UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

For the transition period from __________ to __________

Commission File No. 000-20827

CASS INFORMATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Missouri	**43-1265338**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12444 Powerscourt Drive, Suite 550	
St. Louis, Missouri	**63131**
(Address of principal executive offices)	(Zip Code)

(314) 506-5500
(Registrant's telephone number, including area code)

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

Title of each class	Trading symbols	Name of each exchange on which registered
Common stock, par value $.50	CASS	The Nasdaq Global Select Market

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large Accelerated Filer ☒ Accelerated Filer ☐

Non-Accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

The number of shares outstanding of the registrant's only class of common stock as of October 25, 2019: Common stock, par value $.50 per share –14,497,763 shares outstanding.

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Forward-looking Statements - Factors That May Affect Future Results

This report may contain or incorporate by reference forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although we believe that, in making any such statements, our expectations are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and other factors beyond our control, which may cause future performance to be materially different from expected performance summarized in the forward-looking statements. These risks, uncertainties and other factors are discussed in Part I, Item 1A, "Risk Factors" of the Company's 2018 Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC"), which may be updated from time to time in our future filings with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, or changes to future results over time.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands except Share and Per Share Data)

	September 30, 2019 (Unaudited)	December 31, 2018
Assets		
Cash and due from banks	$ 24,472	$ 15,042
Interest-bearing deposits in other financial institutions	114,869	179,281
Federal funds sold and other short-term investments	83,397	36,610
Cash and cash equivalents	222,738	230,933
Securities available-for-sale, at fair value	427,591	441,534
Loans	767,384	721,587
Less: Allowance for loan losses	10,509	10,225
Loans, net	756,875	711,362
Payments in excess of funding	208,225	160,777
Premises and equipment, net	20,775	22,031
Investment in bank-owned life insurance	17,484	17,384
Goodwill	15,894	12,569
Other intangible assets, net	3,170	1,554
Other assets	108,258	97,032
Total assets	$ 1,781,010	$ 1,695,176
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 310,695	$ 313,258
Interest-bearing	400,538	408,668
Total deposits	711,233	721,926
Accounts and drafts payable	762,075	694,360
Other liabilities	61,085	49,042
Total liabilities	1,534,393	1,465,328
Shareholders' Equity:		
Preferred stock, par value $.50 per share; 2,000,000 shares authorized and no shares issued	—	—
Common stock, par value $.50 per share; 40,000,000 shares authorized and 15,505,772 shares issued at September 30, 2019 and December 31, 2018	7,753	7,753
Additional paid-in capital	205,775	205,770
Retained earnings	87,887	75,171
Common shares in treasury, at cost (1,008,009 shares at September 30, 2019 and 894,486 shares at December 31, 2018)	(45,985)	(39,974)
Accumulated other comprehensive loss	(8,813)	(18,872)
Total shareholders' equity	246,617	229,848
Total liabilities and shareholders' equity	$ 1,781,010	$ 1,695,176

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Dollars in Thousands except Per Share Data)

	Three Months Ended September 30, 2019	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Fee Revenue and Other Income:				
Information services payment and processing revenue	$ 27,741	$ 26,020	$ 81,050	$ 76,068
Bank service fees	307	300	984	994
Gains (losses) on sales of securities	—	—	19	(42)
Other	214	115	594	429
Total fee revenue and other income	28,262	26,435	82,647	77,449
Interest Income:				
Interest and fees on loans	9,548	8,367	27,564	23,832
Interest and dividends on securities:				
Taxable	612	618	1,893	1,428
Exempt from federal income taxes	1,925	2,111	5,956	7,008
Interest on federal funds sold and other short-term investments	1,581	1,119	4,477	2,748
Total interest income	13,666	12,215	39,890	35,016
Interest Expense:				
Interest on deposits	1,392	1,029	3,987	2,502
Net interest income	12,274	11,186	35,903	32,514
Provision for loan losses	—	—	250	—
Net interest income after provision for loan losses	12,274	11,186	35,653	32,514
Total net revenue	40,536	37,621	118,300	109,963
Operating Expense:				
Personnel	23,514	21,747	68,594	63,718
Occupancy	973	975	2,930	2,754
Equipment	1,554	1,434	4,575	4,150
Amortization of intangible assets	150	110	359	331
Other operating expense	4,372	4,264	12,538	11,222
Total operating expense	30,563	28,530	88,996	82,175
Income before income tax expense	9,973	9,091	29,304	27,788
Income tax expense	1,787	1,481	5,271	4,577
Net income	$ 8,186	$ 7,610	$ 24,033	$ 23,211
Basic earnings per share	$ .57	$ .52	$ 1.66	$ 1.58
Diluted earnings per share	.56	.51	1.64	1.55

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollars in Thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Comprehensive income:				
Net income	$ 8,186	$ 7,610	$ 24,033	$ 23,211
Other comprehensive income:				
Net unrealized gain (loss) on securities available-for-sale	1,571	(2,835)	13,317	(13,029)
Tax effect	(374)	675	(3,170)	3,101
Reclassification adjustments for (gains) losses included in net income	—	—	(19)	42
Tax effect	—	—	5	(10)
Foreign currency translation adjustments	(78)	(21)	(74)	(91)
Total comprehensive income	$ 9,305	$ 5,429	$ 34,092	$ 13,224

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in Thousands)

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Cash Flows From Operating Activities:		
Net income	$ 24,033	$ 23,211
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,103	8,524
Net (gains) losses on sales of securities	(19)	42
Stock-based compensation expense	2,286	2,238
Provision for loan losses	250	—
(Decrease) increase in income tax liability	(1,384)	773
Increase in pension liability	3,888	3,688
(Increase) decrease in accounts receivable	(399)	4,027
Other operating activities, net	3,016	(3,707)
Net cash provided by operating activities	39,774	38,796
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	4,648	58,520
Proceeds from maturities of securities available-for-sale	18,001	26,041
Purchase of securities available-for-sale	—	(78,772)
Net increase in loans	(45,763)	(39,993)
Increase in payments in excess of funding	(47,448)	(21,977)
Purchases of premises and equipment, net	(1,877)	(3,956)
Acquisition of Gateway Giving, LLC	(3,000)	—
Net cash used in investing activities	(75,439)	(60,137)
Cash Flows From Financing Activities:		
Net decrease in noninterest-bearing demand deposits	(2,563)	(11,146)
Net decrease in interest-bearing demand and savings deposits	(10,485)	(35,988)
Net increase in time deposits	2,355	3,771
Net increase in accounts and drafts payable	57,772	27,849
Cash dividends paid	(11,317)	(9,342)
Purchase of common shares for treasury	(7,799)	(1,409)
Other financing activities, net	(493)	(457)
Net cash provided by (used in) by financing activities	27,470	(26,722)
Net decrease in cash and cash equivalents	(8,195)	(48,063)
Cash and cash equivalents at beginning of period	230,933	228,110
Cash and cash equivalents at end of period	$ 222,738	$ 180,047
Supplemental information:		
Cash paid for interest	$ 3,831	$ 2,459
Cash paid for income taxes	6,648	3,776

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2019
(Unaudited)
(Dollars in Thousands except Per Share Data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
Balance, June 30, 2018	$ 6,524	$ 204,687	$ 68,771	$ (32,243)	$ (21,126)	$ 226,613
Net income			7,610			7,610
Cash dividends ($.20 per share)			(3,198)			(3,198)
Issuance of 1,787 common shares pursuant to stock-based compensation plan, net		(23)		63		40
Exercise of SARs		(454)		151		(303)
Stock-based compensation expense		761				761
Other comprehensive loss					(2,181)	(2,181)
Balance, September 30, 2018	$ 6,524	$ 204,971	$ 73,183	$ (32,029)	$ (23,307)	$ 229,342

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
Balance, June 30, 2019	$ 7,753	$ 205,463	$ 83,470	$ (46,333)	$ (9,932)	$ 240,421
Net income			8,186			8,186
Cash dividends ($.26 per share)			(3,769)			(3,769)
Issuance of 795 common shares pursuant to stock-based compensation plan, net		(5)		48		43
Exercise of SARs		(552)		300		(252)
Stock-based compensation expense		869				869
Other comprehensive income					1,119	1,119
Balance, September , 2019	$ 7,753	$ 205,775	$ 87,887	$ (45,985)	$ (8,813)	$ 246,617

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2017	$ 6,524	$ 204,631	$ 59,314	$ (32,061)	$ (13,320)	$ 225,088
Net income			23,211			23,211
Cash dividends ($.20 per share)			(9,342)			(9,342)
Issuance of 34,215 common shares pursuant to stock-based compensation plan, net		(1,021)		614		(407)
Exercise of SARs		(877)		301		(576)
Stock-based compensation expense		2,238				2,238
Purchase of 18,656 common shares				(883)		(883)
Other comprehensive loss					(9,987)	(9,987)
Balance, September 30, 2018	$ 6,524	$ 204,971	$ 73,183	$ (32,029)	$ (23,307)	$ 229,342

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
Balance, December 31, 2018	$ 7,753	$ 205,770	$ 75,171	$ (39,974)	$ (18,872)	$ 229,848
Net income			24,033			24,033
Cash dividends ($.26 per share)			(11,317)			(11,317)
Issuance of 36,062 common shares pursuant to stock-based compensation plan, net		(1,426)		1,324		(102)
Exercise of SARs		(855)		464		(391)
Stock-based compensation expense		2,286				2,286
Purchase of 154,593 common shares				(7,799)		(7,799)
Other comprehensive income					10,059	10,059
Balance, September 30, 2019	$ 7,753	$ 205,775	$ 87,887	$ (45,985)	$ (8,813)	$ 246,617

See accompanying notes to unaudited consolidated financial statements.

Note 1 – Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. All share and per share data have been restated to give effect to the 20% stock dividend paid on December 14, 2018. Certain amounts in prior-period financial statements have been reclassified to conform to the current period's presentation. For further information, refer to the audited consolidated financial statements and related footnotes included in Cass Information System, Inc.'s (the "Company" or "Cass") Annual Report on Form 10-K for the year ended December 31, 2018.

Note 2 – Intangible Assets

The Company accounts for intangible assets in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, "Goodwill and Other Intangible Assets," ("FASB ASC 350"), which requires that intangibles with indefinite useful lives be tested annually for impairment and those with finite useful lives be amortized over their useful lives.

In September 2019, the Company acquired the assets of Gateway Giving, LLC and recorded intangible assets of $5,300,000. The purchase price of the acquisition consisted of a cash payment of $3,000,000 and a potential earnout of $4,000,000. The Company estimated the earnout component to be $2,300,000. Those intangible assets were estimated as $3,325,000 for goodwill, $1,500,000 for software, $325,000 for the customer list, and $150,000 for non-compete agreements. The amounts recorded for the software, the customer list, the non-compete agreements, and goodwill were done so on a provisional basis and will be adjusted upon the completion of a valuation.

Details of the Company's intangible assets are as follows:

	September 30, 2019		December 31, 2018	
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Assets eligible for amortization:				
Customer lists	$ 4,613	$ (3,352)	$ 4,288	$ (3,071)
Patents	72	(19)	72	(16)
Non-compete agreements	482	(334)	332	(326)
Software	1,734	(276)	234	(234)
Other	500	(250)	500	(225)
Unamortized intangible assets:				
Goodwill[1]	16,121	(227)	12,796	(227)
Total intangible assets	$ 23,522	$ (4,458)	$ 18,222	$ (4,099)

1 Amortization through December 31, 2001 prior to adoption of FASB ASC 350.

The customer lists are amortized over seven and ten years; the patents over 18 years; the non-compete agreements over two and five years; software over three years; and other intangible assets over 15 years. Amortization of intangible assets amounted to $359,000 and $331,000 for the nine-month periods ended September 30, 2019 and 2018, respectively. Estimated annual amortization of intangibles is as follows: $604,000 in 2019, $983,000 in each of 2020 and 2021, $498,000 in 2022 and $164,000 in 2023.

Note 3 – Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding and the weighted-average number of potential common shares outstanding. There were no anti-dilutive shares in the three and nine months ended September 30, 2019 and 2018. The calculations of basic and diluted earnings per share are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands except share and per share data)	**2019**	**2018**	**2019**	**2018**
Basic:				
Net income	$ 8,186	$ 7,610	$ 24,033	$ 23,211
Weighted-average common shares outstanding	14,417,725	14,695,170	14,435,670	14,687,614
Basic earnings per share	$ .57	$ .52	$ 1.66	$ 1.58
Diluted:				
Net income	$ 8,186	$ 7,610	$ 24,033	$ 23,211
Weighted-average common shares outstanding	14,417,725	14,695,170	14,435,670	14,687,614
Effect of dilutive restricted stock and stock appreciation rights	262,917	248,010	258,123	240,489
Weighted-average common shares outstanding assuming dilution	14,680,642	14,943,180	14,693,793	14,928,103
Diluted earnings per share	$ .56	$ .51	$ 1.64	$ 1.55

Note 4 – Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to500,000 shares of the Company's common stock. As restored by the Board of Directors on October 22, 2019, the program provides that the Company may repurchase up to an aggregate of 500,000 shares of common stock and has no expiration date. The Company did not repurchase shares during the three-month periods ended September 30, 2019 and 2018 and repurchased 154,593 and 18,656 during the nine-month periods ended September 30, 2019 and 2018, respectively. As of September 30, 2019, 450,222 shares remained available for repurchase under the program. Repurchases may be made in the open market or through negotiated transactions from time to time depending on market conditions.

Note 5 – Industry Segment Information

The services provided by the Company are classified into two reportable segments: Information Services and Banking Services. Each of these segments provides distinct services that are marketed through different channels. They are managed separately due to their unique service and processing requirements.

The Information Services segment provides transportation, energy, telecommunication, and environmental invoice processing and payment services to large corporations. The Banking Services segment provides banking services primarily to privately held businesses and faith-based ministries as well as supporting the banking needs of the Information Services segment.

The Company's accounting policies for segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2018. Management evaluates segment performance based on tax-equivalized (as defined in the footnote to the chart on the following table) pre-tax income after allocations for corporate expenses. Transactions between segments are accounted for at what management believes to be fair value.

Substantially all revenue originates from, and all long-lived assets are located within the United States, and no revenue from any customer of any segment exceeds 10% of the Company's consolidated revenue.

Funding sources represent average balances and deposits generated by Information Services and Banking Services and there is no allocation methodology used. Segment interest income is a function of the relative share of average funding sources generated by each segment multiplied by the following rates:

- Information Services – one or more fixed rates depending upon the specific characteristics of the funding source, and
- Banking Services – a variable rate that is based upon the overall performance of the Company's earning assets.

Any difference between total segment interest income and overall total Company interest income is included in Corporate, Eliminations, and Other.

Summarized information about the Company’s operations in each industry segment is as follows:

(In thousands)	Information Services	Banking Services	Corporate, Eliminations and Other	Total
Three Months Ended September 30, 2019				
Fee income from customers	$ 28,026	$ 257	$ (21)	$ 28,262
Interest income*	6,760	7,930	(513)	14,177
Interest expense	—	1,392	—	1,392
Intersegment income (expense)	—	533	(533)	—
Tax-equivalized pre-tax income*	7,619	3,399	(534)	10,484
Goodwill	15,758	136	—	15,894
Other intangible assets, net	3,170	—	—	3,170
Total Assets	908,946	862,142	9,922	1,781,010
Average Funding Sources	704,772	588,226	—	1,292,998
Three Months Ended September 30, 2018				
Fee income from customers	$ 26,263	$ 253	$ (81)	$ 26,435
Interest income*	6,446	6,661	(329)	12,778
Interest expense	—	1,029	—	1,029
Intersegment income (expense)	—	467	(467)	—
Tax-equivalized pre-tax income*	7,269	2,796	(411)	9,654
Goodwill	12,433	136	—	12,569
Other intangible assets, net	1,664	—	—	1,664
Total Assets	903,055	847,673	(72,481)	1,678,247
Average Funding Sources	650,267	550,594	—	1,200,861
Nine Months Ended September 30, 2019				
Fee income from customers	$ 82,049	$ 1,040	$ (442)	$ 82,647
Interest income*	19,273	23,082	(883)	41,472
Interest expense	—	3,987	—	3,987
Intersegment income (expense)	—	1,587	(1,587)	—
Tax-equivalized pre-tax income*	21,997	10,214	(1,324)	30,887
Goodwill	15,758	136	—	15,894
Other intangible assets, net	3,170	—	—	3,170
Total Assets	908,946	862,142	9,922	1,781,010
Average Funding Sources	667,741	583,458	—	1,251,199
Nine Months Ended September 30, 2018				
Fee income from customers	$ 76,397	$ 947	$ 105	$ 77,449
Interest income*	18,621	20,351	(2,081)	36,891
Interest expense	—	2,502	—	2,502
Intersegment income (expense)	—	1,415	(1,415)	—
Tax-equivalized pre-tax income*	21,394	10,245	(1,976)	29,663
Goodwill	12,433	136	—	12,569
Other intangible assets, net	1,664	—	—	1,664
Total Assets	903,055	847,673	(72,481)	1,678,247
Average Funding Sources	637,508	566,390	—	1,203,898

* Presented on a tax-equivalent basis assuming a tax rate of 21% for both 2019 and 2018. The tax-equivalent adjustment was approximately $ 511,000 and $564,000 for the Three Months Ended 2019 and 2018, respectively, and $1,583,000 and $1,875,000 for the Nine Months Ended 2019 and 2018, respectively.

Note 6 – Loans by Type

A summary of loan categories is as follows:

(In thousands)	September 30, 2019	December 31, 2018
Commercial and industrial	$ 325,077	$ 277,091
Real estate:		
Commercial:		
Mortgage	83,925	95,605
Construction	24,026	11,858
Faith-based:		
Mortgage	318,809	316,147
Construction	15,545	20,576
Other	2	310
Total loans	$ 767,384	$ 721,587

The following table presents the aging of loans by loan categories at September 30, 2019 and December 31, 2018:

	Performing			Nonperforming		
(In thousands)	Current	30-59 Days	60-89 Days	90 Days and Over	Non-accrual	Total Loans
September 30, 2019						
Commercial and industrial	$ 325,077	$ —	$ —	$ —	$ —	$ 325,077
Real estate:						
Commercial:						
Mortgage	83,925	—	—	—	—	83,925
Construction	24,026	—	—	—	—	24,026
Faith-based:						
Mortgage	318,809	—	—	—	—	318,809
Construction	15,545	—	—	—	—	15,545
Other	2	—	—	—	—	2
Total	$ 767,384	$ —	$ —	$ —	$ —	$ 767,384
December 31, 2018						
Commercial and industrial	$ 277,091	$ —	$ —	$ —	$ —	$ 277,091
Real estate:						
Commercial:						
Mortgage	95,605	—	—	—	—	95,605
Construction	11,858	—	—	—	—	11,858
Faith-based:						
Mortgage	316,147	—	—	—	—	316,147
Construction	20,576	—	—	—	—	20,576
Other	310	—	—	—	—	310
Total	$ 721,587	$ —	$ —	$ —	$ —	$ 721,587

The following table presents the credit exposure of the loan portfolio as of September 30, 2019 and December 31, 2018:

(In thousands)	Loans Subject to Normal Monitoring[1]	Performing Loans Subject to Special Monitoring[2]	Nonperforming Loans Subject to Special Monitoring[2]	Total Loans
September 30, 2019				
Commercial and industrial	$ 322,491	$ 2,586	$ —	$ 325,077
Real estate:				
Commercial:				
Mortgage	83,925	—	—	83,925
Construction	24,026	—	—	24,026
Faith-based:				
Mortgage	317,479	1,330	—	318,809
Construction	15,545	—	—	15,545
Other	2	—	—	2
Total	$ 763,468	$ 3,916	$ —	$ 767,384
December 31, 2018				
Commercial and industrial	$ 275,308	$ 1,783	$ —	$ 277,091
Real estate:				
Commercial:				
Mortgage	95,447	158	—	95,605
Construction	11,858	—	—	11,858
Faith-based:				
Mortgage	314,940	1,207	—	316,147
Construction	20,576	—	—	20,576
Other	310	—	—	310
Total	$ 718,439	$ 3,148	$ —	$ 721,587

1 Loans subject to normal monitoring involve borrowers of acceptable-to-strong credit quality and risk, who have the apparent ability to satisfy their loan obligations.

2 Loans subject to special monitoring possess some credit deficiency or potential weakness which requires a high level of management attention.

Impaired loans consist primarily of nonaccrual loans, loans greater than 90 days past due and still accruing interest and troubled debt restructurings, both performing and nonperforming. Troubled debt restructuring involves the granting of a concession to a borrower experiencing financial difficulty resulting in the modification of terms of the loan, such as changes in payment schedule or interest rate. Management measures impairment in accordance with FASB ASC 310, "Allowance for Credit Losses." There were no impaired loans, loans delinquent 90 days or more and still accruing, or loans classified as troubled debt restructuring at September 30, 2019 and December 31, 2018.

There were no foreclosed loans recorded as other real estate owned as of September 30, 2019 and December 31, 2018.

A summary of the activity in the allowance for loan losses from December 31, 2018 to September 30, 2019 is as follows:

(In thousands)	December 31, 2018	Charge-Offs	Recoveries	Provision	September 30, 2019
Commercial and industrial	$ 4,179	$ —	$ 34	$ 672	$ 4,885
Real estate:					
Commercial:					
Mortgage	1,417	—	—	(161)	1,256
Construction	89	—	—	91	180
Faith-based:					
Mortgage	3,961	—	—	32	3,993
Construction	155	—	—	(38)	117
Other	424	—	—	(346)	78
Total	$ 10,225	$ —	$ 34	$ 250	$ 10,509

A summary of the activity in the allowance for loan losses from December 31, 2017 to September 30, 2018 is as follows:

(In thousands)	December 31, 2017	Charge-Offs	Recoveries	Provision	September 30, 2018
Commercial and industrial	$ 3,652	$ —	$ 15	$ 535	$ 4,202
Real estate:					
Commercial:					
Mortgage	1,394	—	—	(9)	1,385
Construction	70	—	—	100	170
Faith-based:					
Mortgage	3,962	—	—	(105)	3,857
Construction	196	—	—	34	230
Industrial Revenue Bonds	52	—	—	(38)	14
Other	879	—	—	(517)	362
Total	$ 10,205	$ —	$ 15	$ —	$ 10,220

Note 7 – Commitments and Contingencies

In the normal course of business, the Company is party to activities that contain credit, market and operational risks that are not reflected in whole or in part in the Company's consolidated financial statements. Such activities include traditional off-balance sheet credit-related financial instruments and commitments under operating leases. These financial instruments include commitments to extend credit, commercial letters of credit and standby letters of credit. The Company's maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, commercial letters of credit and standby letters of credit is represented by the contractual amounts of those instruments. At September 30, 2019 and December 31, 2018, no amounts have been accrued for any estimated losses for these instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commercial and standby letters of credit are conditional commitments issued by the Company or its subsidiaries to guarantee the performance of a customer to a third party. These off-balance sheet financial instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At September 30, 2019, the balance of unused loan commitments, standby and commercial letters of credit were $171,503,000, $10,180,000, and $2,662,000, respectively. Since some of the financial instruments may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. Commitments to extend credit and letters of credit are subject to the same underwriting standards as those financial instruments included on the consolidated balance sheets. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held varies, but is generally accounts receivable, inventory, residential or income-producing commercial property or equipment. In the event of nonperformance, the Company or its subsidiaries may obtain and liquidate the collateral to recover amounts paid under guarantees on these financial instruments.

The following table summarizes contractual cash obligations of the Company related to time deposits at September 30, 2019:

		Amount of Commitment Expiration per Period			
(In thousands)	Total	Less than 1 Year	1-3 Years	3-5 Years	Over 5 Years
Time deposits	74,812	54,261	18,870	1,681	—
Total	$ 74,812	54,261	18,870	1,681	—

The Company and its subsidiaries are involved in various pending legal actions and proceedings in which claims for damages are asserted. Management, after discussion with legal counsel, believes the ultimate resolution of these legal actions and proceedings will not have a material effect upon the Company's consolidated financial position or results of operations.

Note 8 – Stock-Based Compensation

The Amended and Restated Omnibus Stock and Performance Compensation Plan (the "Omnibus Plan") permits the issuance of up to1,500,000 shares of the Company's common stock in the form of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units and performance awards. The Company may issue shares out of treasury stock for these awards. During the nine months ended September 30, 2019, 36,062 restricted shares, 36,801 performance-based restricted shares, and 0 SARs were granted under the Omnibus Plan.

Restricted Stock

Beginning on April 16, 2013, restricted shares granted to Company employees are amortized to expense over a three-year vesting period whereas restricted shares granted to members of the Board of Directors are amortized to expense over a one-year service period, with the exception of those shares granted in lieu of cash payments for retainer fees which are expensed in the period earned. Beginning on February 2, 2017, restricted shares granted to Company employees are amortized to expense over the three-year cliff vesting period.

As of September 30, 2019, the total unrecognized compensation expense related to non-vested restricted shares was $1,827,000, and the related weighted-average period over which it is expected to be recognized is approximately 0.83 years.

Following is a summary of the activity of the restricted stock:

	Nine Months Ended September 30, 2019	
	Shares	**Fair Value**
Balance at December 31, 2018	99,724	$ 45.48
Granted	36,062	49.12
Vested	(13,264)	39.76
Balance at September 30, 2019	122,522	$ 47.17

Performance-Based Restricted Stock

In February of 2017, the Company granted three-year performance based restricted stock ("PBRS") awards which are contingent upon the Company's achievement of pre-established financial goals over the period from January 1, 2017 through December 31, 2019. The PBRS awards cliff vest on the three-year anniversary of their grant date at levels ranging from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the three-year performance period. The aggregate target number of these PBRS shares outstanding at September 30, 2019 was 30,057 with a grant date fair value of $49.33 per share. The 2019 expense related to these grants is currently estimated to be $595,000 and is based on the grant date fair value of the awards and the Company's achievement of 120% of the target financial goals. The estimated expense for 2019 and each future period through the vesting date is subject to prospective adjustment based upon changes in the expected achievement of the financial goals.

In February and July of 2018, the Company granted three-year PBRS awards which are contingent upon the Company's achievement of pre-established financial goals over the period from January 1, 2018 through December 31, 2020. The PBRS awards cliff vest on the three-year anniversary of their grant date at levels ranging from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the three-year performance period. The aggregate target number of these PBRS shares outstanding at September 30, 2019 was 35,258 with an average grant date fair value of $49.04 per share. The 2019 expense related to these grants is currently estimated to be $674,000 and is based on the grant date fair value of the awards and the Company's achievement of 117% of the target financial goals. The estimated expense for 2019 and each future period through the vesting date is subject to prospective adjustment based upon changes in the expected achievement of the financial goals.

In February and June of 2019, the Company granted three-year PBRS awards which are contingent upon the Company's achievement of pre-established financial goals over the period from January 1, 2019 through December 31, 2021. The PBRS awards cliff vest on the three-year anniversary of their grant date at levels ranging from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the three-year performance period. The aggregate target number of these PBRS shares outstanding at September 30, 2019 was 36,801 with an average grant date fair value of $49.06 per share. The 2019 expense related to these grants is currently estimated to be $644,000 and is based on the grant date fair value of the awards and the Company's achievement of 108% of the target financial goals. The estimated expense for 2019 and each future period through the vesting date is subject to prospective adjustment based upon changes in the expected achievement of the financial goals.

SARs

There were no SARs granted and no expense recognized during the nine months ended September 30, 2019. Following is a summary of the activity of the Company's SARs program for the nine-month period ended September 30, 2019:

	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term Years	Aggregate Intrinsic Value *(In thousands)*
Outstanding at December 31, 2018	237,121	$ 29.86	3.50	$ 5,468
Exercised	(34,518)	24.22	—	—
Exercisable at September 30, 2019	202,603	$ 30.82	2.93	$ 4,694

There were no non-vested SARs at September 30, 2019.

Note 9 – Defined Pension Plans

The Company has a noncontributory defined-benefit pension plan, which covers most of its employees. Effective December 31, 2016, the plan was closed to all new participants. The Company accrues and makes contributions designed to fund normal service costs on a current basis using the projected unit credit with service proration method to amortize prior service costs arising from improvements in pension benefits and qualifying service prior to the establishment of the plan over a period of approximately 30 years. Disclosure information is based on a measurement date of December 31 of the corresponding year. The following table represents the components of the net periodic pension costs:

(In thousands)	**Estimated 2019**	**Actual 2018**
Service cost – benefits earned during the year	$ 3,708	$ 4,017
Interest cost on projected benefit obligations	4,083	3,703
Expected return on plan assets	(4,754)	(5,202)
Net amortization and deferral	1,634	1,522
Net periodic pension cost	$ 4,671	$ 4,040

Pension costs recorded to expense were $1,178,000 and $1,049,000 for the three-month periods ended September 30, 2019 and 2018, respectively, and totaled $3,543,000 and $3,147,000 for the nine-month periods ended September 30, 2019 and 2018, respectively. Pension costs increased in 2019 primarily due to a decrease in the discount rate. The Company made no contribution to the plan during the nine-month period ended September 30, 2019 and is evaluating the amount of additional contributions, if any, in the remainder of 2019.Net periodic pension cost is presented within personnel expense in the Consolidated Statements of Income.

In addition to the above funded benefit plan, the Company has an unfunded supplemental executive retirement plan which covers key executives of the Company. This is a noncontributory plan in which the Company and its subsidiaries make accruals designed to fund normal service costs on a current basis using the same method and criteria as its defined benefit plan. The following table represents the components of the net periodic pension costs for 2018 and an estimate for 2019:

(In thousands)	**Estimated 2019**	**Actual 2018**
Service cost – benefits earned during the year	$ 97	$ 92
Interest cost on projected benefit obligation	408	348
Net amortization	276	581
Net periodic pension cost	$ 781	$ 1,021

Pension costs recorded to expense were $195,000 and $255,000 for the three-month periods ended September 30, 2019 and 2018, respectively, and were $586,000 and $766,000 for the nine-month periods ended September 30, 2019 and 2018, respectively.

Note 10 – Income Taxes

As of September 30, 2019, the Company's unrecognized tax benefits were approximately $1,438,000, of which $1,310,000 would, if recognized, affect the Company's effective tax rate. As of December 31, 2018, the Company's unrecognized tax benefits were approximately $ 1,403,000, of which $1,272,000 would, if recognized, affect the Company's effective tax rate. During the next 12 months, the Company may realize a reduction of its unrecognized tax benefits of approximately $207,000 due to the lapse of federal and state statutes of limitations.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company had $192,000 and $136,000 of gross interest accrued as of September 30, 2019 and December 31, 2018, respectively. There were no penalties for unrecognized tax benefits accrued at September 30, 2019 and December 31, 2018.

The Company is subject to income tax in the U.S. federal jurisdiction and numerous state jurisdictions. U.S. federal income tax returns for tax years 2016 through 2017 remain subject to examination by the Internal Revenue Service. In addition, the Company is subject to state tax examinations for the tax years 2014 through 2017.

Note 11 – Investment in Securities

Investment securities available-for-sale are recorded at fair value on a recurring basis. The Company's investment securities available-for-sale are measured at fair value using Level 2 valuations. The market evaluation utilizes several sources which include "observable inputs" rather than "significant unobservable inputs" and therefore fall into the Level 2 category. The amortized cost, gross unrealized gains, gross unrealized losses and fair value of investment securities are summarized as follows:

	September 30, 2019			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 312,826	$ 13,680	$ —	$ 326,506
U.S. government agencies	99,813	516	244	100,085
Certificates of deposit	1,000	—	—	1,000
Total	$ 413,639	$ 14,196	$ 244	$ 427,591

	December 31, 2018			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 332,732	$ 3,791	$ 1,806	$ 334,717
U.S. government agencies	106,153	86	1,417	104,822
Certificates of deposit	1,995	—	—	1,995
Total	$ 440,880	$ 3,877	$ 3,223	$ 441,534

The fair values of securities with unrealized losses are as follows:

	September 30, 2019					
	Less than 12 months		**12 months or more**		**Total**	
(In thousands)	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**
State and political subdivisions	$ 1,117	$ 1	$ —	$ —	$ 1,117	$ 1
U.S. government agencies	5,967	18	25,809	225	31,776	243
Total	$ 7,084	$ 19	$ 25,809	$ 225	$ 32,893	$ 244

	December 31, 2018					
	Less than 12 months		**12 months or more**		**Total**	
(In thousands)	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**
State and political subdivisions	$ 91,248	$ 556	$ 60,546	$ 1,250	$ 151,794	$ 1,806
U.S. government agencies	30,409	130	38,005	1,287	68,414	1,417
Total	$ 121,657	$ 686	$ 98,551	$ 2,537	$ 220,208	$ 3,223

There were 15 securities, or 5% of the total (10 greater than 12 months), in an unrealized loss position as of September 30, 2019. There were 136 securities, or 43% of the total (61 greater than 12 months), in an unrealized loss position as of December 31, 2018. All unrealized losses were reviewed to determine whether the losses were other than temporary. Management believes that all unrealized losses are temporary since they were market driven, and it is more likely than not that the Company will not be required to sell prior to recovery of the amortized basis.

The amortized cost and fair value of investment securities by contractual maturity are shown in the following table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

	September 30, 2019	
(In thousands)	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 35,337	$ 35,489
Due after 1 year through 5 years	106,384	108,511
Due after 5 years through 10 years	230,729	242,078
Due after 10 years	41,189	41,513
Total	$ 413,639	$ 427,591

Proceeds from sales of investment securities classified as available-for-sale were $0 for each of the three month periods ended September 30, 2019 and 2018, and were $4,648,000 and $58,520,000 for the nine months ended September 30, 2019 and 2018, respectively. There were no gross realized gains for the three months ended September 30, 2019 or 2018. Gross realized gains were $19,000 for the nine months ended September 30, 2019 compared to gross realized losses of $42,000 for the nine months ended September 30, 2018. There were no securities pledged to secure public deposits and for other purposes at September 30, 2019.

Note 12 – Fair Value of Financial Instruments

Following is a summary of the carrying amounts and fair values of the Company's financial instruments:

	September 30, 2019		December 31, 2018	
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Balance sheet assets:				
Cash and cash equivalents	$ 222,738	$ 222,738	$ 230,933	$ 230,933
Investment securities	427,591	427,591	441,534	441,534
Loans, net	756,875	769,487	711,362	711,090
Accrued interest receivable	6,535	6,535	7,069	7,069
Total	$ 1,413,739	$ 1,426,351	$ 1,390,898	$ 1,390,626
Balance sheet liabilities:				
Deposits	$ 711,233	$ 711,717	$721,926	$ 722,018
Accounts and drafts payable	762,075	762,075	694,360	694,360
Accrued interest payable	247	247	91	91
Total	$ 1,473,555	$ 1,474,039	$ 1,416,377	$ 1,416,469

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents – The carrying amount approximates fair value.

Investment in Securities – The fair value is measured on a recurring basis using Level 2 valuations. Refer to Note 11, "Investment in Securities," for fair value and unrealized gains and losses by investment type.

Loans – The fair value is estimated using present values of future cash flows discounted at risk-adjusted interest rates for each loan category designated by management and is therefore a Level 3 valuation. Management believes that the risk factor embedded in the interest rates along with the allowance for loan losses result in a fair valuation.

Accrued Interest Receivable – The carrying amount approximates fair value.

Deposits – The fair value of demand deposits, savings deposits and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities and therefore, is a Level 2 valuation. The fair value estimates above do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market or the benefit derived from the customer relationship inherent in existing deposits.

Accounts and Drafts Payable – The carrying amount approximates fair value.

Accrued Interest – The carrying amount approximates fair value.

There were no transfers between Levels 1 and 2 of the fair value hierarchy for the nine months ended September 30, 2019 and 2018. No financial instruments are measured using Level 3 inputs for the nine months ended September 30, 2019 and 2018.

Note 13 – Revenue from Contracts with Customers

On January 1, 2018, the Company adopted FASB ASC 606, "Revenue from Contracts with Customers" ("FASB ASC 606") and selected the modified retrospective transition method. The adoption of this new standard did not impact the Company's results of operations or balance sheet and there was no cumulative effect of initially applying this new revenue standard to the opening balance of retained earnings. Since interest income on loans and securities are both excluded from this topic, a significant portion of the Company's revenues are not subject to the new guidance. The services that fall within the scope of FASB ASC 606 are presented within fee revenue and other income in the Consolidated Statements of Income and are recognized as revenue as the obligation to the customer is satisfied. Services within the scope of FASB ASC 606 include invoice processing and payment fees, bank service fees, and other real estate owned ("OREO").

Invoice processing fees – The Company earns fees on a per-item or monthly basis for the invoice processing services rendered on behalf of customers. Per-item fees are recognized at the point in time when the performance obligation is satisfied. Monthly fees are earned over the course of a month, representing the period over which the performance obligation is satisfied. The contracts have no significant impact of variable consideration and no significant financing components.

Invoice payment fees – The Company earns fees on a transaction level basis for invoice payment services when making customer payments. Fees are recognized at the point in time when the payment transactions are made, which is when the performance obligation is satisfied. The contracts have no significant impact of variable consideration and no significant financing components.

Bank service fees – Revenue from service fees consists of service charges and fees on deposit accounts under depository agreements with customers to provide access to deposited funds. Service charges on deposit accounts are transaction based fees that are recognized at the point in time when the performance obligation is satisfied. Service charges are recognized on a monthly basis representing the period over which the performance obligation is satisfied. The contracts have no significant impact of variable consideration and no significant financing components.

OREO – The Company currently does not have any OREO and has not in recent years. Net gains or losses would be recorded when other real estate is sold to a third party and substantially all of the consideration for the transfer of property is received.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands)	**2019**	**2018**	**2019**	**2018**
Fee revenue and other income				
In-scope of FASB ASC 606				
Invoice processing fees	$ 20,408	$ 19,876	$ 61,397	$ 58,492
Invoice payment fees	7,333	6,144	19,653	17,576
Information services payment and processing revenue	27,741	26,020	81,050	76,068
Bank service fees	307	300	984	994
Fee revenue (in-scope of FASB ASC 606)	28,048	26,320	82,034	77,062
Other income (out-of-scope of FASB ASC 606)	214	115	613	387
Total fee revenue and other income	28,262	26,435	82,647	77,449
Net interest income after provision for loan losses (out-of-scope of FASB ASC 606)[1]	12,274	11,186	35,653	32,514
Total net revenue	$ 40,536	$ 37,621	$ 118,300	$ 109,963

1 The Company earns interest income from the balances generated during the invoice processing and payment cycle and on deposit accounts, which is an integral component of the Company's compensation for services provided, but is out-of-scope of FASB ASC 606.

Note 14 – Leases

On January 1, 2019, the Company adopted Accounting Standards Update (“ASU”) No. 2016-02 – “Leases (ASC Topic 842).” The Company leases certain premises under operating leases. As of September 30, 2019, the Company had lease liabilities of $7,019,000 and right-of-use assets of $6,241,000. Lease liabilities and right-of-use assets are reflected in other liabilities and other assets, respectively. Presented within occupancy expense on the Consolidated Statements of Income for the three months ended September 30, 2019, operating lease cost was $419,000, short-term lease cost was $33,000, and there was no variable lease cost. For the nine months ended September 30, 2019, operating lease cost was $1,259,000, short-term lease cost was $107,000, and there was no variable lease cost. For the period ended September 30, 2019, the weighted average remaining lease term for the operating leases was 6.8 years and the weighted average discount rate used in the measurement of operating lease liabilities was 5.5%. Certain of the Company’s leases contain options to renew the lease; however, these renewal options are not included in the calculation of the lease liabilities as they are not reasonably certain to be exercised. There has been no significant change in the Company’s expected future minimum lease payments since December 31, 2018. See the Company’s 2018 Annual Report on Form 10-K for information regarding these commitments.

A maturity analysis of operating lease liabilities and undiscounted cash flows as of September 30, 2019 was as follows:

(In thousands)		**September 30, 2019**
Lease payments due		
Less than 1 year	$	1,759
1-2 years		1,665
2-3 years		1,525
3-4 years		902
4-5 years		390
Over 5 years		2,070
Total undiscounted cash flows		8,311
Discount on cash flows		1,292
Total lease liability	$	7,019

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the nine months ended September 30, 2019. At September 30, 2019, the Company had one lease that had not yet commenced, but is expected to create approximately $800,000 of additional lease liabilities and right-of-use assets for the Company. This lease is anticipated to commence in 2020.

Note 15 – Subsequent Events

In accordance with FASB ASC 855, “Subsequent Events,” the Company has evaluated subsequent events after the consolidated balance sheet date of September 30, 2019, and there were no events identified that would require additional disclosures to prevent the Company’s unaudited consolidated financial statements from being misleading.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTSOF OPERATIONS

Overview

Cass provides payment and information processing services to large manufacturing, distribution and retail enterprises from its offices/locations in St. Louis, Missouri, Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina, Wellington, Kansas, Jacksonville, Florida, Breda, Netherlands, Basingstoke, United Kingdom, and Singapore. The Company's services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays energy invoices, which include electricity and gas as well as waste and telecommunications expenses and is a provider of telecom expense management solutions. Additionally, Cass provides a B2B payment platform for clients that require an agile fintech partner. The Company also, through Cass Commercial Bank, its St. Louis, Missouri-based bank subsidiary provides banking services in the St. Louis metropolitan area, Orange County, California, Colorado Springs, Colorado, and other selected cities in the United States. In addition to supporting the Company's payment operations, the Bank provides banking services to its target markets, which include privately-owned businesses and faith-based ministries.

The specific payment and information processing services provided to each customer are developed individually to meet each customer's requirements, which can vary greatly. In addition, the degree of automation such as electronic data interchange, imaging, work flow, and web-based solutions varies greatly among customers and industries. These factors combine so that pricing varies greatly among the customer base. In general, however, Cass is compensated for its processing services through service fees and investment of account balances generated during the payment process. The amount, type, and calculation of service fees vary greatly by service offering, but generally follow the volume of transactions processed. Interest income from the balances generated during the payment processing cycle is affected by the amount of time Cass holds the funds prior to payment and the dollar volume processed. Both the number of transactions processed and the dollar volume processed are therefore key metrics followed by management. Other factors will also influence revenue and profitability, such as changes in the general level of interest rates, which have a significant effect on net interest income. The funds generated by these processing activities are invested in overnight investments, investment grade securities, and loans generated by the Bank. The Bank earns most of its revenue from net interest income, or the difference between the interest earned on its loans and investments and the interest paid on its deposits and other borrowings. The Bank also assesses fees on other services such as cash management services.

Industry-wide factors that impact the Company include the willingness of large corporations to outsource key business functions such as freight, energy, telecommunication and environmental payment and audit. The benefits that can be achieved by outsourcing transaction processing, and the management information generated by Cass' systems can be influenced by factors such as the competitive pressures within industries to improve profitability, the general level of transportation costs, deregulation of energy costs, and consolidation of telecommunication providers. Economic factors that impact the Company include the general level of economic activity that can affect the volume and size of invoices processed, the ability to hire and retain qualified staff, and the growth and quality of the loan portfolio. The general level of interest rates also has a significant effect on the revenue of the Company. As discussed in greater detail in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," in the Company's 2018 Annual Report on Form 10-K, a decline in the general level of interest rates can have a negative impact on net interest income and conversely, a rise in the general level of interest rates can have a positive impact on net interest income. The cost of fuel is another factor that has a significant impact on the transportation sector. As the price of fuel goes up or down, the Company's earnings increase or decrease with the dollar amount of transportation invoices. Another negative impact of low fuel prices could be a drop in the number of invoices related to drilling supplies carried by domestic railroads and trucks that move pipes, sand and water for fracking operations.

Currently, management views Cass' major opportunity as the continued expansion of its payment and information processing service offerings and customer base. Management intends to accomplish this by maintaining the Company's leadership position in applied technology, which when combined with the security and processing controls of the Bank, makes Cass unique in the industry.

Critical Accounting Policies

The Company has prepared the consolidated financial statements in this report in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). In preparing the consolidated financial statements, management makes estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. These estimates have been generally accurate in the past, have been consistent and have not required any material changes. There can be no assurances that actual results will not differ from those estimates. The accounting policy that requires significant management estimates and is deemed critical to the Company's results of operations or financial position has been discussed with the Audit Committee of the Board of Directors and is described below.

Allowance for Loan Losses. The Company performs periodic and systematic detailed reviews of its loan portfolio to assess overall collectability. The level of the allowance for loan losses reflects management's estimate of the collectability of the loan portfolio. Although these estimates are based on established methodologies for determining allowance requirements, actual results can differ significantly from estimated results. These policies affect both segments of the Company. The impact and associated risks related to these policies on the Company's business operations are discussed in the "Provision and Allowance for Loan Losses" section of this report. The Company's estimates have been materially accurate in the past, and accordingly, the Company expects to continue to utilize the present processes through 2019, after which current expected credit losses methodology will be adopted.

Results of Operations

The following paragraphs more fully discuss the results of operations and changes in financial condition for the three-month period ended September 30, 2019 ("Third Quarter of 2019") compared to the three-month period ended September 30, 2018 ("Third Quarter of 2018") and the nine-month period ended September 30, 2019 ("Nine Months Ended 2019") compared to the nine-month period ended September 30, 2018 ("Nine Months Ended 2018"). The following discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and related notes and with the statistical information and financial data appearing in this report, as well as in the Company's 2018 Annual Report on Form 10-K. Results of operations for the Third Quarter of 2019 are not necessarily indicative of the results to be attained for any other period.

Net Income

The following table summarizes the Company's operating results:

	Third Quarter of			Nine Months Ended		
(In thousands except per share data)	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**
Net income	$ 8,186	$ 7,610	7.6	$ 24,033	$ 23,211	3.5
Diluted earnings per share	$ .56	$ .51	9.8	$ 1.64	$ 1.55	5.8
Return on average assets	1.82%	1.84%	—	1.86%	1.92%	—
Return on average equity	13.44%	13.31%	—	13.76%	13.96%	—

Fee Revenue and Other Income

The Company's fee revenue is derived mainly from transportation and facility payment and processing fees. As the Company provides its processing and payment services, it is compensated by service fees which are typically calculated on a per-item basis and by the accounts and drafts payable balances generated in the payment process which can be used to generate interest income. Processing volumes, fee revenue, and other income were as follows:

	Third Quarter of			Nine Months Ended		
(In thousands)	**2019**	**2018**	**% Change**	**2019**	**2018**	**% Change**
Transportation invoice volume	9,236	9,530	(3.1)%	27,406	28,349	(3.3)%
Transportation invoice dollar volume	$ 7,104,771	$ 7,264,898	(2.2)%	$ 21,211,746	$ 21,227,816	(0.1)%
Facility Expense transaction volume*	7,143	7,124	0.3%	21,029	21,414	(1.8)%
Facility Expense dollar volume*	$ 4,118,393	$ 3,667,007	12.3%	$ 11,468,896	$ 10,338,979	10.9%
Payment and processing revenue	$ 27,741	$ 26,020	6.6%	$ 81,050	$ 76,068	6.5%

* Includes energy, telecom and waste

Third Quarter of 2019 compared to Third Quarter of 2018:

Payment and processing fee revenue increased 7%. Factors continuing to influence performance were an expanding customer base and the development and deployment of new revenue-generating services. Transportation invoice volume declined 3% as a historically robust 2018 created a challenging comparison in 2019. Additionally, dollar volume decreased 2% as a result of a softening carrier market. Facility-related (electricity, gas, waste and telecom expense management) dollar volume was up a strong 12% due to significantly increased "spend" by several major clients plus contributions from new customers. Facility expense transactions volume increased slightly as the mix of customers, particularly in telecom expense management, changed from a relatively high transaction/low dollar to a relatively low transaction/high dollar average customer. Actual customer counts increased for the quarter.

There were no gains on sales of securities in either the Third Quarter of 2019 or 2018.

Nine Months Ended 2019 compared to Nine Months Ended 2018:

Payment and processing fee revenue, transportation invoice and dollar volumes, as well as expense management transaction and dollar volumes, fluctuated for the same reasons as the Third Quarter.

Gains of $19,000 on the sales of securities were recognized in the Nine Months Ended 2019, compared to losses of $42,000 in the Nine Months Ended 2018.

Net Interest Income

Net interest income is the difference between interest earned on loans, investments, and other earning assets and interest expense on deposits and other interest-bearing liabilities. Net interest income is a significant source of the Company's revenues. The following table summarizes the changes in tax-equivalent net interest income and related factors:

	Third Quarter of			Nine Months Ended		
(In thousands)	2019	2018	% Change	2019	2018	% Change
Average earnings assets	$ 1,498,470	$ 1,397,477	7.2%	$ 1,456,242	$ 1,385,488	5.1%
Average interest-bearing liabilities	398,982	359,793	10.9%	389,443	369,016	5.5%
Net interest income*	12,785	11,749	8.8%	37,485	34,389	9.0%
Net interest margin*	3.38%	3.34%		3.44%	3.32%	
Yield on earning assets*	3.75%	3.63%		3.81%	3.56%	
Rate on interest-bearing liabilities	1.38%	1.13%		1.37%	.91%	

* Presented on a tax-equivalent basis assuming a tax rate of 21% for both 2019 and 2018.

Third Quarter of 2019 compared to Third Quarter of 2018:

Third Quarter of 2019 average earning assets increased $100,993,000, or 7.2%, compared to the same period in the prior year. Average federal funds sold and short-term investments increased $132,661,000 and loans increased $56,443,000, or 7.9%. These were partially offset by a decrease in interest-bearing deposits in other financial institutions of $60,648,000, or 37.2%, and average investment securities of $22,400,000, or 5.1%, in the Third Quarter of 2019 compared to the Third Quarter of 2018.

Average accounts and drafts payable increased $53,381,000, or 7.1%, and non-interest bearing demand deposits increased $22,162,000, or 8.9%, in the Third Quarter of 2019 compared to the Third Quarter of 2018. Total average interest-bearing liabilities for the Third Quarter of 2019 increased $39,189,000, or 10.9%, compared to the Third Quarter of 2018.

The changes to the interest rate environment also led to an increase in the rate for the yield on earning assets and on interest-bearing liabilities in the Third Quarter of 2019 compared to the Third Quarter of 2018.

Nine Months Ended 2019 compared to Nine Months Ended 2018:

Nine Months Ended 2019 average earning assets increased $70,754,000, or 5.1%, compared to the same period in the prior year. Average federal funds sold and other short-term investments increased $56,087,000, or 53.2%, and loans increased $49,790,000, or 7.1%. These were partially offset by a decrease in average investment securities of $23,352,000, or 5.2%, for the Nine Months Ended 2019 as compared to the Nine Months Ended 2018.

Average accounts and drafts payable balances for the Nine Months Ended 2019 increased $41,058,000, or 5.6%, and non-interest bearing demand deposits increased $22,372,000, or 9.1%. Total average interest-bearing liabilities for the Nine Months Ended 2019 increased $20,428,000, or 5.5% compared to the Nine Months Ended 2018.

Net interest income and net interest margin were impacted by the same factors as the Third Quarter.

For more information on the changes in net interest income, please refer to the tables that follow.

Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rate and Interest Differential

The following tables show the condensed average balance sheets for each of the periods reported, the tax-equivalent interest income and expense on each category of interest-earning assets and interest-bearing liabilities, and the average yield on such categories of interest-earning assets and the average rates paid on such categories of interest-bearing liabilities for each of the periods reported.

	Third Quarter of 2019			Third Quarter of 2018		
(In thousands)	**Average Balance**	**Interest Income/ Expense**	**Yield/Rate**	**Average Balance**	**Interest Income/ Expense**	**Yield/Rate**
Assets[1]						
Earning assets						
Loans[2]:						
Taxable	$ 774,489	$ 9,549	4.89%	$ 716,849	$ 8,356	4.62%
Tax-exempt[3]	—	—	—	1,197	13	4.31
Investment securities[4]:						
Taxable	102,507	603	2.33	100,530	593	2.34
Tax-exempt[3]	315,381	2,436	3.06	339,758	2,671	3.12
Certificates of deposit	1,644	8	1.93	6,707	26	1.54
Interest-bearing deposits in other financial institutions	102,386	502	1.95	163,034	794	1.93
Federal funds sold and other short-term investments	202,063	1,079	2.12	69,402	325	1.86
Total earning assets	1,498,470	14,177	3.75	1,397,477	12,778	3.63
Non-earning assets:						
Cash and due from banks	16,307			13,398		
Premises and equipment, net	20,981			22,583		
Bank-owned life insurance	17,456			17,197		
Goodwill and other intangibles	14,669			14,300		
Other assets	222,449			182,565		
Allowance for loan losses	(10,507)			(10,218)		
Total assets	$ 1,779,825			$ 1,637,302		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 315,341	$ 996	1.25%	$ 292,038	$ 802	1.09%
Savings deposits	9,612	24	0.99	11,129	30	1.07
Time deposits >= $100	25,978	133	2.03	24,718	95	1.52
Other time deposits	48,051	239	1.97	31,908	102	1.27
Total interest-bearing liabilities	398,982	1,392	1.38	359,793	1,029	1.13
Non-interest bearing liabilities:						
Demand deposits	272,551			250,389		
Accounts and drafts payable	809,078			755,697		
Other liabilities	57,646			44,652		
Total liabilities	1,538,257			1,410,531		
Shareholders' equity	241,568			226,771		
Total liabilities and shareholders' equity	$ 1,779,825			$ 1,637,302		
Net interest income		$ 12,785			$ 11,749	
Net interest margin			3.38%			3.34%
Interest spread			2.37			2.50

1. Balances shown are daily averages.
2. Interest income on loans includes net loan fees of $127,000 and $98,000 for the Third Quarter of 2019 and 2018, respectively.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for both 2019 and 2018. The tax-equivalent adjustment was approximately $511,000 and $564,000 for the Third Quarter of 2019 and 2018, respectively.
4. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

(In thousands)	Nine Months Ended 2019 Average Balance	Interest Income/ Expense	Yield/Rate	Nine Months Ended 2018 Average Balance	Interest Income/ Expense	Yield/Rate
Assets[1]						
Earning assets						
Loans[2]:						
Taxable	$ 755,331	$ 27,564	4.88%	$ 703,535	$ 23,786	4.52%
Tax-exempt[3]	—	—	0.00	2,006	57	3.80
Investment securities[4]:						
Taxable	104,614	1,865	2.38	78,609	1,348	2.29
Tax-exempt[3]	322,682	7,538	3.12	372,039	8,872	3.19
Certificates of deposit	1,877	28	1.99	7,134	80	1.50
Interest-bearing deposits in other financial institutions	110,294	1,789	2.17	116,808	1,539	1.76
Federal funds sold and other short-term investments	161,444	2,688	2.23	105,357	1,209	1.53
Total earning assets	1,456,242	41,472	3.81	1,385,488	36,891	3.56
Non-earning assets:						
Cash and due from banks	14,292			13,472		
Premises and equipment, net	21,522			22,322		
Bank-owned life insurance	17,475			17,084		
Goodwill and other intangibles	14,243			14,409		
Other assets	210,200			173,833		
Allowance for loan losses	(10,413)			(10,213)		
Total assets	$ 1,723,561			$ 1,616,395		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 305,454	$ 2,841	1.24%	$ 303,976	$ 1,932	.85%
Savings deposits	10,487	83	1.06	11,230	76	.90
Time deposits >= $100	24,728	364	1.97	23,764	257	1.45
Other time deposits	48,774	699	1.92	30,046	237	1.05
Total interest-bearing liabilities	389,443	3,987	1.37	369,016	2,502	.91
Non-interest bearing liabilities:						
Demand deposits	267,374			245,002		
Accounts and drafts payable	778,141			737,083		
Other liabilities	55,007			42,955		
Total liabilities	1,489,965			1,394,056		
Shareholders' equity	233,596			222,339		
Total liabilities and shareholders' equity	$ 1,723,561			$ 1,616,395		
Net interest income		$ 37,485			$ 34,389	
Net interest margin			3.44%			3.32%
Interest spread			2.44			2.65

1. Balances shown are daily averages.
2. Interest income on loans includes net loan fees of $369,000 and $289,000 for the Nine Months Ended 2019 and 2018, respectively.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for both 2019 and 2018. The tax-equivalent adjustment was approximately $1,583,000 and $1,875,000 for the Nine Months Ended 2019 and 2018, respectively.
4. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

Analysis of Net Interest Income Changes

The following tables present the changes in interest income and expense between periods due to changes in volume and interest rates. That portion of the change in interest attributable to the combined rate/volume variance has been allocated to rate and volume changes in proportion to the absolute dollar amounts of the change in each.

	Third Quarter of 2019 Over Third Quarter of 2018		
(In thousands)	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans[1]:			
Taxable	$ 694	$ 499	$ 1,193
Tax-exempt[2]	(13)	—	(13)
Investment securities:			
Taxable	12	(2)	10
Tax-exempt[2]	(189)	(46)	(235)
Certificates of deposit	(23)	5	(18)
Interest-bearing deposits in other financial institutions	(297)	5	(292)
Federal funds sold and other short-term investments	702	52	754
Total interest income	886	513	1,399
Interest expense on:			
Interest-bearing demand deposits	67	127	194
Savings deposits	(4)	(2)	(6)
Time deposits >=$100	5	33	38
Other time deposits	65	72	137
Total interest expense	133	230	363
Net interest income	$ 753	$ 283	$ 1,036

1. Interest income includes net loan fees.
2. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for the Third Quarter of 2019 and 2018.

	Nine Months Ended 2019 Over Nine Months Ended 2018		
(In thousands)	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans[1]:			
Taxable	$ 1,818	$ 1,960	$ 3,778
Tax-exempt[2]	(57)	—	(57)
Investment securities:			
Taxable	462	55	517
Tax-exempt[2]	(1,156)	(178)	(1,334)
Certificates of deposit	(72)	20	(52)
Interest-bearing deposits in other financial institutions	(90)	340	250
Federal funds sold and other short-term investments	801	678	1,479
Total interest income	1,706	2,875	4,581
Interest expense on:			
Interest-bearing demand deposits	9	900	909
Savings deposits	(5)	12	7
Time deposits >=$100	11	96	107
Other time deposits	200	262	462
Total interest expense	215	1,270	1,485
Net interest income	$ 1,491	$ 1,605	$ 3,096

1. Interest income includes net loan fees.
2. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for the Nine Months Ended 2019 and 2018.

Provision and Allowance for Loan Losses ("ALLL")

A significant determinant of the Company's operating results can be the provision for loan losses. There was no provision for loan loss recorded during the Third Quarter of 2019 or the Third Quarter of 2018. There was a loan loss provision of $250,000 recorded during the Nine Months Ended 2019 to support the growth in the loan portfolio. There was no loan loss provision in the Nine Months Ended 2018. As discussed below, the Company continually analyzes the outstanding loan portfolio based on the performance, financial condition and collateralization of the credits. Net loan recoveries were $3,000 in the Third Quarter of 2019 and $5,000 in the Third Quarter of 2018. Net loan recoveries were $34,000 in the Nine Months Ended 2019 and $15,000 during the Nine Months Ended 2018.

The ALLL at September 30, 2019 was $10,509,000 and at December 31, 2018 was $10,225,000. The ratio of ALLL to total loans outstanding at September 30, 2019 was 1.37% compared to 1.42% at December 31, 2018. There were no nonperforming loans at September 30, 2019 or December 31, 2018.

The ALLL has been established and is maintained to absorb reasonably estimated and probable losses in the loan portfolio. An ongoing assessment is performed to determine if the balance is adequate. Charges or credits are made to expense to cover any deficiency or reduce any excess, as required. The current methodology consists of two components: 1) estimated credit losses on individually evaluated loans that are determined to be impaired in accordance with FASB ASC 310, "Allowance for Credit Losses," and 2) estimated credit losses inherent in the remainder of the loan portfolio in accordance with FASB ASC 450, "Contingencies." Estimated credit losses is an estimate of the current amount of loans that is probable the Company will be unable to collect according to the original terms.

For loans that are individually evaluated, the Company uses two impairment measurement methods: 1) the present value of expected future cash flows and 2) collateral value. For the remainder of the portfolio, the Company groups loans with similar risk characteristics into eight segments and applies historical loss rates to each segment based on a five fiscal-year look-back period. In addition, qualitative factors including credit concentration risk, national and local economic conditions, nature and volume of loan portfolio, legal and regulatory factors, downturns in specific industries including losses in collateral value, trends in credit quality at the Company and in the banking industry and trends in risk-rating agencies are also considered.

The Company also utilizes ratio analysis to evaluate the overall reasonableness of the ALLL compared to its peers and required levels of regulatory capital. Federal and state agencies review the Company's methodology for maintaining the ALLL. These agencies may require the Company to adjust the ALLL based on their judgments and interpretations about information available to them at the time of their examinations.

Summary of Asset Quality

The following table presents information on the Company's provision for loan losses and analysis of the ALLL:

	Third Quarter of		Nine Months Ended	
(In thousands)	**2019**	**2018**	**2019**	**2018**
Allowance at beginning of period	$ 10,506	$ 10,215	$ 10,225	$ 10,205
Provision charged to expense	—	—	250	—
Loans charged off	—	—	—	—
Recoveries on loans previously charged off	3	5	34	15
Net recoveries	3	5	34	15
Allowance at end of period	$ 10,509	$ 10,220	$ 10,509	$ 10,220
Loans outstanding:				
Average	$ 774,489	$ 718,046	$ 755,331	$ 705,541
September 30	767,384	726,239	767,384	726,239
Ratio of ALLL to loans outstanding:				
Average	1.36%	1.42%	1.39%	1.45%
September 30	1.37%	1.41%	1.37%	1.41%
Impaired loans:				
Nonaccrual loans	$ —	$ —	$ —	$ —
Loans past due 90 days or more	—	—	—	—
Troubled debt restructurings	—	—	—	—
Total impaired loans	$ —	$ —	$ —	$ —
Foreclosed assets	$ —	—	$ —	—
Impaired loans as percentage of average loans	—	—	—	—

The Bank had no property carried as other real estate owned as of September 30, 2019 or September 30, 2018.

Operating Expenses

Total operating expenses for the Third Quarter of 2019 were up 7.1%, or $2,033,000, compared to the Third Quarter of 2018 and were up 8.3%, or $6,821,000, for the Nine Months Ended 2019 compared to the Nine Months Ended 2018.

Personnel expense for the Third Quarter of 2019 increased $1,767,000 compared to the Third Quarter of 2018 and increased $4,876,000 to $68,594,000 for the Nine Months Ended 2019 compared to the Nine Months Ended 2018 as the Company continued to invest in the technology and staff required to win and support new business, annual salary merit increases, and increased retirement plan costs.

Equipment expense for the Third Quarter of 2019 increased $120,000, or 8.4%, compared to the Third Quarter of 2018 and $425,000, or 10.2%, for the Nine Months Ended 2019 from the Nine Months Ended 2018. Outside service expense for the Third Quarter of 2019 increased $243,000, or 12.8%, compared to the Third Quarter of 2018 and $768,000, or 13.6%, for the Nine Months Ended 2019 from the Nine Months Ended 2018. These increases were the result of the continued strategic investment in technology to win and support new business and the ongoing restructuring of the IT organization.

Financial Condition

Total assets at September 30, 2019 were $1,781,010,000, an increase of $85,834,000, or 5.1%, from December 31, 2018. The most significant changes in asset balances during this period were increases in payments in excess of funding of $47,448,000 and loans of $45,797,000. These were partially offset by a decrease of $13,943,000 in investment securities and a decrease of $8,195,000 in cash and cash equivalents. Changes in cash and cash equivalents reflect the Company's daily liquidity position and are affected by the changes in the other asset balances and changes in deposit and accounts and drafts payable balances.

Total liabilities at September 30, 2019 were $1,534,393,000, an increase of $69,065,000, or 4.7%, from December 31, 2018. Accounts and drafts payable at September 30, 2019 were $762,075,000, an increase of $67,715,000, or 9.8%, from December 31, 2018. Total shareholders' equity at September 30, 2019 was $246,617,000, a $16,769,000, or 7.3%, increase from December 31, 2018. Total shareholders' equity increased as a result of net income of $24,033,000 and the change in accumulated other comprehensive income of $10,059,000. This was offset by dividends paid of $11,317,000 and share repurchases of $7,799,000.

Accounts and drafts payable will fluctuate from period-end to period-end due to the payment processing cycle, which results in lower balances on days when payments clear and higher balances on days when payments are issued. For this reason, average balances are a more meaningful measure of accounts and drafts payable (for average balances refer to the tables under the "Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rate and Interest Differential" section of this report).

Liquidity and Capital Resources

The balance of liquid assets consisting of cash and cash equivalents, which include cash and due from banks, interest-bearing deposits in other financial institutions, federal funds sold and other short-term investments, was $222,738,000 at September 30, 2019, a decrease of $8,195,000, or 3.5%, from December 31, 2018. At September 30, 2019, these assets represented 12.5% of total assets. These funds are the Company's and its subsidiaries' primary source of liquidity to meet future expected and unexpected loan demand, depositor withdrawals or reductions in accounts and drafts payable.

Secondary sources of liquidity include the investment portfolio and borrowing lines. Total investment in securities was $427,591,000 at September 30, 2019, a decrease of $13,943,000 from December 31, 2018. These assets represented 24.0% of total assets at September 30, 2019. Of this total, 76% were state and political subdivision securities. Of the total portfolio, 8.3% mature in one year or less, 25.4% mature in one to five years, and 66.3% mature in five or more years.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $83,000,000 at the following banks: US Bank, $20,000,000; UMB Bank, $20,000,000; Wells Fargo Bank, $15,000,000; PNC Bank, $12,000,000; Frost National Bank, $10,000,000; and JPM Chase Bank, $6,000,000. The Bank also has secured lines of credit with the Federal Home Loan Bank of $191,241,000 collateralized by commercial mortgage loans. The Company also has secured lines of credit with UMB Bank of $50,000,000 and First Tennessee Bank of $50,000,000 collateralized by state and political subdivision securities. There were no amounts outstanding under any line of credit as of September 30, 2019 or December 31, 2018.

The deposits of the Company's banking subsidiary have historically been stable, consisting of a sizable volume of core deposits related to customers that utilize other commercial products of the Bank. The accounts and drafts payable generated by the Company has also historically been a stable source of funds. The Company is part of the Certificate of Deposit Account Registry Service ("CDARS") and Insured Cash Sweep ("ICS") deposit placement programs. Time deposits include $50,115,000 of CDARS deposits and interest-bearing demand deposits include $66,160,000 of ICS deposits. These programs offer the Bank's customers the ability to maximize Federal Deposit Insurance Corporation ("FDIC") insurance coverage. The Company uses these programs to retain or attract deposits from existing customers.

Net cash flows provided by operating activities were $39,774,000 for the Nine Months Ended 2019 compared with $38,796,000 for the Nine Months ended 2018, an increase of $978,000. Net cash flows from investing and financing activities fluctuate greatly as the Company actively manages its investment and loan portfolios and customer activity influences changes in deposit and accounts and drafts payable balances. Other causes for the changes in these account balances are discussed earlier in this report. Due to the daily fluctuations in these account balances, the analysis of changes in average balances, also discussed earlier in this report, can be more indicative of underlying activity than the period-end balances used in the statements of cash flows. Management anticipates that cash and cash equivalents, maturing investments and cash from operations will continue to be sufficient to fund the Company's operations and capital expenditures in 2019, which are estimated to range from $4 million to $6 million.

The Company faces market risk to the extent that its net interest income and fair market value of equity are affected by changes in market interest rates. For information regarding the market risk of the Company's financial instruments, see Item 3, "Quantitative and Qualitative Disclosures about Market Risk."

There are several trends and uncertainties that may impact the Company's ability to generate revenues and income at the levels that it has in the past. In addition, these trends and uncertainties may impact available liquidity. Those that could significantly impact the Company include the general levels of interest rates, business activity, and energy costs as well as new business opportunities available to the Company.

As a financial institution, a significant source of the Company's earnings is generated from net interest income. Therefore, the prevailing interest rate environment is important to the Company's performance. A major portion of the Company's funding sources are the non-interest bearing accounts and drafts payable generated from its payment and information processing services. Accordingly, higher levels of interest rates will generally allow the Company to earn more net interest income. Conversely, a lower interest rate environment will generally tend to depress net interest income. The Company actively manages its balance sheet in an effort to maximize net interest income as the interest rate environment changes. This balance sheet management impacts the mix of earning assets maintained by the Company at any point in time. For example, in a low interest rate environment, short-term relatively lower rate liquid investments may be reduced in favor of longer-term relatively higher yielding investments and loans. If the primary source of liquidity is reduced in a low interest rate environment, a greater reliance would be placed on secondary sources of liquidity including borrowing lines, the ability of the Bank to generate deposits, and the investment portfolio to ensure overall liquidity remains at acceptable levels.

The overall level of economic activity can have a significant impact on the Company's ability to generate revenues and income, as the volume and size of customer invoices processed may increase or decrease. Higher levels of economic activity increase both fee income (as more invoices are processed) and balances of accounts and drafts payable.

The relative level of energy costs can impact the Company's earnings and available liquidity. Lower levels of energy costs will tend to decrease transportation and energy invoice amounts resulting in a corresponding decrease in accounts and drafts payable. Decreases in accounts and drafts payable generate lower interest income.

New business opportunities are an important component of the Company's strategy to grow earnings and improve performance. Generating new customers allows the Company to leverage existing systems and facilities and grow revenues faster than expenses.

The Basel III Capital Rules require FDIC insured depository institutions to meet and maintain several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio of 4.5%, a Tier 1 capital to risk-based assets ratio of 6.0%, a total capital to risk-based assets of 8.0%, and a 4.0% Tier 1 capital to total assets leverage ratio.

Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements. Also included in Tier 2 capital is the allowance for loan losses limited to a maximum of 1.25% of risk-weighted assets and, for non-advanced approaches institutions like Cass that have exercised a one-time opt-out election regarding the treatment of Accumulated Other Comprehensive Income, up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. The calculation of all types of regulatory capital is subject to deductions and adjustments specified in applicable regulations.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, all assets, including certain off-balance sheet assets, are multiplied by a risk weight factor assigned by the regulations based on the risks believed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of 150% is assigned to certain past due loans, and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

Fully phased-in as of January 1, 2019, the Basel III Capital Rules require banking organizations, like Cass, to maintain:

- a minimum ratio of common equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer;
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus a 2.5% capital conservation buffer;
- a minimum ratio of total capital (that is, Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer; and
- a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to adjusted average consolidated assets.

The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer will face limitations on the payment of dividends, common stock repurchases and discretionary cash payments to executive officers based on the amount of the shortfall.

The Company and the Bank continue to exceed all regulatory capital requirements, as evidenced by the following capital amounts and ratios:

	September 30, 2019		December 31, 2018	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets):				
Cass Information Systems, Inc.	$ 246,640	19.72%	$ 244,660	21.38%
Cass Commercial Bank	150,239	19.08%	137,894	18.31%
Common Equity Tier I Capital (to risk-weighted assets):				
Cass Information Systems, Inc.	$ 236,131	18.88%	$ 234,435	20.49%
Cass Commercial Bank	142,198	18.06%	130,037	17.26%
Tier I capital (to risk-weighted assets):				
Cass Information Systems, Inc.	$ 236,131	18.88%	$ 234,435	20.49%
Cass Commercial Bank	142,198	18.06%	130,037	17.26%
Tier I capital (to average assets):				
Cass Information Systems, Inc.	$ 236,131	13.41%	$ 234,435	13.89%
Cass Commercial Bank	142,198	16.99%	130,037	15.35%

Inflation

The Company’s assets and liabilities are primarily monetary, consisting of cash, cash equivalents, securities, loans, payables and deposits. Monetary assets and liabilities are those that can be converted into a fixed number of dollars. The Company's consolidated balance sheet reflects a net positive monetary position (monetary assets exceed monetary liabilities). During periods of inflation, the holding of a net positive monetary position will result in an overall decline in the purchasing power of a company. Management believes that replacement costs of equipment, furniture, and leasehold improvements will not materially affect operations. The rate of inflation does affect certain expenses, such as those for employee compensation, which may not be readily recoverable in the price of the Company’s services.

Impact of New and Not Yet Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02 – “Leases (ASC Topic 842).” The ASU improves financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. Consistent with current generally accepted accounting principles (“GAAP”), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet. The ASU also requires disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The Company elected to apply ASU 2016-02 as of the beginning of the period of adoption (January 1, 2019) and will not restate comparative periods. The Company has elected to apply the package of practical expedients allowed by the new standard under which the Company need not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. Adoption of the ASU resulted in the recognition of lease liabilities totaling $7,808,000 and the right-of-use assets totaling $7,383,000. The initial balance sheet gross up upon adoption was related to operating leases of certain real estate properties. See Note 14 – Leases for additional disclosures related to leases.

In June 2016, the FASB issued ASU No. 2016-13 – "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU requires measurement and recognition of expected credit losses for financial assets held. Under this standard, the Company will be required to hold an allowance equal to the expected life-of-loan losses on the loan portfolio. The standard is effective for fiscal periods beginning after December 15, 2019. The Company has formed a cross-functional working group under the direction of the Chief Financial Officer comprised of individuals from various functional areas including credit, risk management, finance, and accounting to address the adoption and implementation of the ASU. The group is currently working through the implementation plan and is in the process of developing an in-house solution to use in the adoption of the ASU. The Company is also utilizing an external consultant to assist with the implementation plan. The Company expects to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As described in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, the Company manages its interest rate risk through measurement techniques that include gap analysis and a simulation model. As part of the risk management process, asset/liability management policies are established and monitored by management. The policy objective is to limit the change in annualized net interest income to 15.0% from an immediate and sustained parallel change in interest rates of 200 basis points. Based on the Company's most recent evaluation, management does not believe the Company's risk position at September 30, 2019 has changed materially from that at December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the principal executive officer and the principal financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report and concluded that, as of such date, these controls and procedures were effective.

There were no changes in the Third Quarter of 2019 in the Company's internal control over financial reporting identified by the Company's principal executive officer and principal financial officer in connection with their evaluation that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is the subject of various pending or threatened legal actions and proceedings, including those that arise in the ordinary course of business. Management believes the outcome of all such proceedings will not have a material effect on the businesses or financial conditions of the Company or its subsidiaries.

ITEM 1A. RISK FACTORS

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2018, a description of certain risks and uncertainties that could affect the Company's business, future performance or financial condition (the "Risk Factors"). There are no material changes to the Risk Factors as disclosed in the Company's 2018 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) None.

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors implemented in the Third Quarter of 2019.

ITEM 6. EXHIBITS

Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of theSarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of theSarbanes-Oxley Act of 2002.

Exhibit 101.INS XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

Exhibit 101.SCH Inline XBRL Taxonomy Extension Schema Document.

Exhibit 101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document.

Exhibit 101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document.

Exhibit 101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document.

Exhibit 104 Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CASS INFORMATION SYSTEMS, INC.

DATE: November 7, 2019	By	/s/ Eric H. Brunngraber Eric H. Brunngraber Chairman, President and Chief Executive Officer (Principal Executive Officer)
DATE: November 7, 2019	By	/s/ P. Stephen Appelbaum P. Stephen Appelbaum Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, Eric H. Brunngraber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cass Information Systems, Inc.;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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 7, 2019

/s/ Eric H. Brunngraber
Eric H. Brunngraber
Chairman, President and Chief
Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, P. Stephen Appelbaum, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cass Information Systems, Inc.;
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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) 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 7, 2019

/s/ P. Stephen Appelbaum

P. Stephen Appelbaum
Executive Vice President and Chief
Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Cass Information Systems, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric H. Brunngraber, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Eric H. Brunngraber

Eric H. Brunngraber
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
November 7, 2019

A signed original of this written statement required by Section 906 has been provided to Cass Information Systems, Inc. and will be retained by Cass Information Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Cass Information Systems, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, P. Stephen Appelbaum, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ P. Stephen Appelbaum

P. Stephen Appelbaum
Executive Vice President and Chief
Financial Officer
(Principal Financial and Accounting Officer)
November 7, 2019

A signed original of this written statement required by Section 906 has been provided to Cass Information Systems, Inc. and will be retained by Cass Information Systems, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.