990,736</b>	<b>526,391</b>	<b>1,830,444</b>	<b>995,351</b>
<b>Benefits, claims and expenses</b>				
Increase in future policy benefits	65,672	62,248	274,531	94,454
Death and other benefits	141,173	(25,243)	217,616	(39,335)
Interest credited to policyholders	265,310	293,464	536,421	657,097
<b>Total benefits and claims</b>	<b>472,155</b>	<b>330,469</b>	<b>1,028,568</b>	<b>712,216</b>
Policy acquisition costs deferred	(496,065)	(85,582)	(690,545)	(217,949)
Policy acquisition costs amortized	208,630	3,655	256,555	128,849
Commissions	480,080	150,185	774,601	323,329
Salaries and employee benefits	399,076	324,968	767,995	651,814
Office rent	22,107	23,092	46,106	46,810
Third-party administration fees	18,279	19,023	85,989	46,392
Travel, meals, and entertainment	24,811	15,469	47,586	28,423
Professional fees	120,896	124,046	315,805	262,928
Other general and administrative expenses	115,969	95,390	209,847	145,652
<b>Total benefits, claims and expenses</b>	<b>1,365,938</b>	<b>1,000,715</b>	<b>2,842,507</b>	<b>2,128,464</b>
<b>Net loss</b>	<b>\$ (375,202)</b>	<b>\$ (474,324)</b>	<b>\$ (1,012,063)</b>	<b>\$ (1,133,113)</b>
Net loss per common share outstanding	<u>\$ (0.03)</u>	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>	<u>\$ (0.08)</u>

See notes to consolidated financial statements (unaudited).

**Texas Republic Capital Corporation and Subsidiaries**  
**Consolidated Statements of Comprehensive Loss**  
**(Unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>Net loss</b>	\$ (375,202)	\$ (474,324)	\$ (1,012,063)	\$ (1,133,113)
<b>Other comprehensive income (loss)</b>				
Total net unrealized gains (losses) arising during the period	(462,480)	204,894	(1,086,378)	(116,396)
Less net realized investment gains (losses)	(669)	7,554	17,635	6,679
Net unrealized investment gains (losses)	(461,811)	197,340	(1,104,013)	(123,075)
<b>Total other comprehensive income (loss)</b>	(461,811)	197,340	(1,104,013)	(123,075)
<b>Total comprehensive loss</b>	<u>\$ (837,013)</u>	<u>\$ (276,984)</u>	<u>\$ (2,116,076)</u>	<u>\$ (1,256,188)</u>

See notes to consolidated financial statements (unaudited).

**Texas Republic Capital Corporation and Subsidiaries**  
**Consolidated Statements of Changes in Shareholders' Equity**

**Six Months Ended June 30, 2022 and 2021**  
**(Unaudited)**

	Common Stock \$.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
<b>Balance as of January 1, 2021</b>	\$ 148,671	\$ 17,538,618	\$ (86,600)	\$ 1,166,306	\$ (9,724,528)	\$ 9,042,467
Treasury shares issued	-	-	3,320	-	-	3,320
Other comprehensive loss	-	-	-	(123,075)	-	(123,075)
Net loss	-	-	-	-	(1,133,113)	(1,133,113)
<b>Balance as of June 30, 2021</b>	<u>\$ 148,671</u>	<u>\$ 17,538,618</u>	<u>\$ (83,280)</u>	<u>\$ 1,043,231</u>	<u>\$ (10,857,641)</u>	<u>\$ 7,789,599</u>
<b>Balance as of January 1, 2022</b>	\$ 148,671	\$ 17,538,618	\$ (64,280)	\$ 798,073	\$ (11,809,113)	\$ 6,611,969
Common stock shares subscribed	1,625	973,615	-	-	-	975,240
Treasury shares issued	-	-	12,150	-	-	12,150
Other comprehensive loss	-	-	-	(1,104,013)	-	(1,104,013)
Net loss	-	-	-	-	(1,012,063)	(1,012,063)
<b>Balance as of June 30, 2022</b>	<u>\$ 150,296</u>	<u>\$ 18,512,233</u>	<u>\$ (52,130)</u>	<u>\$ (305,940)</u>	<u>\$ (12,821,176)</u>	<u>\$ 5,483,283</u>

**Three Months Ended June 30, 2022 and 2021**  
**(Unaudited)**

	Common Stock \$.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
<b>Balance as of April 1, 2021</b>	\$ 148,671	\$ 17,538,618	\$ (86,490)	\$ 845,891	\$ (10,383,317)	\$ 8,063,373
Treasury shares issued	-	-	3,210	-	-	3,210
Other comprehensive income	-	-	-	197,340	-	197,340
Net loss	-	-	-	-	(474,324)	(474,324)
<b>Balance as of June 30, 2021</b>	<u>\$ 148,671</u>	<u>\$ 17,538,618</u>	<u>\$ (83,280)</u>	<u>\$ 1,043,231</u>	<u>\$ (10,857,641)</u>	<u>\$ 7,789,599</u>
<b>Balance as of April 1, 2022</b>	\$ 148,671	\$ 17,538,618	\$ (59,280)	\$ 155,871	\$ (12,445,974)	\$ 5,337,906
Common stock shares subscribed	1,625	973,615	-	-	-	975,240
Treasury shares issued	-	-	7,150	-	-	7,150
Other comprehensive loss	-	-	-	(461,811)	-	(461,811)
Net loss	-	-	-	-	(375,202)	(375,202)
<b>Balance as of June 30, 2022</b>	<u>\$ 150,296</u>	<u>\$ 18,512,233</u>	<u>\$ (52,130)</u>	<u>\$ (305,940)</u>	<u>\$ (12,821,176)</u>	<u>\$ 5,483,283</u>

See notes to consolidated financial statements (unaudited).

**Texas Republic Capital Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**

	<b>Six Months Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>
<b>Operating activities</b>		
Net loss	\$ (1,012,063)	\$ (1,133,113)
Adjustments to reconcile net loss to net cash used in operating activities:		
Net accretion of discount and amortization of premium on investments	(146,208)	(137,803)
Net realized capital gains	(17,635)	(6,679)
Provision for depreciation and amortization	27,049	6,743
Policy acquisition costs deferred	(690,545)	(217,949)
Policy acquisition costs amortized	256,555	128,849
Amortization of mortgage loan origination fees	35,282	30,412
Provision for estimated mortgage loan losses	3,486	(4,927)
Provision for estimated uncollectible advances and notes receivable	(472)	(3,921)
Interest credited to policyholders	536,421	657,097
Non-cash salary expense	12,150	3,320
Change in assets and liabilities:		
Accrued investment income	5,903	(51,956)
Due premium	(7,229)	(19,694)
Advances and notes receivable	144,034	(13,954)
Prepaid assets	(81,380)	(38,430)
Other assets	(2,485,946)	(113,909)
Future policy benefits	323,569	202,811
Policy claims	(369,171)	(356,024)
Other policy liabilities	(29,194)	(85,749)
Other liabilities	101,474	137,364
<b>Net cash used in operating activities</b>	<b>(3,393,920)</b>	<b>(1,017,512)</b>
<b>Investing activities</b>		
Purchases of furniture and equipment	-	(2,381)
Purchases of available for sale securities	-	(12,122)
Sales of available for sale securities	1,105,980	231,580
Purchases of mortgage loans	(7,738,300)	(572,994)
Payments on mortgage loans	7,069,992	1,579,779
Purchase of other long-term investments	(374,036)	-
Payments on other long-term investments	451,055	375,276
<b>Net cash provided by investing activities</b>	<b>514,691</b>	<b>1,599,138</b>
<b>Financing activities</b>		
Proceeds from the subscription of common stock	647,640	-
Policyholder deposits	383,738	1,836,446
Policyholder withdrawals	(545,091)	(116,295)
Deposit-type contracts - deposits	255,228	-
Deposit-type contracts - withdrawals	(27,053)	(5,310)
<b>Net cash provided by financing activities</b>	<b>714,462</b>	<b>1,714,841</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(2,164,767)</b>	<b>2,296,467</b>
Cash and cash equivalents, beginning of period	8,224,914	10,985,917
<b>Cash and cash equivalents, end of period</b>	<b>\$ 6,060,147</b>	<b>\$ 13,282,384</b>
Supplemental disclosure of non-cash financing activities		
Treasury stock issued as compensation	\$ 12,150	\$ 3,320
Subscriptions receivable for common stock	327,600	-

See notes to consolidated financial statements (unaudited).

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**1. Organization and Significant Accounting Policies**

***Nature of Operations***

Texas Republic Capital Corporation (the “Company”) is the parent holding company of Texas Republic Life Insurance Company (“TRLIC”), Texas Republic Life Solutions, Inc. (“TRLS”), and Axis Insurance Solutions, LLC (“AIS”). The Company was incorporated in Texas on May 15, 2012, for the primary purpose of forming and capitalizing a life insurance company subsidiary.

The Texas Department of Insurance approved TRLIC’s life insurance charter on August 1, 2016. The Company capitalized TRLIC with \$3,000,000 and owns 100% of TRLIC. TRLIC began insurance operations on April 3, 2017 and is currently selling life and annuity products in the state of Texas. In 2018 the Company made additional capital contributions totaling \$2,750,000 for the entire year. In 2019 the Company made two more capital contributions to TRLIC. The first contribution consisted of mortgage loans valued at \$857,133 and the second one was a \$1,300,000 cash contribution. In 2021, the Company made additional total capital contributions of \$2,100,000. During the first half of 2022, the Company made \$1,000,000 in capital contributions. Total capitalization of TRLIC was \$11,007,133 at June 30, 2022.

TRLS, a life and health insurance agency, was incorporated February 1, 2017. The Company capitalized TRLS with \$50,000 and owns 100% of TRLS. In 2018 and 2020 the Company made additional capital contributions of \$100,000 and \$200,000, respectively. In 2021, the Company made additional total capital contributions of \$50,000. During the first quarter of 2022, the Company made a \$100,000 capital contribution. Total capitalization of TRLS was \$500,000 at June 30, 2022.

AIS, a property & casualty insurance agency, was formed on April 6, 2021. The Company capitalized AIS with \$25,000 and owns 100% of AIS.

From incorporation through April 2, 2017 the Company was involved in the sale of common stock to provide working capital. During this time, the Company completed an organizational offering, three private placement stock offerings and an intrastate public stock offering in the state of Texas. The Company raised \$10,336,500 and incurred \$1,215,569 of offering costs through the issuance of 12,865,000 shares from the organizational offering and three private placement offerings. The intrastate public stock offering was registered to raise \$25,000,000 by offering 5,000,000 shares of its common stock and ended on April 2, 2017. Through this offering the Company raised an additional \$10,010,485 and incurred another \$1,444,127 of offering costs through the sale of 2,002,097 shares of common stock.

On May 31, 2022, the Company began a rights offering to existing shareholders only. As of June 30, 2022, the Company has raised \$975,240 through the subscription of 162,540 shares of its common stock. The offering is currently ongoing and is set to end after the Company raises \$3,000,000 in total capital proceeds, or one year has surpassed since the beginning of the offering, whichever occurs first. The Company has the options to increase the total capital proceeds raised due to oversubscription and extend the rights offering for an additional period of time.

***Basis of Presentation***

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting primarily of normal recurring accruals) considered necessary for a fair presentation of the results for the interim periods have been included.

The results of operations for the three and six months ended June 30, 2022 are not necessarily indicative of the results to be expected for the year ended December 31, 2022 or for any other interim period or for any other future year. Certain financial information which is normally included in notes to consolidated financial statements prepared in accordance with U.S. GAAP, but which is not required for interim reporting purposes, has been condensed or omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the financial statements and notes thereto included in the Company’s report on Form 10-K for the year ended December 31, 2021.

***Principles of Consolidation***

The consolidated financial statements include the accounts and operations of the Company and its subsidiaries. All intercompany accounts and transactions are eliminated in consolidation.



**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**1. Organization and Significant Accounting Policies** (continued)

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on management's knowledge of current events and actions it may undertake in the future, they may ultimately differ from actual results.

*Reclassifications*

Certain reclassifications have been made in the prior year financial statements to conform to current year classifications. These reclassifications had no effect on the previously reported net loss or shareholders' equity.

*Investments*

Fixed maturity securities are comprised of bonds that are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of applicable income taxes, reported in accumulated other comprehensive income (loss). The amortized cost of fixed maturity securities available-for-sale is generally adjusted for amortization of premium and accretion of discount.

Interest income, as well as the related amortization of premium and accretion of discount, is included in net investment income under the effective yield method. The amortized cost of fixed maturity securities available-for-sale is written down to fair value when a decline in value is considered to be other-than-temporary.

The Company evaluates the difference between the cost or amortized cost and estimated fair value of its investments to determine whether any decline in value is other-than-temporary in nature. This determination involves a degree of uncertainty. If a decline in the fair value of a security is determined to be temporary, the decline is recorded as an unrealized loss in shareholders' equity. If a decline in a security's fair value is considered to be other-than-temporary, the Company then determines the proper treatment for the other-than-temporary impairment. For fixed maturity securities, available-for-sale, the amount of any other-than-temporary impairment related to a credit loss is recognized in earnings and reflected as a reduction in the cost basis of the security; and the amount of any other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss) with no change to the cost basis of the security.

The assessment of whether a decline in fair value is considered temporary or other-than-temporary includes management's judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict when it may be determined that a specific security will become impaired. Future adverse changes in market conditions, poor operating results of underlying investments and defaults on mortgage loan payments could result in losses or an inability to recover the current carrying value of the investments, thereby possibly requiring an impairment charge in the future.

Likewise, if a change occurs in the Company's intent to sell temporarily impaired securities prior to maturity or recovery in value, or if it becomes more likely than not that the Company will be required to sell such securities prior to recovery in value or maturity, a future impairment charge could result. If an other-than-temporary impairment related to a credit loss occurs with respect to a bond, the Company amortizes the reduced book value back to the security's expected recovery value over the remaining term of the bond. The Company continues to review the security for further impairment that would prompt another write-down in the value.

Purchases and sales of securities are recorded on a trade-date basis. Interest earned on investments is recorded on the accrual basis and is included in net investment income.

The Company's mortgage loan portfolio is comprised entirely of residential properties with loan to appraised value ratios below 90%. Mortgage loans are carried at current book value. A mortgage loan allowance has been established for any unforeseen losses using an industry approach, which establishes a reserve for possible loan losses charged to expense which represents, in the Company's judgement, the known and estimated credit losses existing in the loan portfolio. This reserve reduces the carrying value of investment in mortgage loans on the consolidated statement of financial position. The fair values for mortgage loans are estimated using discounted cash flow analysis. The discount rate used to calculate fair values was indexed to the LIBOR yield curve adjusted for an appropriate credit spread.

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**1. Organization and Significant Accounting Policies** (continued)

The Company's other long-term investments are comprised of lottery prize cash flows holdings held at amortized cost. These investments are categorized as other long-term investments in the statement of financial position and are assignments of the future rights from lottery winners purchased at a discounted price. Payments on these investments are made by state run lotteries.

***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand and money market instruments.

***Deferred Policy Acquisition Costs***

Costs that relate to and vary with the successful production of new business are deferred over the life of the policy. Deferred acquisition costs ("DAC") consist of commissions and policy issuance, underwriting and agency expenses. DAC expenses are amortized primarily over the premium-paying period of life policies and as profits emerge on annuity products. Amortization uses the same assumptions as were used in computing liabilities for future policy benefits. There was \$690,545 of DAC deferred and \$256,555 of DAC amortized for the six months ended June 30, 2022. For the three months ended June 30, 2022, there was \$496,065 of DAC deferred and \$208,630 of DAC amortized. There was \$217,949 of DAC deferred and \$128,849 of DAC amortized for the six months ended June 30, 2021. For the three months ended June 30, 2021, there was \$85,582 of DAC deferred and \$3,655 of DAC amortized.

***Deferred Sales Inducement Costs***

Sales inducement costs ("SIC") are related to policy bonuses issued on some of the Company's annuity products. SIC is deferred at the issuance of the policy and amortized over the bonus period on a straight-line basis. The amount deferred is based on the difference between the fund value with the bonus and the fund value without the bonus. There was \$569,358 and \$716,153 of SIC deferred at June 30, 2022 and December 31, 2021, respectively. There was \$0 of SIC deferred and \$146,795 of SIC amortized for the six months ended June 30, 2022. For the three months ended June 30, 2022, there was \$0 of SIC deferred and \$83,020 of SIC amortized. There was \$70,868 of SIC deferred and \$158,658 SIC amortized for the six months ended June 30, 2021. For the three months ended June 30, 2021, there was \$30,008 of SIC deferred and \$62,189 of SIC amortized.

***Advances and Notes Receivable***

Advances and notes receivable are recorded at unpaid principal balances. Management evaluates the collectability of advances and notes receivable on the specific identification basis. Management had an allowance for possible uncollectable agent balances of \$53,513 and \$53,985 as of June 30, 2022 and December 31, 2021, respectively.

***Leased Property – Right to Use Asset***

In February 2016, the FASB issued ASU 2016-02, Lease Accounting (Topic 842) ("ASU 2016-02"). Under ASU 2016-02, a lessee is required to recognize assets and liabilities for leases with lease terms of more than twelve months. The Company's home office lease had an original term greater than one year, and the Company recognizes on the balance sheet a right of use ("ROU") operating lease asset and a lease liability, initially measured at the present value of the lease payments. Lease costs are recognized in the income statement over the lease term on a straight-line basis. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. The Company has a lease asset and liability of \$41,383 as of June 30, 2022 compared to \$82,766 as of December 31, 2021.

***Intangible assets***

Intangible assets are stated at cost less accumulated amortization and reflect amounts paid for the Company's computer software costs during the application development stage. The software costs placed in service during 2021 are amortized using the straight-line method over the seven-year estimated useful life of the software. The asset is tested for impairment at least annually. Subsequent modifications or upgrades to internal-use software are capitalized only to the extent that additional functionality is provided.

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**1. Organization and Significant Accounting Policies** (continued)

***Furniture and Equipment***

Furniture and equipment are carried at cost less accumulated depreciation or amortization. Office furniture, equipment and EDP equipment are recorded at cost or fair value at acquisition less accumulated depreciation or amortization using the straight-line method over a period that approximates the estimated useful life of the respective assets of three to seven years. Expenditures for improvements are capitalized, and expenditures for maintenance and repairs are expensed as incurred. Upon sale or retirement, the cost and related accumulated depreciation and amortization is removed from the related accounts, and the resulting gain or loss, if any, is reflected in income.

***Policyholders' Account Balances***

The Company's liability for policyholders' account balances represents the contract value that has accrued to the benefit of the policyholder as of the financial statement date. This liability is generally equal to the accumulated account deposits plus applicable bonus and interest credited less policyholders' withdrawals and other charges assessed against the account balance. Interest crediting rates for individual annuities range from 1.55% to 5.125%.

***Future Policy Benefits***

Future policy benefit reserves have been computed by the net level premium method with assumptions as to investment yields, mortality and withdrawals based upon the Company's experience. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of policy liabilities and the increase in future policy benefit reserves. Management's judgments and estimates for future policy benefit reserves provide for possible unfavorable deviation. Actual experience may emerge differently from that originally estimated. Any such difference would be recognized in the current year's consolidated statement of operations.

***Common Stock***

Common stock is fully paid, non-assessable and has a par value of \$.01 per share.

***Treasury Stock***

Treasury stock, representing shares of the Company's common stock that have been reacquired after having been issued and fully paid, are recorded at cost.

***Federal Income Taxes***

The Company uses the asset and liability method of accounting for income taxes. Deferred income taxes are provided for cumulative temporary differences between balances of assets and liabilities determined under GAAP and balances determined using tax basis.

***Net Loss Per Common Share Outstanding and Subscribed***

Net loss per common share is calculated using the weighted average number of common shares outstanding and subscribed during the year. The weighted average common shares outstanding and subscribed were 14,822,135 and 14,779,039 for the six months ended June 30, 2022 and 2021, respectively. The weighted average common shares outstanding and subscribed were 14,839,075 and 14,779,352 for the three months ended June 30, 2022 and 2021, respectively.

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**1. Organization and Significant Accounting Policies** (continued)

***Related Party Transactions***

The Company entered into an agreement with First Trinity Financial Corporation (FTFC) where FTFC will use its resources to source mortgage loans on real estate and lottery bonds. FTFC will present to the Company investments based on criteria the Company has established. The Company has the option to purchase the presented investment assets directly from the seller or to decline the purchase based on the Company's analysis of the investment. All mortgage loans and lottery bonds that were purchased by the Company in 2020 were obtained through this agreement. The Chairman of the Company is also the Chairman, President, and Chief Executive Officer of FTFC. The Company paid \$12,665 to FTFC for the six months ending June 30, 2022. No such purchases were made or fees paid for the year ending December 31, 2021.

The Company entered into a coinsurance reinsurance agreement with Family Benefit Life Insurance Company (FBLIC), which is a subsidiary of FTFC. The Company will cede a portion of new business from our TrueFlex product related to specific groups to FBLIC as mutually agreed upon in advance. This new agreement became effective on January 1, 2022, and as of June 30, 2022 there has only been one group covered under this agreement.

***Subsequent Events***

Management has evaluated subsequent events for recognition and disclosure in the financial statements through the date the financial statements were available to be issued. The Company did not identify any subsequent events requiring recognition or disclosure.

***Recently Issued Accounting Pronouncements***

In September 2016, the FASB issued *ASU 2016-13, "Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments"* ("ASU 2016-13"). ASU 2016-13 will change the way entities recognize impairment of financial assets by requiring immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets, including, among others, held-to-maturity debt securities, mortgage loans, lottery prize receivables, trade receivables, and reinsurance recoverables. ASU 2016-13 requires a valuation allowance to be calculated on these financial assets and that they be presented on the financial statements net of the valuation allowance. This methodology is referred to as the current expected credit loss model. ASU 2016-13 had an original effective date for fiscal years beginning after December 15, 2019, including interim periods within those annual periods. The FASB recently delayed the effective date of ASU 2016-13 to fiscal years beginning after December 15, 2022 for smaller reporting companies, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the Company's financial condition and results of operations.

In August 2018, the FASB issued *ASU 2018-12 Financial Services-Insurance (Topic 944) - Targeted Improvements to the Accounting for Long-Duration Contracts*. This update is aimed at improving the Codification related to long-duration contracts which will improve the timeliness of recognizing changes in the liability for future policy benefits, simplify accounting for certain market-based options, simplify the amortization of deferred acquisition costs, and improve the effectiveness of required disclosures. The amendments require an insurance entity to review and update assumptions used to measure cash flows at least annually and to update discount rate assumption at each reporting date. The amendment requires an insurance entity to measure all market risk benefits associated with deposit contracts at fair value, with change in fair value attributable to change in instrument-specific credit risk recognized in other comprehensive income. Additionally, the amendment will simplify amortization of deferred acquisition costs and other balances amortized in proportion to premiums, gross profits, or gross margins and require those balances be amortized on constant level basis over the expected term of the related contract. Deferred acquisition costs are required to be written off for unexpected contract terminations but are not subject to impairment test. The amendment further requires an insurance entity to add disclosures of disaggregated rollforwards of beginning to ending balances of the liability for future policy benefits, policyholder account balances, market risk benefits, separate account liabilities, and deferred acquisition costs. The insurance entity must also disclose information about significant inputs, judgments, assumptions, and methods used in measurement, including changes in those inputs, judgments, and assumptions, and the effect of those changes on measurement. These updates were originally required to be applied retrospectively to the earliest period presented in the financial statements for periods beginning after December 15, 2020. The FASB recently delayed the effective date of ASU 2018-12 to periods beginning after December 15, 2024 for smaller reporting companies, with early adoption permitted. The Company is currently evaluating the impact of this guidance on the Company's financial condition and results of operations.

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**2. Investments**

***Fixed Maturity Securities Available-For-Sale***

Investments in fixed maturity securities available-for-sale as of June 30, 2022 and December 31, 2021 are summarized as follows:

<b>June 30, 2022 (Unaudited)</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Fixed maturity securities				
Corporate bonds	\$ 7,152,357	\$ 29,355	\$ 335,295	\$ 6,846,417
Total fixed maturity securities	<u>\$ 7,152,357</u>	<u>\$ 29,355</u>	<u>\$ 335,295</u>	<u>\$ 6,846,417</u>

<b>December 31, 2021</b>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Fixed maturity securities				
Corporate bonds	\$ 8,244,018	\$ 798,073	\$ -	\$ 9,042,091
Total fixed maturity securities	<u>\$ 8,244,018</u>	<u>\$ 798,073</u>	<u>\$ -</u>	<u>\$ 9,042,091</u>

For securities in an unrealized loss position as of the financial statement dates, the estimated fair value, pre-tax gross unrealized loss and number of securities by length of time that those securities have been continuously in an unrealized loss position as of June 30, 2022 and December 31, 2021 are summarized as follows:

<b>June 30, 2022 (Unaudited)</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Number of Securities</b>
Fixed maturity securities			
Less than 12 months			
Corporate bonds	\$ 4,984,289	\$ 335,295	41
Greater than 12 months			
Corporate bonds	-	-	-
Total fixed maturity securities	<u>\$ 4,984,289</u>	<u>\$ 335,295</u>	<u>41</u>

<b>December 31, 2021</b>	<b>Fair Value</b>	<b>Unrealized Loss</b>	<b>Number of Securities</b>
Fixed maturity securities			
Less than 12 months			
Corporate bonds	\$ -	\$ -	-
Greater than 12 months			
Corporate bonds	-	-	-
Total fixed maturity securities	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**2. Investments** (continued)

As of June 30, 2022, the fixed maturity securities in a less than 12-month loss position had an average fair value to amortized cost ratio of 94.2%. As of December 31, 2021, there were no fixed maturity securities in an unrealized loss position.

As of June 30, 2022 and December 31, 2021, 0% of total fair value of fixed maturity securities were below investment grade as rated by taking the median of Fitch's, Moody's, and Standard and Poor's ratings, respectively.

The Company's decision to record an impairment loss is primarily based on whether the security's fair value is likely to remain significantly below its book value based on all the factors considered. Factors that are considered include the length of time the security's fair value has been below its carrying amount, the severity of the decline in value, the credit worthiness of the issuer and the coupon and/or dividend payment history of the issuer. The Company also assesses whether it intends to sell or whether it is more likely than not that it may be required to sell the security prior to its recovery in value.

For any fixed maturity securities that are other-than-temporarily impaired, the Company determines the portion of the other-than-temporary impairment that is credit-related and the portion that is related to other factors. The credit-related portion is the difference between the expected future cash flows and the amortized cost basis of the fixed maturity security, and that difference is charged to earnings. The non-credit-related portion representing the remaining difference to fair value is recognized in other comprehensive income (loss).

Only in the case of a credit-related impairment where management has the intent to sell the security, or it is more likely than not that it will be required to sell the security before recovery of its cost basis, is a fixed maturity security adjusted to fair value and the resulting losses recognized in realized gains (losses) in the consolidated statements of operations.

Based on management's review, the Company experienced no other-than-temporary impairments during the six months ended June 30, 2022 or during the year ended December 31, 2021.

Management believes that the Company will fully recover its cost basis in the securities held as of June 30, 2022, and management does not have the intent to sell nor is it more likely than not that the Company will be required to sell such securities until they recover or mature. The temporary impairments shown herein are primarily the result of the current interest rate environment rather than credit factors that would imply other-than-temporary impairment.

Net unrealized gains (losses) included in accumulated other comprehensive income for investments classified as available-for-sale are summarized as follows:

	(Unaudited) <b>June 30, 2022</b>	<b>December 31, 2021</b>
Unrealized appreciation (depreciation) on available-for-sale securities	\$ (305,940)	\$ 798,073
Net unrealized appreciation (depreciation) on available-for-sale securities	\$ (305,940)	\$ 798,073

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**2. Investments (continued)**

The amortized cost and fair value of fixed maturity available-for-sale securities as of June 30, 2022, by contractual maturity, are summarized as follows:

	(Unaudited)	
	Amortized Cost	Fair Value
Due in one year or less	\$ 548,494	\$ 550,975
Due after one year through five years	3,111,219	3,063,362
Due after five years through ten years	1,546,358	1,488,810
Due after ten years	1,946,286	1,743,270
<b>Total fixed maturity securities</b>	<b>\$ 7,152,357</b>	<b>\$ 6,846,417</b>

For the six months ended June 30, 2022, the Company received \$1,105,980 of proceeds from sales and maturities of investments in available-for-sale securities and had \$20,643 and \$3,008 of gross gains and gross losses realized, respectively. For the year ended December 31, 2021, the Company received \$1,407,864 of proceeds from sales and maturities of investments in available-for-sale securities and had \$84,088 of gross gains.

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The amortized cost and fair value of other long-term investments (which consists of lottery prize cash flows) as of June 30, 2022, by contractual maturity, are summarized as follows:

	(Unaudited)	
	Amortized Cost	Fair Value
Due in one year or less	\$ 983,134	\$ 1,012,812
Due after one year through five years	1,722,650	1,908,183
Due after five years through ten years	311,969	404,086
Due after ten years	6,099	8,367
<b>Total other long-term investments</b>	<b>\$ 3,023,852</b>	<b>\$ 3,333,448</b>

Other long-term investments by geographic distribution:

	(Unaudited)		December 31,	
	June 30, 2022	%	2021	%
California	\$ 358,624	11.9%	\$ 405,727	13.6%
Florida	322,542	10.7	231,746	7.8
Georgia	311,060	10.3	269,316	9.0
Indiana	273,896	9.0	285,263	9.6
Massachusetts	666,340	22.0	712,006	23.9
New York	635,585	21.0	550,414	18.5
Ohio	123,051	4.1	141,692	4.7
Oregon	88,473	2.9	108,798	3.7
Pennsylvania	244,281	8.1	275,363	9.2
<b>Total</b>	<b>\$ 3,023,852</b>	<b>100.0%</b>	<b>\$ 2,980,325</b>	<b>100.0%</b>

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**2. Investments (continued)**

***Mortgage Loans on Real Estate***

The Company utilizes the ratio of the carrying value of individual mortgage loans compared to the individual appraisal value to evaluate the credit quality of its mortgage loans on real estate (commonly referred to as the loan-to-value ratio). Currently, all of the Company's mortgage loans are loans on residential properties. The Company's mortgage loans on real estate by credit quality using this ratio as of June 30, 2022 and December 31, 2021 are summarized as follows:

Loan-To-Value-Ratio	(Unaudited)	
	June 30, 2022	December 31, 2021
80% to 90%	\$ 542,352	\$ 573,500
70% to 80%	6,067,803	4,409,139
60% to 70%	4,874,861	5,796,932
50% to 60%	1,713,623	1,872,626
Less than 50%	608,952	496,876
Total	<u>\$ 13,807,591</u>	<u>\$ 13,149,073</u>

Mortgage loans by geographic distribution:

State	(Unaudited)		December 31,	
	June 30, 2022	%	2021	%
Alabama	\$ 562,672	4.1%	\$ 237,805	1.8%
Arkansas	210,194	1.5	210,194	1.6
California	183,552	1.3	185,403	1.4
Colorado	-	-	200,175	1.5
Connecticut	-	-	217,559	1.7
Florida	498,179	3.6	830,643	6.3
Georgia	295,400	2.1	485,060	3.7
Illinois	679,418	4.9	684,694	5.2
Indiana	341,428	2.5	245,821	1.9
Kansas	-	-	87,063	0.7
Kentucky	102,139	0.7	104,631	0.8
Louisiana	309,651	2.3	95,809	0.7
Maryland	239,297	1.7	239,298	1.8
Michigan	182,941	1.3	182,941	1.4
Missouri	2,884,335	20.9	3,307,900	25.2
North Carolina	253,725	1.9	248,889	1.9
Ohio	242,034	1.8	242,034	1.9
Pennsylvania	398,667	2.9	446,327	3.4
South Carolina	152,267	1.1	200,899	1.5
Tennessee	5,286,831	38.3	2,752,328	20.9
Texas	941,568	6.8	1,801,152	13.7
Wisconsin	43,293	0.3	142,448	1.0
Total	<u>\$ 13,807,591</u>	<u>100.0%</u>	<u>\$ 13,149,073</u>	<u>100.0%</u>



**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**2. Investments (continued)**

There were 3 mortgage loans with a principal balance of \$189,932 that were 90 days or more past due and still accruing interest as of June 30, 2022. One of those 3 mortgage loans had a principal balance of \$42,609 and was in the process of foreclosure as of June 30, 2022. The Company expects to fully recover the principal balance outstanding plus any accrued interest along with all fees and expenses. There were 3 mortgage loans with a principal balance of \$190,049 that were 90 days or more past due and still accruing interest as of December 31, 2021. The Company had a mortgage loan allowance of \$69,061 and \$65,575 as of June 30, 2022 and December 31, 2021, respectively.

	(Unaudited) June 30, 2022	December 31, 2021
Beginning of year: mortgage loan allowance balance	\$ 65,575	\$ 37,963
Current year change in provision of estimated mortgage loan losses	3,486	27,612
End of year: mortgage loan allowance balance	<u>\$ 69,061</u>	<u>\$ 65,575</u>

Major categories of net investment income for the three and six months ended June 30, 2022 and 2021 are summarized as follows:

	(Unaudited)		(Unaudited)	
	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2022	2021	2022	2021
Fixed maturity securities	\$ 77,271	\$ 96,131	\$ 163,159	\$ 211,559
Other long-term assets	53,658	67,821	120,547	122,559
Mortgage loans	289,570	151,053	576,865	302,857
Short-term and other investments	75,475	210	100,381	400
Gross investment income	495,974	315,215	960,952	637,375
Investment expenses	(51,121)	(13,439)	(152,641)	(44,631)
Net investment income	<u>\$ 444,853</u>	<u>\$ 301,776</u>	<u>\$ 808,311</u>	<u>\$ 592,744</u>

**3. Fair Value Measurements**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) on the measurement date. The Company also considers the impact on fair value of a significant decrease in volume and level of activity for an asset or liability when compared with normal activity.

The Company holds fixed maturity securities that are measured and reported at fair market value on the statement of financial position. The Company determines the fair market values of its financial instruments based on the fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value, as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities. The Company has no Level 1 assets that would include securities traded in an active exchange market.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 assets and liabilities include fixed maturity securities with quoted prices that are traded less frequently than exchange-traded instruments or assets and liabilities whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. Government and agency mortgage-backed debt securities and corporate debt securities.

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**3. Fair Value Measurements** (continued)

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. This category generally includes investments where independent pricing information was not able to be obtained for a significant portion of the underlying assets.

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the three-level fair value hierarchy. If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the valuation inputs, or their ability to be observed, may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting the levels of the fair value hierarchy are reported as transfers in and out of the specific level category as of the beginning of the period in which the reclassifications occur.

The Company's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of June 30, 2022 and December 31, 2021 are summarized as follows:

<b>June 30, 2022 (Unaudited)</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed maturity securities, available-for-sale				
Corporate bonds	\$ -	\$ 6,846,417	\$ -	\$ 6,846,417
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 6,846,417</u>	<u>\$ -</u>	<u>\$ 6,846,417</u>
<b>December 31, 2021</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed maturity securities, available-for-sale				
Corporate bonds	\$ -	\$ 9,042,091	\$ -	\$ 9,042,091
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 9,042,091</u>	<u>\$ -</u>	<u>\$ 9,042,091</u>

Fair values for Level 2 assets for the Company's fixed maturity securities available-for-sale are primarily based on prices supplied by a third-party investment service. The third-party investment service provides quoted prices which use observable inputs in developing such rates.

The Company analyzes market valuations received to verify reasonableness and to understand the key assumptions used and the sources. Since the fixed maturity securities owned by the Company do not trade on a daily basis, the third-party investment service prepares estimates of fair value measurements using relevant market data, benchmark curves, sector groupings, and matrix pricing. As the fair value estimates of the Company's fixed maturity securities are based on observable market information rather than market quotes, the estimates of fair value on these fixed maturity securities are included in Level 2 of the hierarchy. The Company's Level 2 investments include corporate bonds.

The Company's fixed maturity securities available-for-sale portfolio is highly liquid and allows for substantially all of the portfolio to be priced through pricing services.

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**3. Fair Value Measurements** (continued)

*Fair Value of Financial Instruments*

The carrying amount and fair value of the Company's financial assets and financial liabilities disclosed, but not carried, at fair value as of June 30, 2022 and December 31, 2021 and the level within the fair value hierarchy at which such assets and liabilities are measured on a recurring basis are summarized as follows:

Financial Instruments Disclosed, But Not Carried, at Fair Value:

	<b>June 30, 2022 (Unaudited)</b>				
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>					
Cash and cash equivalents	\$ 6,060,147	\$ 6,060,147	\$ 6,060,147	\$ -	\$ -
Mortgages on real estate	13,807,591	13,321,205	-	-	13,321,205
Other long-term investments	3,023,852	3,333,448	-	-	3,333,448
Accrued investment income	184,396	184,396	-	-	184,396
Advances and notes receivable	123,739	123,739	-	-	123,739
<b>Total financial assets</b>	<b>\$ 23,199,725</b>	<b>\$ 23,022,935</b>	<b>\$ 6,060,147</b>	<b>\$ -</b>	<b>\$ 16,962,788</b>
<b>Financial liabilities</b>					
Policyholders' account balances	\$ 28,832,134	\$ 19,579,382	\$ -	\$ -	\$ 19,579,382
Policy claims and other benefits	168,043	168,043	-	-	168,043
<b>Total financial liabilities</b>	<b>\$ 29,000,177</b>	<b>\$ 19,747,425</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 19,747,425</b>
<b>December 31, 2021</b>					
	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Financial assets</b>					
Cash and cash equivalents	\$ 8,224,914	\$ 8,224,914	\$ 8,224,914	\$ -	\$ -
Mortgages on real estate	13,149,073	13,496,013	-	-	13,496,013
Other long-term investments	2,980,325	3,367,307	-	-	3,367,307
Accrued investment income	190,299	190,299	-	-	190,299
Advances and notes receivable	267,301	267,301	-	-	267,301
<b>Total financial assets</b>	<b>\$ 24,811,912</b>	<b>\$ 25,545,834</b>	<b>\$ 8,224,914</b>	<b>\$ -</b>	<b>\$ 17,320,920</b>
<b>Financial liabilities</b>					
Policyholders' account balances	\$ 28,603,861	\$ 26,098,410	\$ -	\$ -	\$ 26,098,410
Policy claims and other benefits	537,214	537,214	-	-	537,214
<b>Total financial liabilities</b>	<b>\$ 29,141,075</b>	<b>\$ 26,635,624</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 26,635,624</b>

The estimated fair value amounts have been determined using available market information and appropriate valuation methodologies. However, considerable judgment was required to interpret market data to develop these estimates. Accordingly, the estimates are not necessarily indicative of the amounts which could be realized in a current market exchange. The use of different market assumptions or estimation methodologies may have a material effect on the fair value amounts.

The following methods and assumptions were used in estimating the fair value disclosures for financial instruments in the accompanying financial statements and notes thereto:

**Fixed Maturity Securities**

The fair value of fixed maturity securities is based on the principles previously discussed as Level 1, Level 2 and Level 3.

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

**3. Fair Value Measurements** (continued)

*Cash and Cash Equivalents, Accrued Investment Income and Advances and Notes Receivable*

The carrying value of these financial instruments approximates their fair values due to the expected short-term nature until the cash settlement of these items. Cash and cash equivalents are included in Level 1 of the fair value hierarchy due to their highly liquid nature. Accrued investment income and advances and notes receivable are included in Level 3 of the fair value hierarchy due to little or no availability of market activity for these types of assets.

*Mortgage loans on Real Estate*

The Company's mortgage loan portfolio is comprised of residential properties with loan to appraised value ratios at or below 90%. The fair values for mortgage loans are estimated using discounted cash flow analyses. For residential mortgage loans, the discount rate used was indexed to the LIBOR yield curve adjusted for an appropriate credit spread.

*Other Long-Term Investments*

Other long-term investments are comprised of lottery prize receivables and fair value is derived by using a discounted cash flow approach. Projected cash flows are discounted using the average FTSE Pension Liability Index in effect at the end of each period.

*Policyholders' Account Balances*

The fair value for liabilities under investment-type insurance contracts (accumulation annuities) is calculated using a discounted cash flow approach. Cash flows are projected using actuarial assumptions and discounted to the valuation date using risk-free rates adjusted for credit risk and the nonperformance risk of the liabilities.

The fair values for insurance contracts other than investment-type contracts are not required to be disclosed.

*Policy Claims and other benefits*

The carrying amounts reported for these liabilities approximate their fair value.

**4. Income Taxes**

The Company files a consolidated return with its subsidiaries TRLS and AIS. The Company's other subsidiary TRLIC files a separate federal return for life insurance companies. TRLIC is taxed as a life insurance company under the provisions of the Internal Revenue Code. Life insurance companies must file separate tax returns until they have been a member of the consolidated filing group for five years. Certain items included in income reported for financial statement purposes are not included in taxable income for the current period, resulting in deferred income taxes.

Deferred tax assets and deferred tax liabilities are recognized based on temporary differences between the financial reporting and tax basis of assets and liabilities using statutory rates. A valuation allowance is recorded against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. The Company cannot currently conclude that it is more likely than not that the remaining deferred tax assets will be utilized. Therefore, the Company's deferred tax assets have been fully offset by a valuation allowance. As a result, our effective tax rate from continuing operations was zero percent for the quarter ended June 30, 2022. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences will become deductible. For the purpose of federal income tax, the Company has net operating loss carryforwards as of June 30, 2022, which expire between 2031 and 2037. Net operating losses generated in 2018 and beyond do not expire and annual utilizations are limited to 80% of taxable income. The Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law on March 27, 2020, repeals the 80% limitation for taxable years beginning before January 1, 2021.

**Texas Republic Capital Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**June 30, 2022**  
**(Unaudited)**

#### 4. Income Taxes (continued)

The Company and its subsidiaries have no known uncertain tax benefits within its provision for income taxes. In addition, the Company does not believe it would be subject to any penalties or interest relative to any open tax years and, therefore, have not accrued any such amounts. The Company files U.S. federal income tax returns and income tax returns in various state jurisdictions. The 2018 through 2020 U.S. federal tax years are subject to income tax examination by tax authorities. The Company classifies any interest and penalties (if applicable) as income tax expense in the financial statements.

#### 5. Concentrations of Credit Risk

The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures non-interest-bearing accounts up to \$250,000. Uninsured balances aggregate \$5,069,727 as of June 30, 2022. The Company monitors the solvency of all financial institutions in which it has funds to minimize the exposure for loss. The Company has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

#### 6. Stock Incentive Plan

The Company's life subsidiary, TRLIC had an Agent Stock Incentive Plan ("ASIP"). The plan was approved in August 2018 by the Texas State Securities Board. The plan was suspended by the Company in April 2022. The plan awarded shares of Texas Republic Capital Corporation common stock to agents based on certain production levels achieved in sales of life and annuity products. Calculation of awards at December 31, 2021 are based on production for the period of January through December 2021. 12,150 shares were issued in 2022. The ASIP issued 7,150 shares in 2022 based on 2021 production. The ASIP issued 3,320 shares in 2021 based on 2020 production. In addition, the Company granted 5,000 and 19,000 total shares in 2022 and 2021, respectively, as part of employment agreements and/or bonuses to employees.

#### 7. Lease Commitment

The Company rents office space for its administrative operations under an agreement that expires in December 2022. The lease includes an option to extend or renew the lease term. The operating lease liability includes lease payments related to options to extend or renew the lease term only if the Company is reasonably certain of exercising those options. The exercise of the renewal option is at the Company's discretion; at this time there is uncertainty as to the Company exercising its renewal option, so the option is not included in the determination of the present value calculation. In determining the present value of lease payments, the Company uses its incremental borrowing rate obtained from its main commercial bank.

Future payments under operating lease arrangements accounted for under ASC Topic 842 as of June 30, 2022 are as follows:

2022	\$	48,298
Total operating lease payments, undiscounted	\$	48,298
Less: interest		(6,915)
Lease liability, at present value	\$	<u>41,383</u>

## **Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **Overview**

Texas Republic Capital Corporation (“we” “us”, “our”, “TRCC” or the “Company”) was incorporated in May 2012 as a financial services holding company. We own and operate insurance subsidiaries: a life insurance company, a life insurance agency, and a property & casualty insurance agency. We sell and issue life insurance products and annuity contracts as part of the insurance company. As an insurance provider, we collect premiums and annuity considerations in the current period to pay future benefits to our policy and contract holders. Currently, we only issue our products in the state of Texas. As a life insurance agency and a property & casualty insurance agency, we sell and place insurance products for other insurance carriers. If our life insurance company does not offer products that suit our client’s needs, then we can meet their needs through other carrier products sold by our life agency. In addition, we have ability to cross-sell all current and prospective client’s property and casualty insurance through the other agency, or the possibility of driving growth for the Company in other markets where participants are not seeking life insurance. The agencies collect commissions on the sale of those products.

We also realize revenues from our investment portfolio, which is a key component of our operations. The revenues and funds we collect as premiums and annuity considerations from policyholders are invested to ensure future benefit payments under the policy contracts. Life insurance companies earn profits on the investment spread, which reflects the investment income earned on the premiums and annuity considerations paid to the insurer between the time of receipt and the time benefits are paid out under our policies and contracts. Changes in interest rates, changes in economic conditions and volatility in the capital markets can all impact the amount of earnings that we realize from our investment portfolio.

The Company continues to incur overall losses since inception. These losses were fully expected, planned for, and fell within an expected range when considering the necessary start-up, infrastructure, distribution, and policy issuance costs of a new life insurance company. These losses have resulted from the costs incurred while raising capital and starting a new company, which involves investing in people, technology, infrastructure, marketing, brand awareness, distribution channels, regulatory and filing fees, legal costs, and other overhead expenses related to our operations. We expect to continue to incur operating losses until we achieve a volume of in-force life insurance policies that provides premiums and the associated investment income which are sufficient to cover our operating costs.

In addition, the Company is aware that the evolving COVID-19 pandemic may impact the Company’s results of operations, although the magnitude is not known at this time. The Company has not yet experienced any uptick in claim experience or significant adverse conditions to operations due to COVID-19.

### **Critical Accounting Policies and Significant Judgments and Estimates**

Our management’s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements that have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. On a continuing basis, we evaluate our estimates and assumptions.

We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances. The results of these estimates form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following accounting policies, judgments and estimates are the most critical to the preparation of our consolidated financial statements.

#### ***Investments***

Fixed maturity securities are comprised of bonds that are classified as available-for-sale and are carried at fair value with unrealized gains and losses, net of applicable income taxes, reported in accumulated other comprehensive income (loss). The amortized cost of fixed maturity securities available-for-sale is generally adjusted for amortization of premium and accretion of discount.

Interest income, as well as the related amortization of premium and accretion of discount, is included in net investment income under the effective yield method. The amortized cost of fixed maturity securities available-for-sale is written down to fair value when a decline in value is considered to be other-than-temporary.

The Company evaluates the difference between the cost or amortized cost and estimated fair value of its investments to determine whether any decline in value is other-than-temporary in nature. This determination involves a degree of uncertainty. If a decline in the fair value of a security is determined to be temporary, the decline is recorded as an unrealized loss in shareholders’ equity.

## [Table of Contents](#)

If a decline in a security's fair value is considered to be other-than-temporary, the Company then determines the proper treatment for the other-than-temporary impairment. For fixed maturity securities available-for-sale, the amount of any other-than-temporary impairment related to a credit loss is recognized in earnings and reflected as a reduction in the cost basis of the security; and the amount of any other-than-temporary impairment related to other factors is recognized in other comprehensive income (loss) with no change to the cost basis of the security.

The assessment of whether a decline in fair value is considered temporary or other-than-temporary includes management's judgment as to the financial position and future prospects of the entity issuing the security. It is not possible to accurately predict when it may be determined that a specific security will become impaired. Future adverse changes in market conditions, poor operating results of underlying investments and defaults on mortgage loan payments could result in losses or an inability to recover the current carrying value of the investments, thereby possibly requiring an impairment charge in the future.

Likewise, if a change occurs in the Company's intent to sell temporarily impaired securities prior to maturity or recovery in value, or if it becomes more likely than not that the Company will be required to sell such securities prior to recovery in value or maturity, a future impairment charge could result. If an other-than-temporary impairment related to a credit loss occurs with respect to a bond, the Company amortizes the reduced book value back to the security's expected recovery value over the remaining term of the bond. The Company continues to review the security for further impairment that would prompt another write-down in the value.

Purchases and sales of securities are recorded on a trade-date basis. Interest earned on investments is recorded on the accrual basis and is included in net investment income.

The Company's mortgage loan portfolio is comprised entirely of residential properties with loan to appraised value ratios below 90%. Mortgage loans are carried at amortized book value. A mortgage loan allowance has been established for any unforeseen losses using an industry approach. While we utilize our best judgment and information available, the ultimate adequacy of this allowance is dependent upon a variety of factors beyond our control, including the performance of the residential mortgage loan portfolio, the economy and changes in interest rates. Our allowance for possible mortgage loan losses consists of specific valuation allowances established for probable losses on specific loans and a portfolio reserve for probable incurred losses but not for specifically identified loans. The fair values for mortgage loans are estimated using discounted cash flow analysis. The discount rate used to calculate fair values was indexed to the LIBOR yield curve adjusted for an appropriate credit spread.

We consider mortgage loans on real estate impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the mortgage loan agreement. Impairment is measured on a loan-by-loan basis. Factors that we consider in determining impairment include payment status, collateral value of the real estate subject to the mortgage loan and the probability of collecting scheduled principal and interest payments when due. Mortgage loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

The Company's other long-term investments are comprised of lottery prize cash flows holdings held at amortized cost. These investments are categorized as other long-term investments in the statement of financial position and are assignments of the future rights from lottery winners purchased at a discounted price. Payments on these investments are made by state run lotteries.

### ***Cash and Cash Equivalents***

Cash and cash equivalents include cash on hand and money market instruments.

### ***Deferred Policy Acquisition Costs***

Costs that relate to and vary with the successful production of new business are deferred over life of the policy. Deferred acquisition costs (DAC) consist of commissions and policy issuance, underwriting and agency expenses. DAC expenses are amortized primarily over the premium-paying period of life policies and as profits emerge on the annuity products, using the same assumptions as were used in computing liabilities for future policy benefits.

### ***Deferred Sales Inducement Costs***

Sales inducement costs (SIC) are related to policy bonuses issued on some of the Company's annuity products. SIC is deferred at the issuance of the policy and amortized over the bonus period on a straight-line basis. The amount deferred is based on the difference between the fund value with the bonus and the fund value without the bonus.

**Policyholders' Account Balances**

The Company's liability for policyholders' account balances represents the contract value that has accrued to the benefit of the policyholder as of the financial statement date. This liability is generally equal to the accumulated account deposits plus applicable bonus and interest credited less policyholders' withdrawals and other charges assessed against the account balance. Interest crediting rates for individual annuities range from 1.55% to 5.125%.

**Future Policy Benefits**

Future policy benefit reserves have been computed by the net level premium method with assumptions as to investment yields, mortality and withdrawals based upon the Company's experience. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of policy liabilities and the increase in future policy benefit reserves. Management's judgments and estimates for future policy benefit reserves provide for possible unfavorable deviation. Actual experience may emerge differently from that originally estimated. Any such difference would be recognized in the current year's consolidated statement of operations.

**Recently Adopted and Issued Accounting Pronouncements**

Please refer to the applicable paragraphs in Note 1 of the Notes to Consolidated Financial Statements.

**Income Taxes**

We evaluate our deferred income tax assets, which partially offset our deferred tax liabilities, for any necessary valuation allowances. In doing so, we consider our ability and potential for recovering income taxes associated with such assets, which involve significant judgment. Revisions to the assumptions associated with any necessary valuation allowances would be recognized in the financial statements in the period in which such revisions are made.

**Results of Operations – Three and Six Months Ended June 30, 2022 and 2021****Revenues**

Revenues are primarily from life insurance premium income and investment income. Realized gains and losses on investment holdings can significantly impact revenues from period to period.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2022</b>	<b>2021</b>	<b>2022</b>	<b>2021</b>
<b>Revenues</b>				
Premiums and other considerations	\$ 507,849	\$ 161,105	\$ 937,529	\$ 330,721
Net investment income	444,853	301,776	808,311	592,744
Net realized gains (losses) on investments	(669)	7,554	17,635	6,679
Commission income	38,703	55,956	66,969	65,207
<b>Total revenues</b>	<b>\$ 990,736</b>	<b>\$ 526,391</b>	<b>\$ 1,830,444</b>	<b>\$ 995,351</b>

Total revenues increased by \$464,345 and \$835,093 for the three and six months ended June 30, 2022 compared to the three and six months ended June 30, 2021. These increases were primarily a result of increased new policy sales and additional investment income earned through further investments in fixed maturity securities, mortgage loans, and other long-term investments. In addition, we had increased net realized investment gains in 2022 compared to 2021. Also, there was a marginal increase in commission income compared to the prior year. The Company also accepted annuity considerations during 2022 and 2021. Annuity considerations contribute to additional net investment income through increased investments but are not classified as premiums and other considerations under total revenues for GAAP reporting.



## Expenses

Our expenses relate to operating a financial services holding company, a life insurance company, and two insurance agencies.

Expenses were \$1,365,938 and \$2,842,507 for the three and six months ended June 30, 2022, increases of \$365,223 and \$714,043 from \$1,000,715 and \$2,128,464 for the three and six months ended June 30, 2021, respectively. Significant expense categories are discussed below.

**Total Benefits and Claims** – Increases to policyholder liabilities increased benefits and claims expense by \$141,686 and \$316,352 for the three and six months ended June 30, 2022 compared to the same period in the prior year. Expenses were \$472,155 and \$1,028,568 for the three and six months ended June 30, 2022 and \$330,469 and \$712,216 for the three and six months ended June 30, 2021, respectively. The increases were primarily due to increases in future policy benefits and benefit payments. Those two increases are to be expected based on new sales production, increased insurance volume, number of insureds covered, and the passage of time since policy issuance. This coincides with the decrease in interest credited to policyholders as the Company looks to sell more life products and less annuity policies. Also, benefit payments can significantly impact expenses from period to period. There were increases in benefit payments of \$166,416 and \$256,951 for the three and six months ended June 30, 2022 compared to the same periods in the prior year.

**Commissions** – Commission expenses were \$480,080 and \$774,601 for the three and six months ended June 30, 2022 compared to \$150,185 and \$323,329 for the three and six months ended June 30, 2021, respectively. These increases are consistent with the amounts of new business issued and renewal commissions paid on previously issued business, net of any applicable commission recaptured. The commission in the first year of policy issuance is typically significantly greater than the subsequent years.

**Salaries and Employee Benefits** – Salary and employee benefits expense increased \$74,108 and \$116,181 for the three and six months ended June 30, 2022 compared to the same periods in the prior year. These increases are primarily related to the increased costs associated with new employee hires, wage increases, and increasing benefits costs consistent with the price increases seen due to inflation pressures over the last year. The Company hired five new employees in 2022. Alternatively, the Company continues to use more external consultants as opposed to hiring new employees for certain tasks and roles. This decision allows us to save on benefit costs, payroll taxes, other employee overhead expenses, and allows us to pay for their time as needed. This decision has helped to reduce the overall increases in salaries and employee benefits.

**Other Expenses** – Third-party administration fees increased \$39,597 for the six months ended June 30, 2022 compared to the same period in the prior year. That increase was due to new sales production and the continued growth of our book of business. Professional fees continue to be one of the larger contributing expenses to the overall total expenses. The professional fees continue to increase due to additional public accounting firm fees, consulting actuarial fees, and the external consultants mentioned above in the salaries and employee benefits section. Professional fees increased \$52,877 for the six months ended June 30, 2022 compared to the same period in the prior year.

## Net Loss

The net loss was \$1,012,063, or \$(0.07) per share, for the six months ended June 30, 2022 compared to a net loss of \$1,133,113 or \$(0.08) per share, for the six months ended June 30, 2021. For the three months ending June 30, the net loss was \$375,202 or \$(0.03) per share in 2022 and \$474,324 or \$(0.03) per share in 2021. The improvement of the net loss for the three- and six- months ending June 30, 2022, was primarily attributable to the increases in revenues and expenses described above.

The weighted average common shares outstanding and subscribed were 14,822,135 and 14,779,039 for the six months ended June 30, 2022 and 2021, respectively. The weighted average common shares outstanding and subscribed were 14,839,075 and 14,779,352 for the three months ended June 30, 2022 and 2021, respectively.

## Financial Position – As of June 30, 2022 and December 31, 2021

Total assets of the Company decreased from \$37,381,933 as of December 31, 2021 to \$36,694,990 as of June 30, 2022, a decrease of \$686,943. Assets that increased or decreased materially in 2022 were fixed maturity securities, mortgage loans, cash and cash equivalents, deferred policy acquisition costs, and other assets. The Company received proceeds from payments or sales of invested assets along with premium receipts from policies and continues to use a majority of those funds to invest in new mortgage loans to increase the overall investment yield of the portfolio and to increase net investment income. In addition, deferred policy acquisition costs increased as the Company continues to successfully sell more new business. Other assets increased due to the timing of cash collections for transactions completed at the end of the quarter. The cash was subsequently received in the following month after the quarter end. Overall assets decreased though primarily due to the change in net unrealized losses in the fixed maturity securities as interest rates have increased in the market as a result of inflation and other economic factors.

## [Table of Contents](#)

Total investments decreased by \$1,493,629, or 5.9%. This decrease was due to sells, payoffs, and maturities in the investment portfolio as well as the above mentioned reduction in fixed maturity securities. The Company continues to reinvest and deploy more of our cash into higher yielding invested assets as we try to maximize our net investment income to boost total revenues. All non-operating cash is held in interest bearing cash equivalent accounts.

The Company sold fixed maturity securities at net realized gains and received proceeds from prepayments, maturities, and sinking fund payments from fixed maturity securities and other long-term investments to allocate more funds into mortgage loan investments at higher investment yields. Mortgage loans increased by \$658,518 from the prior year ended December 31, 2021. This reallocation of the investment portfolio should provide meaningful increases to net investment income over the upcoming years. Similarly, new cash receipts from annuity considerations and premiums plan to be allocated in a similar manner to maximize total revenues. We continue to invest our excess cash in higher yielding investments as suitable options become available.

Policyholder liabilities include benefit reserves for both life and annuity policies, claim reserves, deposit funds and advance premiums. Policyholder liabilities increased by \$381,652 at June 30, 2022 compared to December 31, 2021. That increase is primarily related to new sales production, increased insurance volume, number of insureds covered, and the passage of time since policy issuance.

Total shareholders' equity of the Company decreased from \$6,611,969 as of December 31, 2021 to \$5,483,283 as of June 30, 2022, a decrease of \$1,128,686. The decrease is mainly due to a negative change of \$1,104,013 in unrealized losses in the investment portfolio at June 30, 2022 compared to December 31, 2021 because of interest rate increases in the market and the net loss for the six months ended June 30, 2022. The Company began a rights offering during the second quarter of 2022 and received \$975,240 in proceeds from the issuance of common stock during that period. Those proceeds plus the \$12,150 of its treasury shares issued in 2022 increased total shareholders' equity and helped offset the decreases mentioned above.

### **Liquidity and Capital Resources**

Since inception, our operations have been financed primarily through an organizational offering, three private placement offerings, an intrastate public stock offering, and a rights offering to existing shareholders only. Through June 30, 2022, we received \$21,322,225 from the sale of 15,029,637 shares and incurred offering costs of \$2,659,696. Since inception through December 31, 2018, the Company purchased 3,000 shares of the Company's common stock for \$15,000 held as treasury stock. Additionally, TRLIC has purchased another 111,000 shares of TRCC common stock at a cost of \$118,210 since 2018. The shares were purchased to compensate agents under TRLIC's Agent Stock Incentive Plan ("ASIP"). The Company has issued 16,080 treasury shares under the ASIP since inception of the plan and another 44,000 treasury shares as part of employment agreements and/or bonuses to employees. The remaining 50,920 shares held by TRLIC and the 3,000 shares held by TRCC total 53,920 shares. These shares are held as treasury shares in the consolidated financial statements.

We had cash and cash equivalents totaling \$6,060,147 as of June 30, 2022. The Company maintains cash and cash equivalents at multiple institutions. The Federal Deposit Insurance Corporation insures interest and non-interest-bearing accounts up to \$250,000. Uninsured balances aggregate \$5,069,727 as of June 30, 2022. Other funds are invested in mutual funds that invest in U.S. government securities. We monitor the solvency of all financial institutions in which we have funds to minimize the exposure for loss. The Company has not experienced any losses in such accounts.

Capital provided from the previous offerings and current offering will provide a considerable amount of operating funds for current and future operations of TRCC. The operations of TRLIC should provide ample cash flows from premium income and investment income to meet operating requirements once a sufficient book of business has been established, or new policy sales are turned off, whichever happens first. Life insurance contract liabilities are generally long term in nature and are generally paid from future cash flows. The operations of TRLS and AIS should provide sufficient cash flows from commission income to meet their operating requirements. TRLS and AIS are also less capital intensive than TRLIC since it does not retain any of the policy risks or capital requirements.

We believe that our existing cash and cash equivalents will be sufficient to fund our anticipated operating expenses and capital expenditures for at least the next 12 months. We have based this estimate upon assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. We are not aware of any commitments or unusual events that could materially affect our capital resources. We are not aware of any current recommendations by any regulatory authority which, if implemented, would have a material adverse effect on our liquidity, capital resources or operations.

### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

## **SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

Certain statements contained herein are forward-looking statements. The forward-looking statements are made pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, and include estimates and assumptions related to economic, competitive and legislative developments. Forward-looking statements may be identified by words such as “expects,” “intends,” “anticipates,” “plans,” “believes,” “estimates,” “will” or words of similar meaning; and include, but are not limited to, statements regarding the outlook of our business and financial performance. These forward-looking statements are subject to change and uncertainty, which are, in many instances, beyond our control and have been made based upon our expectations and beliefs concerning future developments and their potential effect upon us.

There can be no assurance that future developments will be in accordance with our expectations, or that the effect of future developments on us will be as anticipated. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties. There are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements.

These factors include among others:

- general economic conditions and financial factors, including the performance and fluctuations of fixed income, equity, real estate, credit capital and other financial markets;
- differences between actual experience regarding mortality, morbidity, persistency, surrenders, investment returns, and our pricing assumptions establishing liabilities and reserves or for other purposes;
- the effect of increased claims activity from natural or man-made catastrophes, pandemic disease, or other events resulting in catastrophic loss of life;
- inherent uncertainties in the determination of investment allowances and impairments and in the determination of the valuation allowance on the deferred income tax asset;
- investment losses and defaults;
- competition in our product lines;
- attraction and retention of qualified employees and agents;
- ineffectiveness of risk management policies and procedures in identifying, monitoring and managing risks;
- the availability, affordability and adequacy of reinsurance protection;
- the effects of emerging claim and coverage issues;
- the cyclical nature of the insurance business;
- interest rate fluctuations;
- changes in our experiences related to deferred policy acquisition costs;
- the ability and willingness of counterparties to our reinsurance arrangements and derivative instruments to pay balances due to us;
- rating agencies’ actions;
- domestic or international military actions;
- the effects of extensive government regulation of the insurance industry;
- changes in tax and securities law;
- changes in statutory or U.S. generally accepted accounting principles (“GAAP”), practices or policies;
- regulatory or legislative changes or developments;
- the effects of unanticipated events on our disaster recovery and business continuity planning;
- failures or limitations of our computer, data security and administration systems;
- risks of employee error or misconduct;
- the introduction of alternative healthcare solutions;
- the assimilation of life insurance businesses we acquire and the sound management of these businesses;
- the availability of capital to expand our business; and
- Coronavirus Disease impact on the economic environment.

It is not our corporate policy to make specific projections relating to future earnings, and we do not endorse any projections regarding future performance made by others. In addition, we do not publicly update or revise forward-looking statements based on the outcome of various foreseeable or unforeseeable developments.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer (“Certifying Officers”), has evaluated the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934 as amended (“Exchange Act”) as of the end of the fiscal period covered by this Quarterly Report on Form 10-Q. Based upon such evaluation, the Certifying Officers have concluded that the Company’s disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is made known to management, including our Certifying Officers, as appropriate, to allow timely decisions regarding disclosure and that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

In designing and evaluating our disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operating, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

**Changes to Internal Control over Financial Reporting**

There were no changes in the Company’s internal control over financial reporting during the second quarter ended June 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II - OTHER INFORMATION

### Item 1. Legal Proceedings.

None

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The Company sold 4,375,000 common shares at \$.02 per share to its organizing shareholders in May of 2012 for total proceeds of \$87,500. Subsequently, the Company completed three private placement stock offerings which raised \$10,249,000 through the issuance of 8,490,000 shares from the private placement offerings in 2012 and 2013, including a private placement of 2,000,000 shares for \$5,000,000 between February and November 2013. The Company incurred \$1,215,569 in offering costs to issue these shares. On May 31, 2022, the Company began a rights offering to existing shareholders only. As of June 30, 2022, the Company has raised \$975,240 through the subscription of 162,540 shares of its common stock. The offering is currently ongoing and is set to end after the Company raises \$3,000,000 in total capital proceeds, or one year has surpassed since the beginning of the offering, whichever occurs first. These shares were sold in reliance on the exemption from the registration requirements of the Securities Act of 1933 (the "1933 Act") contained in Securities and Exchange Commission ("SEC") Regulation D, Rule 506. No underwriter was involved in connection with the issuance of these shares, and we paid no finder's fees in the private placements.

On April 2, 2014, the Company commenced an offering of 5,000,000 shares of common stock at \$5.00 per share (\$25,000,000 maximum) with a 10% over sale provision, in an intrastate public offering registered with the Texas State Securities Board. This offering ended on April 2, 2017 and was sold only to Texas residents pursuant to an exemption from the 1933 Act contained in Section 3(a)(11) of the 1933 Act and Rule 147 promulgated by the SEC. It was sold by issuer agents registered with the Texas State Securities Board. The Company raised \$10,010,485 and incurred offering costs of \$1,444,127 from the sale of 2,002,097 shares in this offering. Proceeds have been used for working capital and the capitalization of a life insurance company and insurance agencies. Through June 30, 2022 the Company paid \$133,210 for 114,000 shares of the Company's common stock (treasury stock). Subsequently, 16,080 shares have been redistributed to agents under the ASIP and 44,000 shares were issued as part of employment agreements and/or bonuses to employees.

### Item 3. Defaults Upon Senior Securities.

None

### Item 4. Mine Safety Disclosures

None

### Item 5. Other Information

None

### Item 6. Exhibits

31.1	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Principal Executive Officer</a>
31.2	<a href="#">Rule 13a-14(a)/15d-14(a) Certification of Principal Financial Officer</a>
32.1	<a href="#">Section 1350 Certification of Principal Executive Officer</a>
32.2	<a href="#">Section 1350 Certification of Principal Financial Officer</a>

101.INS**	Inline XBRL Instance
101.SCH**	Inline XBRL Taxonomy Extension Schema
101.CAL**	Inline XBRL Taxonomy Extension Calculation
101.DEF**	Inline XBRL Taxonomy Extension Definition
101.LAB**	Inline XBRL Taxonomy Extension Labels
101.PRE**	Inline XBRL Taxonomy Extension Presentation
104.FIL**	Inline XBRL Cover Page Interactive Data File
**XBRL	Information is furnished and not filed as part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

**SIGNATURES**

In accordance with requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**TEXAS REPUBLIC CAPITAL CORPORATION**

a Texas corporation

August 11, 2022

By: /s/ Timothy R. Miller  
Timothy R. Miller, President and Chief Executive Officer

August 11, 2022

By: /s/ Shane S. Mitchell  
Shane S. Mitchell, Chief Financial Officer

CERTIFICATION

I, Timothy R. Miller, Chief Executive Officer, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Texas Republic Capital Corporation;
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 officer(s) 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)) for the registrant, 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 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 officer 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: August 11, 2022

By: /s/ Timothy R. Miller

Timothy R. Miller, President and Chief Executive Officer

CERTIFICATION

I, Shane S. Mitchell, Chief Financial Officer, certify that:

1. I have reviewed this Quarterly report on Form 10-Q of Texas Republic Capital Corporation;
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 officer(s) 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)) for the registrant, 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 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 officer 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: August 11, 2022

By: /s/ Shane S. Mitchell

Shane S. Mitchell, Chief Financial Officer



**EXHIBIT NO. 32.1**

**Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. ss. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Texas Republic Capital Corporation, a Texas Corporation (the "Company"), hereby certifies that:

To my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2022

By: /s/ Timothy R. Miller

Timothy R. Miller, President and Chief Executive Officer

**EXHIBIT NO. 32.2**

**Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

Pursuant to 18 U.S.C. ss. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Texas Republic Capital Corporation, a Texas Corporation (the "Company"), hereby certifies that:

To my knowledge, the Quarterly Report on Form 10-Q of the Company for the quarter ended June 30, 2022 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 11, 2022

By: /s/ Shane S. Mitchell

Shane S. Mitchell, Chief Financial Officer