
**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 **September 30, 2020**

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 provided 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 November 13, 2020: 14,768,707 shares

TEXAS REPUBLIC CAPITAL CORPORATION
QUARTERLY REPORT ON FORM 10-Q
FOR QUARTERLY PERIOD ENDED SEPTEMBER 30, 2020

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION	<u>Page Number</u>
<u>Item 1. Consolidated Financial Statements</u>	
<u>Consolidated Statements of Financial Position as of September 30, 2020 (Unaudited) and December 31, 2019</u>	3
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity for the Three and Nine Months Ended September 30, 2020 and 2019 (Unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2020 and 2019 (Unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 4. Controls and Procedures</u>	28
Part II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	29
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
<u>Item 3. Defaults upon Senior Securities</u>	29
<u>Item 4. Mine Safety Disclosures</u>	29
<u>Item 5. Other Information</u>	29
<u>Item 6. Exhibits</u>	29
<u>Signatures</u>	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	

PART I – FINANCIAL INFORMATION**Item 1. Consolidated Financial Statements****Texas Republic Capital Corporation and Subsidiaries
Consolidated Statements of Financial Position**

	<u>September 30, 2020</u>	<u>December 31, 2019</u>
	<u>(Unaudited)</u>	
Assets		
Available-for-sale fixed maturity securities at fair value (Amortized cost: \$10,059,278 and \$7,673,671 as of September 30, 2020 and December 31, 2019, respectively)	\$ 10,853,967	\$ 8,089,460
Mortgage loans	6,053,232	2,908,541
Other long-term investments	3,405,801	1,966,347
Total investments	20,313,000	12,964,348
Cash and cash equivalents	12,923,782	15,208,477
Accrued investment income	177,663	111,889
Due premium	14,590	5,075
Deferred policy acquisition costs	917,706	668,454
Deferred sales inducement costs	980,418	770,177
Advances and notes receivable	139,337	134,560
Leased property - right to use	186,224	248,298
Federal and state income taxes recoverable	202,807	71,839
Security deposit	7,109	7,109
Prepaid and other assets	275,708	68,500
Furniture and equipment, net	28,654	26,840
Total assets	<u>\$ 36,166,998</u>	<u>\$ 30,285,566</u>
Liabilities and Shareholders' Equity		
Policy liabilities		
Policyholders' account balances	\$ 25,867,224	\$ 18,440,872
Future policy benefits	606,962	516,870
Policy claims and other benefits	62,114	59,693
Liability for deposit-type contracts	11,052	14,870
Other policyholder liabilities	9,115	160,000
Total policy liabilities	26,556,467	19,192,305
Lease liability	186,224	248,298
Deferred taxes	166,885	87,104
Other liabilities	38,535	85,044
Total liabilities	<u>26,948,111</u>	<u>19,612,751</u>
Shareholders' equity		
Common stock, par value \$.01 per share, 25,000,000 shares authorized, 14,867,097 issued as of September 30, 2020 and December 31, 2019, 14,768,707 and 14,764,587 outstanding as of September 30, 2020 and December 31, 2019, respectively	148,671	148,671
Additional paid-in capital	17,538,618	17,538,618
Treasury stock, at cost (98,390 and 102,510 shares as of September 30, 2020 and December 31, 2019, respectively)	(96,600)	(104,485)
Accumulated other comprehensive income	627,804	327,676
Accumulated deficit	(8,999,606)	(7,237,665)
Total shareholders' equity	<u>9,218,887</u>	<u>10,672,815</u>
Total liabilities and shareholders' equity	<u>\$ 36,166,998</u>	<u>\$ 30,285,566</u>

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenues				
Premiums and other considerations	\$ 89,337	\$ 52,080	\$ 354,252	\$ 303,002
Net investment income	304,470	202,907	638,976	513,125
Commission income	17,556	31,694	229,061	114,550
Total revenues	411,363	286,681	1,222,289	930,677
Benefits, claims and expenses				
Increase in future policy benefits	27,547	16,718	90,099	141,496
Death and other benefits	(3,171)	9,591	2,421	17,777
Interest credited to policyholders	304,695	81,484	788,995	173,017
Total benefits and claims	329,071	107,793	881,515	332,290
Policy acquisition costs deferred	(80,401)	(115,949)	(295,765)	(305,757)
Policy acquisition costs amortized	(2,346)	15,614	47,522	54,130
Commissions	97,815	144,243	369,241	352,782
Salaries and wages	339,693	324,869	1,042,799	937,400
Employee benefits	43,034	28,904	126,668	77,430
Taxes, licenses, and fees	15,202	17,155	68,281	78,463
Office rent	23,438	22,479	62,138	69,274
Director fees	3,500	4,500	11,500	28,250
Third-party administration fees	70,506	36,522	244,080	131,636
Service and transfer agent fees	9,263	13,398	24,967	34,412
Travel, meals, and entertainment	17,316	10,102	32,971	58,223
Professional fees	43,656	85,863	146,005	197,851
Furniture, equipment, and software	14,542	12,014	58,861	34,362
Bad debt expense	27,697	-	86,697	-
Office and other expenses	5,129	56,728	76,750	124,080
Total benefits, claims and expenses	957,115	764,235	2,984,230	2,204,826
Net loss	\$ (545,752)	\$ (477,554)	\$ (1,761,941)	\$ (1,274,149)
Net loss per common share outstanding	\$ (0.04)	\$ (0.03)	\$ (0.12)	\$ (0.09)

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net loss	\$ (545,752)	\$ (477,554)	\$ (1,761,941)	\$ (1,274,149)
Other comprehensive income				
Total net unrealized gains arising during the period	156,347	133,298	378,900	653,916
Adjustment to deferred acquisition costs	-	(490)	1,009	(1,571)
Deferred taxes	(32,833)	(14,233)	(79,781)	(49,081)
Total other comprehensive income	123,514	118,575	300,128	603,264
Total comprehensive loss	<u>\$ (422,238)</u>	<u>\$ (358,979)</u>	<u>\$ (1,461,813)</u>	<u>\$ (670,885)</u>

See notes to consolidated financial statements (unaudited).

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

Nine Months Ended September 30, 2020 and 2019
(Unaudited)

	Common Stock \$.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
Balance as of January 1, 2019	\$ 148,671	\$ 17,538,618	\$ (50,000)	\$ (162,781)	\$ (5,445,635)	\$ 12,028,873
Purchase of treasury stock	-	-	(59,900)	-	-	(59,900)
Treasury shares issued	-	-	28,725	-	-	28,725
Other comprehensive income	-	-	-	603,264	-	603,264
Net loss	-	-	-	-	(1,274,149)	(1,274,149)
Balance as of September 30, 2019	<u>\$ 148,671</u>	<u>\$ 17,538,618</u>	<u>\$ (81,175)</u>	<u>\$ 440,483</u>	<u>\$ (6,719,784)</u>	<u>\$ 11,326,813</u>
Balance as of January 1, 2020	\$ 148,671	\$ 17,538,618	\$ (104,485)	\$ 327,676	\$ (7,237,665)	\$ 10,672,815
Treasury shares issued	-	-	7,885	-	-	7,885
Other comprehensive income	-	-	-	300,128	-	300,128
Net loss	-	-	-	-	(1,761,941)	(1,761,941)
Balance as of September 30, 2020	<u>\$ 148,671</u>	<u>\$ 17,538,618</u>	<u>\$ (96,600)</u>	<u>\$ 627,804</u>	<u>\$ (8,999,606)</u>	<u>\$ 9,218,887</u>

Three Months Ended September 30, 2020 and 2019
(Unaudited)

	Common Stock \$.01 Par Value	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Shareholders' Equity
Balance as of July 1, 2019	\$ 148,671	\$ 17,538,618	\$ (81,175)	\$ 321,908	\$ (6,242,230)	\$ 11,685,792
Other comprehensive income	-	-	-	118,575	-	118,575
Net loss	-	-	-	-	(477,554)	(477,554)
Balance as of September 30, 2019	<u>\$ 148,671</u>	<u>\$ 17,538,618</u>	<u>\$ (81,175)</u>	<u>\$ 440,483</u>	<u>\$ (6,719,784)</u>	<u>\$ 11,326,813</u>
Balance as of July 1, 2020	\$ 148,671	\$ 17,538,618	\$ (96,600)	\$ 504,290	\$ (8,453,854)	\$ 9,641,125
Other comprehensive income	-	-	-	123,514	-	123,514
Net loss	-	-	-	-	(545,752)	(545,752)
Balance as of September 30, 2020	<u>\$ 148,671</u>	<u>\$ 17,538,618</u>	<u>\$ (96,600)</u>	<u>\$ 627,804</u>	<u>\$ (8,999,606)</u>	<u>\$ 9,218,887</u>

See notes to consolidated financial statements (unaudited).

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

	Nine Months Ended	
	September 30,	
	2020	2019
Operating activities		
Net loss	\$ (1,761,941)	\$ (1,274,149)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of premium and accretion of discount	(162,538)	(82,806)
Provision for depreciation	11,267	9,253
Policy acquisition costs deferred	(295,765)	(305,757)
Policy acquisition costs amortized	47,522	54,130
Mortgage loan origination fees deferred	(76,979)	-
Amortization of mortgage loan origination fees	17,220	946
Mortgage loan allowance	29,828	-
Interest credited to policyholders	788,995	173,017
Bad debt expense	86,697	-
Non-cash salary expense	7,885	28,725
Change in assets and liabilities:		
Accrued investment income	(65,774)	(27,710)
Due premium	(9,515)	(3,366)
Advances and notes receivable	(91,474)	(88,627)
Federal and state income taxes recoverable	(130,968)	-
Prepaid and other assets	(207,208)	(51,353)
Future policy benefits	90,092	141,847
Policy claims	2,421	17,777
Other policy liabilities	(150,885)	238,145
Other liabilities	(46,509)	(72,127)
Net cash used in operating activities	(1,917,629)	(1,242,055)
Investing activities		
Purchase of furniture and equipment	(13,082)	(5,033)
Purchase of fixed maturity securities	(2,702,976)	(1,377,331)
Sales of fixed maturity securities	311,511	97,225
Purchase of mortgage loans	(3,997,091)	(1,065,934)
Payments on mortgage loans	895,295	37,954
Purchase of other long-term investments	(1,892,482)	(1,715,610)
Payments on other long-term investments	608,461	172,380
Net cash used in investing activities	(6,790,364)	(3,856,349)
Financing activities		
Purchase of treasury stock	-	(59,900)
Policyholder deposits	6,626,483	10,126,300
Policyholder withdrawals	(198,691)	(146,941)
Deposit-type contracts - deposits	631	-
Deposit-type contracts - withdrawals	(5,125)	(5,125)
Net cash provided by financing activities	6,423,298	9,914,334
Increase (decrease) in cash and cash equivalents	(2,284,695)	4,815,930
Cash and cash equivalents, beginning of period	15,208,477	6,511,652
Cash and cash equivalents, end of period	\$ 12,923,782	\$ 11,327,582
Supplemental disclosure of non-cash financing activities		
Treasury stock issued as compensation	\$ 7,885	\$ 28,725

See notes to consolidated financial statements (unaudited).

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(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”) and Texas Republic Life Solutions, Inc. (“TRLS”). 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. During 2018 the Company made capital contributions of \$2,000,000 and \$750,000 to TRLIC. During the second quarter of 2019 the Company made an additional capital contribution to TRLIC of mortgage loans valued at \$857,133. During the third quarter of 2019 the Company made an additional capital contribution of \$1,300,000 in cash to TRLIC bringing the total capitalization of TRLIC to \$7,907,133. TRLS, an insurance agency, was incorporated February 1, 2017. The Company capitalized TRLS with \$50,000 and owns 100% of TRLS. During 2018 the Company made an additional capital contribution of \$100,000 bringing the total capitalization of TRLS to \$150,000.

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 was ended on April 2, 2017. This offering raised \$10,010,485 and incurred \$1,444,127 of offering costs through the sale of 2,002,097 shares of the common stock.

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 nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ended December 31, 2020 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, 2019.

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.

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.

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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. 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 will continue 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 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 possible loan losses using an industry approach.

The Company's other long-term investments are comprised of lottery prize cash flows holdings held at amortized cost. They 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.

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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 \$295,765 of DAC deferred for the nine months ended September 30, 2020 and \$47,522 of DAC amortized for the nine months ended September 30, 2020. For the three months ended September 30, 2020 there was \$80,401 of DAC deferred and (\$2,346) of DAC amortized. There was \$305,757 of DAC deferred for the nine months ended September 30, 2019 and \$54,130 of DAC amortized for the nine months ended September 30, 2019. For the three months ended September 30, 2019 there was \$115,949 of DAC deferred and \$15,614 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 \$361,053 of SIC deferred for the nine months ended September 30, 2020 and \$150,812 of SIC amortized for the nine months ended September 30, 2020. For the three months ended September 30, 2020 there was \$65,464 of SIC deferred and \$32,466 of SIC amortized. There was \$508,161 of SIC deferred for the nine months ended September 30, 2019 and \$22,810 of SIC amortized for the nine months ended September 30, 2019. For the three months ended September 30, 2019 there was \$230,004 of SIC deferred and \$8,341 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 has set up an allowance for uncollectable amounts as of September 30, 2020. The allowance of \$86,697 is based on specific amounts due and will be reviewed quarterly. Uncollectible amounts are applied to the allowance as they are deemed to be uncollectable.

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 has a 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 our 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 \$186,224 as of September 30, 2020 compared to \$248,298 as of December 31, 2019.

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 the estimated useful life of the respective assets of three to seven years.

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 2.20% to 5.00%.

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

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.

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

Net loss per common share is calculated using the weighted average number of common shares outstanding during the year. The weighted average common shares outstanding were 14,767,105 and 14,814,895 for the nine months ended September 30, 2020 and 2019, respectively. The weighted average common shares outstanding were 14,768,707 and 14,801,587 for the three months ended September 30, 2020 and 2019, respectively.

Related Party Transactions

The Company entered into an agreement with First Trinity Financial Corporation ("FTFC") where FTFC will use its resources to source mortgages 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 mortgages and lottery bonds that were purchased by the Company in 2020 and 2019 were obtained through this agreement. The Chairman of the Company is also the Chairman, President and Chief Executive Officer of FTFC.

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.

Recent Accounting Pronouncements

In February 2016, the FASB issued *ASU 2016-02, "Leases"* ("ASU 2016-02"). ASU 2016-02 requires all lessees to recognize a lease liability and a right-of-use asset ("ROU"), measured at the present value of the future minimum lease payments, at the lease commencement date. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim reporting periods within that fiscal year, with early adoption permitted. ASU 2016-02 requires the application of a modified retrospective approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements.

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

In July 2018, the FASB issued updated guidance (Accounting Standards Update 2018-11) that provides entities with an additional (and optional) transition method to adopt the new standard on leases. Under this new transition method, an entity initially applies the new standard on leases at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new standard on leases will continue to be in accordance with current GAAP (Topic 840, Leases). An entity that elects this additional (and optional) transition method must provide the required Topic 840 disclosures for all periods that continue to be in accordance with Topic 840.

The Company adopted ASU 2016-02, as of January 1, 2019. The Company elected to utilize the cumulative-effect adjustment to the opening balance of retained earnings for the year of adoption. Accordingly, the Company's reporting for the comparative periods prior to adoption continue to be presented in the financial statements in accordance with previous lease accounting guidance. The Company also elected to apply all practical expedients applicable to the Company in the updated guidance for transition for the lease in effect at adoption, including using hindsight to determine the lease term of the existing leases, the option to not reassess whether an existing contract is a lease or contains a lease and whether the lease is an operating or finance lease. The Company increased assets and liabilities by \$331,065 at the adoption date.

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. However, currently the Company does not expect a material impact on the Company's financial condition or results of operations from the adoption of this guidance.

In January 2017, the FASB issued *ASU 2017-04, "Intangibles — Goodwill and Other" ("ASU 2017-04")*. ASU 2017-04 amends and simplifies current goodwill impairment testing to eliminate Step 2 from the current provisions. Under the new guidance, an entity should perform the goodwill impairment test by comparing the fair value of a reporting unit with its carrying value and recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. An entity still has the option to perform the quantitative assessment for a reporting unit to determine if a quantitative impairment test is necessary. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The Company adopted ASU 2017-04 as of January 1, 2020. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In March 2017, the FASB issued *ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities"* ("ASU 2017-08"). ASU 2017-08 revises the amortization period for certain callable debt securities held at a premium, requiring the premium to be amortized to the earliest call date. Under current GAAP, entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. ASU 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with early adoption permitted. The Company adopted ASU 2017-08 as of January 1, 2020. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

1. Organization and Significant Accounting Policies (continued)

In February 2018, the FASB issued *ASU 2018-02, "Income Statement — Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"* ("ASU 2018-02"). ASU 2018-02 was issued to address the income tax accounting treatment of the stranded tax effects within other comprehensive income from the prohibition of backward tracing due to an income tax rate change that was initially recorded in other comprehensive income. This issue came about from the enactment of the Tax Cuts and Jobs Act on December 22, 2017 that changed the Company's income tax rate from 35% to 21%. The ASU changed current accounting whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company adopted ASU 2018-02 as of January 1, 2019. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

In August 2018, the FASB issued *ASU No. 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement"* ("ASU No. 2018-13"). This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities may early adopt any eliminated or modified disclosure requirements and delay adoption of the additional disclosure requirements until their effective date. The Company adopted ASU 2018-13 as of January 1, 2020. The adoption of this guidance did not have a material effect on the Company's results of operations, financial position or liquidity.

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 are 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 December 15, 2023 for smaller reporting companies, with early adoption permitted. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

2. Investments

Fixed Maturity Securities Available-For-Sale

Investments in fixed maturity securities available-for-sale as of September 30, 2020 and December 31, 2019 are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
September 30, 2020 (Unaudited)				
Fixed maturity securities				
Corporate bonds	\$ 10,059,278	\$ 948,386	\$ 153,697	\$ 10,853,967
Total fixed maturity securities	<u>\$ 10,059,278</u>	<u>\$ 948,386</u>	<u>\$ 153,697</u>	<u>\$ 10,853,967</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2019				
Fixed maturity securities				
Corporate bonds	\$ 7,673,671	\$ 456,779	\$ 40,990	\$ 8,089,460
Total fixed maturity securities	<u>\$ 7,673,671</u>	<u>\$ 456,779</u>	<u>\$ 40,990</u>	<u>\$ 8,089,460</u>

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

2. Investments (continued)

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 September 30, 2020 and December 31, 2019 are summarized as follows:

<u>September 30, 2020 (Unaudited)</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Number of Securities</u>
Fixed maturity securities			
Less than 12 months			
Corporate bonds	\$ 880,187	\$ 55,324	7
Greater than 12 months			
Corporate bonds	104,588	98,373	2
Total fixed maturity securities	<u>\$ 984,775</u>	<u>153,697</u>	<u>9</u>
<u>December 31, 2019</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Number of Securities</u>
Fixed maturity securities			
Less than 12 months			
Corporate bonds	\$ 602,772	\$ 8,050	5
Greater than 12 months			
Corporate bonds	366,310	32,940	3
Total fixed maturity securities	<u>\$ 969,082</u>	<u>\$ 40,990</u>	<u>8</u>

As of September 30, 2020, the seven fixed maturity securities in a less than 12-month loss position had a fair value to amortized cost ratio of 94.1%. The two fixed maturity securities in a loss position greater than 12-months had a fair value to amortized cost ratio of 51.5% as of September 30, 2020. 2.8% of total fair value of fixed maturity securities were below investment grade as rated by Standard and Poor's as of September 30, 2020 and December 31, 2019. As of December 31, 2019, the five securities in a less than 12-month loss position had an average fair value to amortized cost ratio of over 98%. The three securities in a loss position greater than 12-months had a fair value to amortized cost ratio of over 91% as of December 31, 2019.

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 of 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. Any other-than-temporary impairments on equity securities are recorded in the consolidated statements of operations in the periods incurred as the difference between fair value and cost.

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

2. Investments (continued)

Based on management's review, the Company experienced no other-than-temporary impairments during the nine months ended September 30, 2020 and the year ended December 31, 2019.

Management believes that the Company will fully recover its cost basis in the securities held as of September 30, 2020, 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) September 30, 2020	December 31, 2019
Unrealized appreciation (depreciation) on available-for-sale securities	\$ 794,689	\$ 415,789
Adjustment to deferred acquisition costs	-	(1,009)
Deferred taxes	(166,885)	(87,104)
Net unrealized appreciation (depreciation) on available-for-sale securities	<u>\$ 627,804</u>	<u>\$ 327,676</u>

The amortized cost and fair value of fixed maturity available-for-sale securities as of September 30, 2020, by contractual maturity, are summarized as follows:

	(Unaudited)	
	Amortized Cost	Fair Value
Due after one year through five years	\$ 3,569,443	\$ 3,696,659
Due after five years through ten years	3,828,277	4,203,189
Due after ten years	2,661,558	2,954,119
Total fixed maturity securities	<u>\$ 10,059,278</u>	<u>\$ 10,853,967</u>

The amortized cost and fair value of other long-term investments as of September 30, 2020, by contractual maturity, are summarized as follows:

	(Unaudited)	
	Amortized Cost	Fair Value
Due in one year or less	\$ 728,896	\$ 763,273
Due after one year through five years	2,005,249	2,312,384
Due after five years through ten years	623,638	840,903
Due after ten years	48,018	78,355
Total other long-term investments	<u>\$ 3,405,801</u>	<u>\$ 3,994,915</u>

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.

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

2. Investments (continued)

Other long-term investments by geographic distribution:

	(Unaudited) September 30, 2020	%	December 31, 2019	%
California	\$ 498,311	14.6%	\$ 137,888	7.0%
Florida	251,382	7.4	-	0.0
Georgia	317,396	9.3	-	0.0
Indiana	199,857	5.9	209,829	10.7
Massachusetts	872,594	25.6	408,037	20.8
New York	653,881	19.2	692,016	35.2
Ohio	162,780	4.8	161,073	8.2
Oregon	122,493	3.6	140,304	7.1
Pennsylvania	327,107	9.6	217,200	11.0
Total	<u>\$ 3,405,801</u>	<u>100.0%</u>	<u>\$ 1,966,347</u>	<u>100.0%</u>

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 September 30, 2020 and December 31, 2019 are summarized as follows:

	(Unaudited)	
Loan-To-Value-Ratio	September 30, 2020	December 31, 2019
Over 90%	\$ -	\$ 96,480
80% to 90%	618,909	145,388
70% to 80%	1,654,307	184,168
60% to 70%	2,525,733	1,548,486
50% to 60%	803,646	824,354
Less than 50%	450,637	109,665
Total	<u>\$ 6,053,232</u>	<u>\$ 2,908,541</u>

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

2. Investments (continued)

Mortgage loans by geographic distribution:

State	(Unaudited)			
	September 30, 2020	%	December 31, 2019	%
Alabama	\$ 143,981	2.4%	\$ 145,389	5.0%
California	188,577	3.1	-	0.0
Colorado	203,346	3.3	-	0.0
Connecticut	222,600	3.7	-	0.0
Florida	77,705	1.3	228,529	7.9
Georgia	143,541	2.4	-	0.0
Illinois	470,004	7.8	782,437	26.9
Indiana	49,785	0.8	53,808	1.9
Kentucky	110,488	1.8	-	0.0
Louisiana	99,694	1.6	-	0.0
Maryland	174,499	2.9	-	0.0
Michigan	109,297	1.8	-	0.0
Missouri	377,372	6.2	55,857	1.9
South Carolina	30,004	0.5	-	0.0
Tennessee	744,328	12.3	780,840	26.8
Texas	2,355,882	38.9	715,931	24.6
Utah	330,280	5.5	-	0.0
Virginia	77,733	1.3	-	0.0
Wisconsin	144,116	2.4	145,750	5.0
Total	\$ 6,053,232	100.0%	\$ 2,908,541	100.0%

There were 4 loans with a remaining principal balance of \$293,124 that were 90 days or more past due and still accruing interest as of September 30, 2020. There were 8 loans with a remaining principal balance of \$698,090 that were 90 days or more past due and still accruing interest as of December 31, 2019. The Company had a mortgage loan allowance of \$29,828 and \$0 as of September 30, 2020 and December 31, 2019, respectively.

Major categories of net investment income for the three and nine months ended September 30, 2020 and 2019 are summarized as follows:

	(Unaudited)		(Unaudited)	
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
Fixed maturity securities	\$ 133,154	\$ 70,293	\$ 278,842	\$ 219,966
Other long-term assets	69,195	42,707	156,734	83,571
Mortgage loans	130,439	36,684	243,267	90,251
Short-term and other investments	1,981	55,683	48,002	133,788
Gross investment income	334,769	205,367	726,845	527,576
Investment expenses	(30,299)	(2,460)	(87,869)	(14,451)
Net investment income	\$ 304,470	\$ 202,907	\$ 638,976	\$ 513,125

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

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 consolidated 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.

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 September 30, 2020 and December 31, 2019 are summarized as follows:

September 30, 2020 (Unaudited)	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale				
Corporate bonds	\$ -	\$ 10,853,967	\$ -	\$ 10,853,967
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 10,853,967</u>	<u>\$ -</u>	<u>\$ 10,853,967</u>
December 31, 2019	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale				
Corporate bonds	\$ -	\$ 8,089,460	\$ -	\$ 8,089,460
Total fixed maturity securities	<u>\$ -</u>	<u>\$ 8,089,460</u>	<u>\$ -</u>	<u>\$ 8,089,460</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 in the market which use observable inputs in developing such rates.

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

3. Fair Value Measurements (continued)

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 a high percentage of the portfolio to be priced through pricing services.

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 September 30, 2020 and December 31, 2019 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:

	September 30, 2020 (Unaudited)				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 12,923,782	\$ 12,923,782	\$ 12,923,782	\$ -	\$ -
Mortgages on real estate	6,053,232	6,425,933	-	-	6,425,933
Other long-term investments	3,405,801	3,994,915	-	-	3,994,915
Accrued investment income	177,663	177,663	-	-	177,663
Advances and notes receivable	139,337	139,337	-	-	139,337
Total financial assets	\$ 22,699,815	\$ 23,661,630	\$ 12,923,782	\$ -	\$ 10,737,848
Financial liabilities					
Policyholders' account balances	\$ 25,867,224	\$ 24,487,910	\$ -	\$ -	\$ 24,487,910
Policy claims	62,114	62,114	-	-	62,114
Total financial liabilities	\$ 25,929,338	\$ 24,550,024	\$ -	\$ -	\$ 24,550,024
December 31, 2019					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$ 15,208,477	\$ 15,208,477	\$ 15,208,477	\$ -	\$ -
Mortgages on real estate	2,908,541	2,851,527	-	-	2,851,527
Other long-term investments	1,966,347	2,290,552	-	-	2,290,552
Accrued investment income	111,889	111,889	-	-	111,889
Advances and notes receivable	134,560	134,560	-	-	134,560
Total financial assets	\$ 20,329,814	\$ 20,597,005	\$ 15,208,477	\$ -	\$ 5,388,528
Financial liabilities					
Policyholders' account balances	\$ 18,440,872	\$ 15,893,600	\$ -	\$ -	\$ 15,893,600
Policy claims	59,693	59,693	-	-	59,693
Total financial liabilities	\$ 18,500,565	\$ 15,953,293	\$ -	\$ -	\$ 15,953,293

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

3. Fair Value Measurements (continued)

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.

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.

Mortgages on Real Estate

The Company's mortgage loan portfolio is comprised of residential properties with loan to appraised value ratios 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

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

4. Income Taxes

The Company files a consolidated return with its subsidiary TRLS. 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.

Texas Republic Capital Corporation and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2020
(Unaudited)

4. Income Taxes (continued)

The Company has net operating loss carryforwards of approximately \$3.6 million expiring in 2032 through 2037. The company also has \$683,515 of loss carryforwards from 2018 through 2020 that will not expire. A valuation allowance of \$900,481 has been established for net operating losses arising from 2012 through 2020 since the Company has not demonstrated the ability to generate taxable income. As of September 30, 2020, TRLIC has \$2,799,686 in operating loss carryforwards that have originated since 2016. In accordance with the Tax Cuts and Jobs Act of 2017, \$588,407 of the operating loss carryforwards were generated prior to January 1, 2018 and will expire in 2031 and 2032. Additionally, TRLIC has loss carryforwards of \$2,211,279 from 2018 through 2020 which will not expire. TRLIC's operating loss carryforwards have a valuation allowance of \$587,934 against it on September 30, 2020, as TRLIC has not yet demonstrated the ability to generate taxable income. The utilization of those losses is restricted by the tax laws and some or all the losses may not be available for use.

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 2017 through 2019 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 \$2,825,003 as of September 30, 2020. 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 Agent Stock Incentive Plan ("ASIP") was approved in August 2018 by the Texas State Securities Board. The plan awards 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 on December 31, 2019 were based on production for the period of January through December 2019. The ASIP issued 4,120 shares in 2020 based on 2019 production. The ASIP issued 1,490 shares in 2019 based on 2018 production. Also, in 2019 the Company issued 10,000 shares as part of an employment agreement.

7. Lease Commitment

The Company rents office space for certain administrative operations under an agreement that expires in 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 September 30, 2020 are as follows:

2020 (remaining)	\$	23,186
2021		93,593
2022		95,006
Total operating lease payments, undiscounted	\$	211,785
Less: interest		(25,561)
Lease liability, at present value	\$	<u>186,224</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. Between May 2012 and November 2013, we conducted an organizational offering and three private placements of our common stock. From the organizational offering and private placements, we raised \$10,336,500, incurred \$1,215,569 of offering costs and issued 12,865,000 shares of our common stock. During 2012, the funds raised, offering costs incurred and shares subscribed from the private placements were \$5,051,300, \$180,835 and 10,636,840, respectively. During 2013, the funds raised, offering costs incurred and shares subscribed from the private placements were \$5,285,200, \$1,034,734 and 2,228,160, respectively.

We began an intrastate public offering of our common stock at a price per share of \$5.00 on April 2, 2014 and completed that offering on April 2, 2017. The Company raised \$10,010,485 and incurred \$1,444,127 of offering costs through the issuance of 2,002,097 shares of the Company’s common stock less treasury stock of 3,000 shares from the intrastate public stock offering. During 2014, the funds raised, offering costs incurred and shares subscribed from the offering were \$3,143,800, \$576,613 and 628,760, respectively. During 2015, the funds raised, offering costs incurred and shares subscribed from the offering were \$1,901,925, \$326,734 and 380,385, respectively. During 2016 the funds raised, offering costs incurred and shares subscribed from the offering were \$3,062,510, \$330,516 and 612,502, respectively. During 2017 the funds raised, offering costs incurred and shares subscribed from the offering were \$1,902,250, \$210,264 and 380,450, respectively.

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. During 2018 the Company made capital contributions of \$2,000,000 and \$750,000 to TRLIC. During the second quarter of 2019 the Company made an additional capital contribution to TRLIC of mortgage loans valued at \$857,133. During the third quarter of 2019 the Company made an additional capital contribution of \$1,300,000 in cash to TRLIC bringing the total capitalization of TRLIC to \$7,907,133. TRLS, an insurance agency, was incorporated February 1, 2017. The Company capitalized TRLS with \$50,000 and owns 100% of TRLS. During 2018 the Company made an additional capital contribution of \$100,000 bringing the total capitalization of TRLS to \$150,000.

We are a financial services holding company and have incurred significant net losses since our inception. As of September 30, 2020, we had an accumulated deficit of \$8,999,606. These losses have resulted from costs incurred while raising capital and start-up costs related to our insurance operations. We expect to continue to incur operating losses until we achieve a volume of inforce life insurance policies that provides premiums and investment income which are sufficient to cover our operating costs.

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. 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.

[Table of Contents](#)

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 of residential properties with loan to appraised value ratios below 90%. Mortgage loans are carried at current book value. 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.

The Company's other long-term investments are comprised of lottery prize cash flows holdings held at amortized cost. They 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 2.20% to 5.00%.

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.

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 Nine Months Ended September 30, 2020 and 2019

Revenues

Our revenues are from the initial sales of insurance products and investment income from investments in fixed maturity available-for-sale securities, mortgage loans and other long-term assets. Revenue included \$354,252 from the sale of life insurance for the nine months ended September 30, 2020 and \$303,002 for the nine months ended September 30, 2019. For the three months ended September 30, the sale of life insurance generated revenue of \$89,337 in 2020 and \$52,080 in 2019. The Company accepted annuity deposits of \$6,626,483 in the nine months ended September 30, 2020 compared to annuity deposits of \$10,126,300 for the nine months ended September 30, 2019. For the three months ending September 30, 2020 the Company accepted annuity deposits of \$742,071 compared to annuity deposits of \$4,457,421 for the three months ended September 30, 2019. Annuity deposits generate revenue on investments but are not classified as revenue for GAAP reporting.

Investment income was \$638,976 for the nine months ended September 30, 2020, an increase of \$125,851 from \$513,125 for the nine months ended September 30, 2019. The Company established a mortgage allowance of \$29,828 as of September 30, 2020 which directly reduced net investment income. For the three months ended September 30, 2020 investment income of \$304,470 increased \$101,563 compared to the \$202,907 for the three months ended September 30, 2019. The increase was primarily driven by additional invested assets. During 2020 the Company has continued investing in mortgage loans on real estate, lottery bonds and corporate bonds to increase investment yields to support interest expense on our annuity deposits. The Company also moved all non-operating cash to interest bearing money market accounts.

Expenses

Our expenses relate to operating a financial services holding company, a life insurance company and an insurance agency.

Expenses were \$2,984,230 for the nine months ended September 30, 2020, an increase of \$779,404 from \$2,204,826 for the nine months ended September 30, 2019. Expenses were \$957,115 for the three months ended September 30, 2020, an increase of \$192,880 from \$764,235 for three months ended September 30, 2019.

Total Benefits and Claims – Increases to policyholder liabilities increased benefits and claims expense \$549,225 for the nine months ended September 30, 2020. Expenses were \$881,515 and \$332,290 for the nine months ended September 30, 2020 and 2019, respectively. For the three months ended September 30, 2020 and 2019 total benefit and claim expenses were \$329,071 and \$107,793, respectively. The increase is primarily due to the interest credited to policyholders of \$788,995 and \$304,695 for the nine months and three months ended September 30, 2020.

Commissions – Commission expense increased \$16,459 for the nine months ended September 30, 2020. The increase is consistent with the increased insurance sales at higher commissioned products than the nine months ended September 30, 2019. Commission expense decreased \$46,428 for the three months ended September 30, 2020 compared to 2019. The decrease was due to reduced annuity deposits during that comparable period.

Salaries and Wages – Salary expense increased \$105,399 for the nine months ended September 30, 2020 compared to September 30, 2019. For the three months ended September 30, 2020 salary expense increased \$14,824 compared to the three months ended September 30, 2019. The increase is due to additional staff hired in the first quarter of 2020 and the addition of salaried sales agents in the fourth quarter 2019. Additionally, normal annual wage increases for existing salaried employees added to the variance.

Net Loss

The net loss was \$1,761,941, or \$(0.12) per common share issued and outstanding for the nine months ended September 30, 2020 compared to a net loss of \$1,274,149, or \$(0.09) per share, for the nine months ended September 30, 2019. For the three months ending September 30, the net loss was \$545,752 or \$(0.04) per share in 2020 and \$477,554 or \$(0.03) per share in 2019. The increase in the net loss for the three- and nine-months ending September 30, 2020, was primarily attributable to the increase in expenses described previously. We expect our losses to continue in the near term as we incur increased costs to grow our life insurance business. The weighted average common shares outstanding were 14,767,105 and 14,814,895 for the nine months ended September 30, 2020 and 2019, respectively. The weighted average common shares outstanding were 14,768,707 and 14,801,587 for the three months ended September 30, 2020 and 2019, respectively.

Financial Position – As of September 30, 2020 and December 31, 2019

Total assets of the Company increased from \$30,285,566 as of December 31, 2019 to \$36,166,998 as of September 30, 2020, an increase of \$5,881,432 or 19.4%.

Cash decreased \$2,284,695 due to the planned ramping down of annuity sales in the second and third quarter as well as investing more cash into corporate bonds, mortgages, and other invested assets (lottery bonds). We continue to invest all non-operating cash to maximize yields to support the insurance operations and grow surplus. All non-operating cash is held in interest bearing accounts.

The Company continues to invest cash from annuity deposits in mortgages, fixed maturity securities and other invested assets (lottery bonds). Mortgages increased \$3,144,691 or 108% over December 31, 2019. The increase in lottery bonds of \$1,439,454 are directly related to annuity deposits in Texas Republic Life Insurance Company. The increase of \$2,764,507 in fixed maturity securities was due to purchases as well as net unrealized gains on existing securities.

Policyholder liabilities include benefit reserves for both life and annuity policies, claim reserves, deposit funds and advance premiums. Policyholder liabilities increased \$7,364,162 on September 30, 2020 compared to December 31, 2019. The increase is directly related to the increase of the liability for annuity deposits and inforce life insurance reserves.

Total shareholders' equity of the Company decreased from \$10,672,815 as of December 31, 2019 to \$9,218,887 as of September 30, 2020. The decrease is mainly due to the net loss from operations of \$1,761,941. A positive offset to the net loss was a favorable change in net unrealized gains on fixed income securities and an adjustment to deferred acquisition costs increasing equity by \$300,128 which includes a reduction for deferred taxes.

Liquidity and Capital Resources

Since inception, our operations have been financed primarily through an organizational offering, three private placement offerings and an intrastate public stock offering. Through April 2, 2017, we received \$20,346,985 from the sale of 14,867,097 shares and incurred offering costs of \$2,659,696. During 2017 and 2016 we paid \$5,000 and \$10,000 for 1,000 and 2,000 shares of Company's common stock that is held as treasury stock, respectively. Since inception TRLIC has purchased 111,000 shares for distribution under its Stock Incentive Plan. As of September 30, 2020, TRLIC distributed 15,610 shares under its Stock Incentive Plan. The remaining 95,390 shares held by TRLIC plus 3,000 shares held at TRCC are held as treasury shares in the consolidated financials. Our operations have not been profitable and have generated significant operating losses since we were incorporated in 2012.

We had cash and cash equivalents totaling \$12,923,782 and \$15,208,477 as of September 30, 2020 and December 31, 2019, respectively. 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 \$2,825,003 and \$2,312,416 as of September 30, 2020 and December 31, 2019, respectively. 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 public offering will provide a considerable amount of operating funds for current and future operations. The operations of TRLIC should provide ample cash flows from premium income and investment income to meet operating requirements. Life insurance contract liabilities are generally long term in nature and are generally paid from future cash flows.

We believe that our existing cash and cash equivalents will be sufficient to fund our anticipated operating expenses and capital expenditures. 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. The growth of TRLIC and TRLS may require additional capital contributions as they continue to grow. As discussed above, the Company capitalized TRLIC with \$3,000,000 cash during the third quarter of 2016 and capitalized TRLS with \$50,000 during the second quarter of 2018. During 2018 TRCC made capital contributions of \$2,000,000 and \$750,000 to TRLIC. During the second quarter of 2019 the Company made an additional capital contribution to TRLIC of mortgage loans valued at \$857,133. During the third quarter of 2019 the Company made an additional capital contribution of \$1,300,000 in cash to TRLIC bringing the total capitalization of TRLIC to \$7,907,133. During 2018 TRCC made a capital contribution of \$100,000 to TRLS bringing the total capitalization of TRLS to \$150,000.

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.

Changes to Internal Control over Financial Reporting

There were no changes in the Company’s internal control over financial reporting during the third quarter ended September 30, 2020 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. All of 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 our 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 was concluded 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 paid commissions of \$999,349 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 agency. Through September 30, 2020 the Company paid \$133,210 for 114,000 shares of the Company’s common stock (treasury stock). Subsequently, 5,610 shares have been redistributed to agents under our stock incentive plan and 10,000 shares were issued as part of an employment agreement.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

None

Item 6. Exhibits

31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Principal Executive Officer](#)

31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Principal Financial Officer](#)

32.1 [Section 1350 Certification of Principal Executive Officer](#)

32.2 [Section 1350 Certification of Principal Financial Officer](#)

101.INS** XBRL Instance

101.SCH** XBRL Taxonomy Extension Schema

101.CAL** XBRL Taxonomy Extension Calculation

101.DEF** XBRL Taxonomy Extension Definition

101.LAB** XBRL Taxonomy Extension Labels

101.PRE** XBRL Taxonomy Extension Presentation

**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

November 18, 2020

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

November 18, 2020

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: November 18, 2020

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: November 18, 2020

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 September 30, 2020 (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: November 18, 2020

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 September 30, 2020 (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: November 18, 2020

By: /s/ Shane S. Mitchell

Shane S. Mitchell, Chief Financial Officer