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 March 31, 2020

OR

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

For the transition period from __________ to __________

Commission File 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, 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 April 24, 2020: Common stock, par value $.50 per share – 14,421,724 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 2019 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)

	March 31, 2020 (Unaudited)	December 31, 2019
Assets		
Cash and due from banks	$ 18,878	$ 18,076
Interest-bearing deposits in other financial institutions	137,617	172,422
Federal funds sold and other short-term investments	6,699	13,456
Cash and cash equivalents	163,194	203,954
Securities available-for-sale, at fair value	387,994	422,665
Loans	854,780	772,638
Less: Allowance for loan losses	10,889	10,556
Loans, net	843,891	762,082
Payments in excess of funding	208,845	206,158
Premises and equipment, net	19,755	20,527
Investment in bank-owned life insurance	17,712	17,599
Goodwill	14,262	14,262
Other intangible assets, net	4,066	4,281
Other assets	72,263	112,715
Total assets	$ 1,731,982	$ 1,764,243
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 288,226	$ 351,091
Interest-bearing	438,381	406,045
Total deposits	726,607	757,136
Accounts and drafts payable	702,069	684,295
Short-term borrowings	—	18,000
Other liabilities	62,023	60,622
Total liabilities	1,490,699	1,520,053
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 March 31, 2020 and December 31, 2019	7,753	7,753
Additional paid-in capital	203,801	205,397
Retained earnings	93,968	90,341
Common shares in treasury, at cost (1,092,200 shares at March 31, 2020 and 991,406 shares at December 31, 2019)	(49,800)	(45,381)
Accumulated other comprehensive loss	(14,439)	(13,920)
Total shareholders' equity	241,283	244,190
Total liabilities and shareholders' equity	$ 1,731,982	$ 1,764,243

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 March 31, 2020	Three Months Ended March 31, 2019
Fee Revenue and Other Income:		
Information services payment and processing revenue	$ 25,503	$ 26,457
Bank service fees	410	376
Gains on sales of securities	1,069	11
Other	113	169
Total fee revenue and other income	27,095	27,013
Interest Income:		
Interest and fees on loans	9,001	8,629
Interest and dividends on securities:		
Taxable	560	642
Exempt from federal income taxes	1,819	2,037
Interest on federal funds sold and other short-term investments	958	1,589
Total interest income	12,338	12,897
Interest Expense:		
Interest on deposits	963	1,290
Interest on short-term borrowings	2	—
Net interest income	11,373	11,607
Provision for loan losses	325	250
Net interest income after provision for loan losses	11,048	11,357
Total net revenue	38,143	38,370
Operating Expense:		
Salaries and employee benefits	22,427	22,277
Occupancy	941	959
Equipment	1,635	1,469
Amortization of intangible assets	215	107
Other operating expense	3,711	3,650
Total operating expense	28,929	28,462
Income before income tax expense	9,214	9,908
Income tax expense	1,669	1,745
Net income	$ 7,545	$ 8,163
Basic earnings per share	$ .52	$ .56
Diluted earnings per share	.52	.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 March 31, 2020	Three Months Ended March 31, 2019
Comprehensive Income:		
Net income	$ 7,545	$ 8,163
Other comprehensive (loss) income:		
Net unrealized gain on securities available-for-sale	578	7,137
Tax effect	(138)	(1,699)
Reclassification adjustments for gains included in net income	(1,069)	(11)
Tax effect	254	3
Foreign currency translation adjustments	(144)	(14)
Total comprehensive income	$ 7,026	$ 13,579

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Cash Flows From Operating Activities:		
Net income	$ 7,545	$ 8,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,790	2,699
Gains on sales of securities	(1,069)	(11)
Stock-based compensation expense	722	857
Provision for loan losses	325	250
Increase in income tax liability	1,512	1,717
Increase in pension liability	1,079	1,295
Increase in accounts receivable	(105)	(485)
Other operating activities, net	5,361	1,950
Net cash provided by operating activities	18,160	16,435
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	19,629	1,101
Proceeds from maturities of securities available-for-sale	14,148	4,824
Net increase in loans	(82,134)	(29,711)
Increase in payments in excess of funding	(2,687)	(2,176)
Purchases of premises and equipment, net	(331)	(646)
Net cash used in investing activities	(51,375)	(26,608)
Cash Flows From Financing Activities:		
Net decrease in noninterest-bearing demand deposits	(62,865)	(42,080)
Net increase (decrease) in interest-bearing demand and savings deposits	31,761	(26,095)
Net increase in time deposits	575	1,681
Net increase in accounts and drafts payable	51,639	39,892
Net decrease in short-term borrowings	(18,000)	
Cash dividends paid	(3,918)	(3,776)
Purchase of common shares for treasury	(5,508)	(5,701)
Other financing activities, net	(1,229)	(327)
Net cash used in financing activities	(7,545)	(36,406)
Net decrease in cash and cash equivalents	(40,760)	(46,579)
Cash and cash equivalents at beginning of period	203,954	230,933
Cash and cash equivalents at end of period	$ 163,194	$ 184,354
Supplemental information:		
Cash paid for interest	$ 964	$ 1,224
Cash paid for income taxes	142	8

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31 2019 AND 2020
(Unaudited)
(Dollars in Thousands)

(In thousands except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2018	$ 7,753	$ 205,770	$ 75,171	$ (39,974)	$ (18,872)	$ 229,848
Net income			8,163			8,163
Cash dividends ($.26 per share)			(3,776)			(3,776)
Issuance of 25,124 common shares pursuant to stock-based compensation plan, net		(1,014)		826		(188)
Exercise of SARs		(303)		164		(139)
Stock-based compensation expense		857				857
Purchase of 107,815 common shares				(5,701)		(5,701)
Other comprehensive income					5,416	5,416
Balance, March 31, 2019	$ 7,753	$ 205,310	$ 79,558	$ (44,685)	$ (13,456)	$ 234,480
Balance, December 31, 2019	$ 7,753	$ 205,397	$ 90,341	$ (45,381)	$ (13,920)	$ 244,190
Net income			7,545			7,545
Cash dividends ($.27 per share)			(3,918)			(3,918)
Issuance of 57,333 common shares pursuant to stock-based compensation plan, net		(2,075)		948		(1,127)
Exercise of SARs		(243)		141		(102)
Stock-based compensation expense		722				722
Purchase of 128,779 common shares				(5,508)		(5,508)
Other comprehensive loss					(519)	(519)
Balance, March 31, 2020	$ 7,753	$ 203,801	$ 93,968	$ (49,800)	$ (14,439)	$ 241,283

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. 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, 2019.

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus ("COVID-19") as a global pandemic, which continues to spread throughout the United States and around the world. The declaration of a global pandemic indicates that almost all public commerce and related business activities must be, to varying degrees, curtailed with the goal of decreasing the rate of new infections.

The Company has evaluated subsequent events after the consolidated balance sheet date of March 31, 2020. The breadth of the impact of the global emergence of COVID-19 on the Company's business is currently unknown. Cass is closely monitoring developments related to COVID-19 checking regularly for updated information and recommendations from the World Health Organization and the U.S. Centers for Disease Control and Prevention, from national, state, and local governments, and courses of action being taken by peers.

Financial position and results of operations - The global health crisis caused by COVID-19 has and will continue to negatively impact business activity throughout the world. The COVID-19 outbreak and associated counter-acting measures implemented by governments around the world, as well as increased business uncertainty, are having an adverse impact on the Company's financial results and are discussed in more detail below. When and if COVID-19 is demonstrably contained, the Company anticipates a rebound in economic activity; however, any such rebound is contingent upon the rate and effectiveness of the containment efforts deployed by federal, state, and local governments. In light of the evolving health, social, economic and business environment, governmental regulations or mandates, and business disruptions that could occur, the potential impact that COVID-19 could have on the Company's financial condition and operating results remains highly uncertain.

In response to COVID-19, the Federal Reserve has taken action to lower the Federal Funds rate, which has adversely affected interest income and therefore, the Company's results of operations and financial condition.

To the extent the business disruption continues for an extended period, additional cost management actions will be considered. Any future asset impairment charges, increases in allowance for loan losses, or restructuring charges could be more likely and will be dependent on the severity and duration of this crisis.

For payment processing services, business closures, including constrictions in the manufacturing sector, have led to a decrease in the number of transactions and dollars processed due to the decline in customers' business activity. In addition, the dampened demand for oil and resulting plummet in oil prices has had, and can continue to have, a negative effect on both the number of freight transactions processed and the dollar amount of invoices processed. Other financial impact could occur though such potential impact is unknown at this time.

Lending operations and credit - Bank regulatory agencies and various governmental authorities are urging financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. Accordingly, and in coordination with its primary regulators, the Company has deferred borrower principal payments on loans, on an as needed basis, for periods of up to six months.

Capital and liquidity - While the Company believes that it has sufficient capital to withstand an extended economic recession brought about by COVID-19, its reported and regulatory capital ratios could be adversely impacted by future financial losses.

The Company maintains access to multiple sources of liquidity. Wholesale funding markets have remained available, but rates for short term funding have recently been volatile. If funding costs are elevated for an extended period of time, it could have an adverse effect on the Company's net interest margin. If an extended recession caused large numbers of the Bank's customers to draw down deposits, the Company might become more reliant on volatile or more expensive sources of funding.

Asset valuation - Currently, the Company does not expect COVID-19 to affect its ability to fairly value the assets on its balance sheet; however, this could change in future periods. While certain valuation assumptions and judgments will change to account for pandemic-related circumstances such as widening credit spreads, the Company does not anticipate significant changes in methodology used to determine the fair value of assets measured in accordance with GAAP.

COVID-19 could cause a further and sustained decline in the Company's stock price or the occurrence of what management would deem to be a triggering event that could, under certain circumstances, necessitate a goodwill or intangible asset impairment test and result in an impairment charge being recorded for that period. In the event that the Company concludes that all or a portion of its goodwill is impaired, a non-cash charge for the amount of such impairment would be recorded to earnings. Such a charge would have no impact on tangible capital or regulatory capital.

Processes, controls and business continuity - In accord with its federally mandated Pandemic Plan and Business Continuity Plan, Cass has deployed its remote workforce program. Most Cass employees around the globe are now working and conducting business remotely. Only employees necessary to oversee certain business coordination activities or to conduct essential physical activities such as mail handling and scanning operations, remain in offices. In the past several years, Cass has invested in sophisticated technology initiatives that enable employees to operate remotely with full system(s) access along with unified and transparent voice and electronic communications capabilities, ensuring seamless service delivery. The Company cannot predict when or how it will begin to lift the actions put in place as part of the Business Continuity Plan, including work from home requirements and travel restrictions. As of the date of this filing, Cass does not believe the work from home protocol has materially adversely impacted internal controls, financial reporting systems, or operations.

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, or when management deems there is a triggering event, and those with finite useful lives be amortized over their useful lives.

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

	March 31, 2020		**December 31, 2019**	
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Assets eligible for amortization:				
Customer lists	$ 4,778	$ (3,573)	$ 4,778	$ (3,463)
Patents	72	(21)	72	(20)
Non-compete agreements	332	(332)	332	(332)
Software	2,844	(452)	2,844	(358)
Trade Name	190	(6)	190	(3)
Other	500	(266)	500	(259)
Unamortized intangible assets:				
Goodwill[1]	14,489	(227)	14,489	(227)
Total intangible assets	$ 23,205	$ (4,877)	$ 23,205	$ (4,662)

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

The customer lists are amortized over 7 and 10 years; the patents over 18 years; the non-compete agreements over 2 and 5 years; software over 3 years and 7 years, the trade name over 20 years and other intangible assets over 15 years. Amortization of intangible assets amounted to $215,000 and $107,000 for the three-month periods ended March 31, 2020 and 2019, respectively. Estimated future amortization of intangibles is $859,000 in both 2020 and 2021, $540,000 in both 2022 and 2023, and $498,000 in 2024.

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. Under the treasury stock method, stock appreciation rights ("SARs") are dilutive when the average market price of the Company's common stock, combined with the effect of any unamortized compensation expense, exceeds the SAR price during a period. Anti-dilutive shares are those SARs with prices in excess of the current market value. The calculations of basic and diluted earnings per share are as follows:

	Three Months Ended March 31,	
(In thousands except share and per share data)	**2020**	**2019**
Basic		
Net income	$ 7,545	$ 8,163
Weighted-average common shares outstanding	14,422,813	14,455,527
Basic earnings per share	$ .52	$ .56
Diluted		
Net income	$ 7,545	$ 8,163
Weighted-average common shares outstanding	14,422,813	14,455,527
Effect of dilutive restricted stock and stock appreciation rights	207,700	253,168
Weighted-average common shares outstanding assuming dilution	14,630,513	14,708,695
Diluted earnings per share	$ .52	$ .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 to 500,000 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 repurchased 128,779 shares during the three-month period ended March 31, 2020 and 107,815 shares during the three-month period ended March 31, 2019. As of March 31, 2020, 371,221 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. As of March 16, 2020, the Company has temporarily suspended the treasury stock buyback program.

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, including on-line generosity services, 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, 2019. 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 March 31, 2020				
Fee income	$ 25,440	$ 615	$ 1,040	$ 27,095
Interest income*	5,791	7,284	(253)	12,822
Interest expense	—	965	—	965
Intersegment income (expense)	—	525	(525)	—
Tax-equivalized pre-tax income*	6,207	2,703	788	9,698
Goodwill	12,433	1,829	—	14,262
Other intangible assets, net	1,040	3,026	—	4,066
Total Assets	833,774	926,445	(28,237)	1,731,982
Funding Sources	677,829	611,135	—	1,288,964
Three Months Ended March 31, 2019				
Fee income	$ 26,796	$ 391	$ (174)	$ 27,013
Interest income*	6,177	7,486	(225)	13,438
Interest expense	—	1,290	—	1,290
Intersegment income (expense)	—	519	(519)	—
Tax-equivalized pre-tax income*	7,588	3,260	(398)	10,450
Goodwill	12,433	136	—	12,569
Other intangible assets, net	1,446	—	—	1,446
Total Assets	874,971	832,326	(22,416)	1,684,881
Funding Sources	647,590	591,199	—	1,238,789

* Presented on a tax-equivalent basis assuming a tax rate of 21%. The tax-equivalent adjustment was approximately $484,000 and $541,000 for the three months ended March 31, 2020 and 2019, respectively.

Note 6 – Loans by Type

A summary of loan categories is as follows:

(In thousands)	**March 31, 2020**	**December 31, 2019**
Commercial and industrial	$ 399,217	$ 323,857
Real estate		
Commercial:		
Mortgage	100,717	101,654
Construction	19,528	25,299
Faith-based:		
Mortgage	311,520	305,826
Construction	23,792	15,945
Other	6	57
Total loans	$ 854,780	$ 772,638

The following table presents the aging of loans by loan categories at March 31, 2020 and December 31, 2019:

(In thousands)	Performing			Nonperforming		
	Current	**30-59 Days**	**60-89 Days**	**90 Days and Over**	**Non-accrual**	**Total Loans**
March 31, 2020						
Commercial and industrial	$ 399,217	$ —	$ —	$ —	$ —	$ 399,217
Real estate						
Commercial:						
Mortgage	100,717	—	—	—	—	100,717
Construction	19,528	—	—	—	—	19,528
Faith-based:						
Mortgage	311,520	—	—	—	—	311,520
Construction	23,792	—	—	—	—	23,792
Other	6	—	—	—	—	6
Total	$ 854,780	$ —	$ —	$ —	$ —	$ 854,780
December 31, 2019						
Commercial and industrial	$ 323,857	$ —	$ —	$ —	$ —	$ 323,857
Real estate						
Commercial:						
Mortgage	101,654	—	—	—	—	101,654
Construction	25,299	—	—	—	—	25,299
Faith-based:						
Mortgage	305,826	—	—	—	—	305,826
Construction	15,945	—	—	—	—	15,945
Other	57	—	—	—	—	57
Total	$ 772,638	$ —	$ —	$ —	$ —	$ 772,638

The following table presents the credit exposure of the loan portfolio by internally assigned credit grade as of March 31, 2020 and December 31, 2019:

(In thousands)	**Loans Subject to Normal Monitoring**[1]	**Performing Loans Subject to Special Monitoring**[2]	**Nonperforming Loans Subject to Special Monitoring**[2]	**Total Loans**
March 31, 2020				
Commercial and industrial	$ 387,444	$ 11,773	$ —	$ 399,217
Real estate				
Commercial:				
Mortgage	99,464	1,253	—	100,717
Construction	19,528	—	—	19,528
Faith-based:				
Mortgage	310,236	1,284	—	311,520
Construction	23,792	—	—	23,792
Other	6	—	—	6
Total	$ 840,470	$ 14,310	$ —	$ 854,780
December 31, 2019				
Commercial and industrial	$ 321,554	$ 2,303	$ —	$ 323,857
Real estate				
Commercial:				
Mortgage	100,346	1,308	—	101,654
Construction	25,299	—	—	25,299
Faith-based:				
Mortgage	304,513	1,313	—	305,826
Construction	15,945	—	—	15,945
Other	57	—	—	57
Total	$ 767,714	$ 4,924	$ —	$ 772,638

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*. The fair value of the collateral is based upon an observable market price or current appraised value and therefore, the Company classifies these assets as nonrecurring Level 3. There were no non-accrual loans, loans delinquent 90 days or more and still accruing interest, or loans classified as troubled debt restructuring at March 31, 2020 or December 31, 2019.

There were no foreclosed loans recorded as other real estate owned (included in other assets) as of March 31, 2020 or December 31, 2019.

A summary of the activity in the allowance for loan losses from December 31, 2019 to March 31, 2020 is as follows:

(In thousands)	**December 31, 2019**	**Charge-Offs**	**Recoveries**	**Provision**	**March 31, 2020**
Commercial and industrial	$ 4,874	$ —	$ 7	$ 213	$ 5,094
Real estate					
Commercial:					
Mortgage	1,528	—	—	24	1,552
Construction	191	—	—	(41)	150
Faith-based:					
Mortgage	3,842	—	1	106	3,949
Construction	121	—	—	23	144
Total	$ 10,556	$ —	$ 8	$ 325	$ 10,889

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

(In thousands)	**December 31, 2018**	**Charge-Offs**	**Recoveries**	**Provision**	**March 31, 2019**
Commercial and industrial	$ 4,179	$ —	$ 11	$ 529	$ 4,719
Real estate					
Commercial:					
Mortgage	1,417	—	—	(33)	1,384
Construction	89	—	—	26	115
Faith-based:					
Mortgage	3,961	—	—	(51)	3,910
Construction	155	—	—	(27)	128
Other	424	$ —	$ —	$ (194)	$ 230
Total	$ 10,225	$ —	$ 11	$ 250	$ 10,486

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 March 31, 2020 and December 31, 2019, 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 March 31, 2020, the balance of unused loan commitments, standby and commercial letters of credit were $150,672,000, $10,703,000, and $652,000, 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 March 31, 2020:

	Amount of Commitment Expiration per Period				
(In thousands)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Time deposits	$ 71,542	$ 43,879	$ 27,637	$ 26	$ —
Total	$ 71,542	$ 43,879	$ 27,637	$ 26	$ —

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 to 1,500,000 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 three months ended March 31, 2020, 23,111 restricted shares, 32,910 performance-based restricted shares, and no SARs were granted under the Omnibus Plan. Stock-based compensation expense for the three months ended March 31, 2020 and 2019 was $722,000 and $857,000, respectively.

Restricted Stock

Restricted shares granted to Company employees are amortized to expense over the three-year cliff vesting period. 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.

As of March 31, 2020, the total unrecognized compensation expense related to non-vested restricted shares was $2,150,000, and the related weighted-average period over which it is expected to be recognized is approximately 1.00 years.

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

	Three Months Ended March 31, 2020	
	Shares	**Fair Value**
Balance at December 31, 2019	123,272	$ 47.24
Granted	23,111	53.16
Vested	(19,248)	49.33
Forfeited	(3,177)	49.83
Balance at March 31, 2020	123,958	$ 47.95

Performance-Based Restricted Stock

The Company has granted three-year performance based restricted stock ("PBRS") awards which are contingent upon the Company's achievement of pre-established financial goals over a three year cliff vest period. The number of shares issued ranges from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the three-year performance period.

Following is a summary of the activity of the PBRS, based on target value:

	Three Months Ended March 31, 2020	
	Shares	**Fair Value**
Balance at December 31, 2019	102,116	$ 49.13
Granted	32,910	54.02
Vested	(29,175)	49.33
Forfeited	(4,763)	49.83
Balance at March 31, 2020	101,088	$ 50.64

The PBRS that vested during the three months ended March 31, 2020 achieved financial goals of 117.3%, resulting in the issuance of 34,222 shares of common stock. The outstanding PBRS at March 31, 2020 will vest at scheduled vesting dates and the actual number of shares of common stock issued will range from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the respective three-year performance period.

SARs

There were no SARs granted and no expense recognized during the three months ended March 31, 2020. Following is a summary of the activity of the Company's SARs program for the three-month period ended March 31, 2020:

	Shares	**Weighted-Average Exercise Price**	**Average Remaining Contractual Term Years**	**Aggregate Intrinsic Value** ***(In thousands)***
Balance at December 31, 2019	155,292	$ 32.58	2.92	$ 3,908
Exercised	(10,293)	26.72	—	—
Exercisable at March 31, 2020	144,999	$ 32.99	2.71	$ 665

There were no non-vested SARs at March 31, 2020.

Note 9 – Defined Pension Plans

The Company has a noncontributory defined-benefit pension plan, which covers eligible 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 2020**	**Actual 2019**
Service cost – benefits earned during the year	$ 4,312	$ 3,555
Interest cost on projected benefit obligations	3,903	4,103
Expected return on plan assets	(6,051)	(4,753)
Net amortization	1,890	1,559
Net periodic pension cost	$ 4,054	$ 4,464

Pension costs recorded to expense were $1,029,000 and $1,179,000 for the three-month periods ended March 31, 2020 and 2019, respectively. Pension costs decreased in 2020 primarily due to improved asset performance and a contribution made during 2019, which were partially offset by a decrease in the discount rate. The Company made no contribution to the plan during the three-month period ended March 31, 2020 and is evaluating the amount of additional contributions, if any, in the remainder of 2020.

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 2019 and an estimate for 2020:

(In thousands)	Estimated 2020	Actual 2019
Service cost – benefits earned during the year	$ 121	$ 97
Interest cost on projected benefit obligation	347	408
Net amortization	112	276
Net periodic pension cost	$ 580	$ 781

Pension costs recorded to expense were $145,000 and $195,000 for the three-month periods ended March 31, 2020 and 2020, respectively. Pension costs decreased primarily due to the unrecognized loss being amortized over the remaining expected life of the participants rather than the remaining expected service period as almost all of the plan's participants are inactive. This was partially offset by a decrease in the discount rate.

Note 10 – Income Taxes

The effective tax rate was 18.1% and 17.6% for the three-month periods ended March 31, 2020 and 2019, respectively. The 2020 and 2019 effective tax rate for the three-month period differs from the statutory rate of 21% primarily due to the tax-exempt interest received from municipal bonds.

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:

	March 31, 2020			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 288,631	$ 12,010	$ —	$ 300,641
U.S. government agencies	85,289	1,564	—	86,853
Certificates of deposit	500	—	—	500
Total	$ 374,420	$ 13,574	$ —	$ 387,994

	December 31, 2019			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 310,720	$ 13,727	$ —	$ 324,447
U.S. government agencies	97,380	507	169	97,718
Certificates of deposit	500	—	—	500
Total	$ 408,600	$ 14,234	$ 169	$ 422,665

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

	March 31, 2020					
	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	$ —	$ —	$ —	$ —	$ —	$ —
U.S. government agencies	—	—	—	—	—	—
Certificates of deposit	—	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ —	$ —

	December 31, 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	$ —	$ —	$ —	$ —	$ —	$ —
U.S. government agencies	3,801	12	17,593	157	21,394	169
Certificates of deposit	—	—	—	—	—	—
Total	$ 3,801	$ 12	$ 17,593	$ 157	$ 21,394	$ 169

There were no securities in an unrealized loss position as of March 31, 2020. There were 9 securities, or 3% of the total (7 greater than 12 months), in an unrealized loss position as of December 31, 2019.

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.

	March 31, 2020	
(In thousands)	Amortized Cost	Fair Value
Due in 1 year or less	$ 61,709	$ 62,498
Due after 1 year through 5 years	80,027	82,183
Due after 5 years through 10 years	199,491	209,364
Due after 10 years	33,193	33,949
Total	$ 374,420	$ 387,994

Proceeds from sales of investment securities classified as available for sale were $19,629,000 and $1,101,000 for the three months ended March 31, 2020 and 2019, respectively. Gross realized gains were $1,069,000 and $11,000 for the three months ended March 31, 2020 and 2019, respectively. There were no securities pledged to secure public deposits or for other purposes at March 31, 2020.

Note 12 – Fair Value of Financial Instruments

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

	March 31, 2020		December 31, 2019	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance sheet assets:				
Cash and cash equivalents	$ 163,194	$ 163,194	$ 203,954	$ 203,954
Investment securities	387,994	387,994	422,665	422,665
Loans, net	843,891	850,634	762,082	776,653
Accrued interest receivable	5,866	5,866	6,706	6,706
Total	$ 1,400,945	$ 1,407,688	$ 1,395,407	$ 1,409,978
Balance sheet liabilities:				
Deposits	$ 726,607	$ 726,607	$ 757,136	$ 757,790
Accounts and drafts payable	702,069	702,069	684,295	684,295
Accrued interest payable	124	124	103	103
Total	$ 1,428,800	$ 1,428,800	$ 1,441,534	$ 1,442,188

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 three months ended March 31, 2020 and 2019. No financial instruments are measured using Level 3 inputs for the three months ended March 31, 2020 and 2019.

Note 13 – Revenue from Contracts with Customers

The services that fall within the scope of FASB ASC 606, *Revenue from Contracts with Customers* ("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"). 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 guidance.

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.

(In thousands)	For the Three Months Ended March 31, 2020	2019
Fee revenue and other income		
In-scope of FASB ASC 606		
Invoice processing fees	$ 19,124	$ 20,542
Invoice payment fees	6,379	5,915
Information services payment and processing revenue	25,503	26,457
Bank service fees	410	376
Fee revenue (in-scope of FASB ASC 606)	25,913	26,833
Other income (out-of-scope of FASB ASC 606)	1,182	180
Total fee revenue and other income	27,095	27,013
Net interest income after provision for loan losses (out-of-scope of FASB ASC 606)[1]	11,048	11,357
Total net revenue	$ 38,143	$ 38,370

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; 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 March 31, 2020, the Company had lease liabilities of $7,146,000 and right-of-use assets of $6,367,000. As of March 31, 2019, the Company had lease liabilities of $7,590,000 and right-of-use assets of $6,895,000. 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 March 31, 2020, operating lease cost was $418,000, short-term lease cost was $24,000, and there was no variable lease cost. For the three months ended March 31, 2020, the weighted average remaining lease term for the operating leases was 6.9 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, 2019. See the Company's 2019 Annual Report on Form 10-K for information regarding these commitments.

A maturity analysis of operating lease liabilities and undiscounted cash flows for the three months ended March 31, 2020 was as follows:

(In thousands)	March 31, 2020
Lease payments due	
Less than 1 year	$ 1,841
1-2 years	1,658
2-3 years	1,505
3-4 years	578
4-5 years	507
Over 5 years	2,407
Total undiscounted cash flows	8,496
Discount on cash flows	1,350
Total lease liability	$ 7,146

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the three months ended March 31, 2020. At March 31, 2020, the Company did not have any leases that had not yet commenced.

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 March 31, 2020. With the exception of COVID-19 as discussed in Note 1 "Basis of Presentation," 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 RESULTS OF OPERATIONS

Impact of COVID-19 on the Company's Business

The breadth of the impact of the global emergence of COVID-19 on the Company's business is currently unknown. Cass is closely monitoring developments related to COVID-19 checking regularly for updated information and recommendations from the World Health Organization and the U.S. Centers for Disease Control and Prevention, from national, state, and local governments, and courses of action being taken by peers. Cass remains committed to creating a safe and healthy environment for employees while offering assurance that it remains a financially strong service provider possessing the resources necessary to weather this storm in support of its valued customers.

Bank regulatory agencies and various governmental authorities are urging financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. Accordingly, and in coordination with its primary regulators, the Company has deferred borrower principal payments on loans, on an as needed basis, for periods of up to six months. As of April 30, 2020, Cass had processed 343 applications for Paycheck Protection Program ("PPP") loans of approximately $180,000,000 to provide much-needed cash to small business and self-employed taxpayers during the COVID-19 crisis. The loans were primarily made to existing Cass customers and are 100% guaranteed by the Small Business Administration.

For further discussion on COVID-19, refer to Note 1 "Basis of Presentation."

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, 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. Cass provides a B2B payment platform for clients that require an agile fintech partner. Additionally, the Company uses an on-line platform to provide generosity services for faith-based and non-profit organizations, which is a complementary service offering to the Bank's faith-based customers. The Company also, through Cass Commercial Bank, its St. Louis, Missouri-based bank subsidiary ("the Bank"), 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 2019 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.

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. In accordance with the Coronavirus Aid, Relief, and Economic Security ("CARES") Act, the Company elected to defer the adoption of the current expected credit losses methodology and expects to continue to utilize the present processes until the earlier of December 31, 2020 or the date the national emergency declaration is terminated.

Results of Operations

The following paragraphs more fully discuss the results of operations and changes in financial condition for the three-month period ended March 31, 2020 ("First Quarter of 2020") compared to the three-month period ended March 31, 2019 ("First Quarter of 2019"). 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 2019 Annual Report on Form 10-K. Results of operations for the First Quarter of 2020 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:

	First Quarter of		
(Dollars in thousands except per share data)	**2020**	**2019**	**% Change**
Net income	$ 7,545	$ 8,163	(7.6)%
Diluted earnings per share	$ .52	$ .55	(5.5)%
Return on average assets	1.70%	1.96%	—
Return on average equity	12.50%	14.67%	—

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:

	First Quarter of		
(In thousands)	**2020**	**2019**	**% Change**
Transportation invoice volume	8,280	8,948	(7.5)%
Transportation invoice dollar volume	$ 6,467,051	$ 6,985,773	(7.4)%
Facility expense transaction volume*	6,509	6,994	(6.9)%
Facility expense dollar volume	$ 3,458,646	$ 3,617,428	(4.4)%
Payment and processing revenue	$ 25,503	$ 26,457	(3.6)%

* Includes energy, telecom and environmental

First Quarter of 2020 compared to First Quarter of 2019:

Payment and processing fee revenue decreased 4%. Transportation volume for both invoices and dollars declined 7%. With manufacturing companies representing an important component of the transportation customer base, the previously reported contraction in this sector, combined with the recent effects of COVID-19, created year-over-year trials for the division. Facility-related invoice and dollar volume declined 7% and 4%, respectively, with the impact of COVID-19 again largely contributing to these declines.

Gains of $1,069,000 on the sales of securities were recognized in the First Quarter of 2020, compared to $11,000 in gains in the First Quarter of 2019.

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:

	First Quarter of		
(In thousands)	**2020**	**2019**	**% Change**
Average earnings assets	$ 1,487,873	$ 1,438,613	3.42%
Average interest-bearing liabilities	409,376	389,849	5.01%
Net interest income*	11,857	12,148	(2.40)%
Net interest margin*	3.21%	3.42%	—
Yield on earning assets*	3.47%	3.79%	—
Rate on interest-bearing liabilities	0.95%	1.34%	—

* Presented on a tax-equivalent basis assuming a tax rate of 21% for both 2020 and 2019.

First Quarter of 2020 compared to First Quarter of 2019:

First Quarter of 2020 average earning assets increased $49,260,000, or 3.4%, compared to the same period in the prior year. Average loans increased $77,976,000, or 10.8%, and federal funds sold and other short-term investments increased $27,736,000, or 20.3%. Average investment securities decreased $44,530,000, or 10.2%, and interest-bearing deposits in other financial institutions decreased $10,427,000, or 7.4%, in the First Quarter of 2020 compared to the First Quarter of 2019.

Total average interest-bearing liabilities for the First Quarter of 2020 increased $19,527,000, or 5.0%, compared to the First Quarter of 2019. Average accounts and drafts payable increased $17,924,000, or 2.4%, in the First Quarter of 2020 compared to the First Quarter of 2019.

First Quarter of 2020 tax-equivalized net interest income decreased $291,000, or 2.4%, compared to the same period in the prior year. This was a result of the decreases in interest rates as the Federal Reserve took action to lower the Federal Funds rate, which was partially offset by the increase in average earning assets. The changes to the interest rate environment also led to a decrease in the rate on interest-bearing liabilities in the First Quarter of 2020 compared to the First Quarter of 2019.

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.

	First Quarter of 2020			First Quarter of 2019		
(In thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets[1]						
Earning assets						
Loans[2]:						
Taxable	$ 799,502	$ 9,001	4.53%	$ 721,526	$ 8,629	4.85%
Investment securities[4]:						
Taxable	95,691	557	2.34	106,641	632	2.40
Tax-exempt[3]	297,044	2,303	3.12	330,624	2,578	3.16
Certificates of deposit	500	3	2.41	1,995	10	2.03
Interest-bearing deposits in other financial institutions	130,611	382	1.18	141,038	810	2.33
Federal funds sold and other short-term investments	164,525	576	1.41	136,789	779	2.31
Total earning assets	1,487,873	12,822	3.47	1,438,613	13,438	3.79
Non-earning assets						
Cash and due from banks	17,351			13,816		
Premises and equipment, net	20,295			22,015		
Bank-owned life insurance	17,646			17,429		
Goodwill and other intangibles	18,456			14,080		
Other assets	226,568			191,474		
Allowance for loan losses	(10,562)			(10,232)		
Total assets	$ 1,777,627			$ 1,687,195		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand Deposits	$ 326,852	$ 633	0.78%	$ 304,890	$ 922	1.23%
Savings deposits	8,403	13	0.62	12,009	33	1.11
Time deposits >= $100	29,820	142	1.92	23,221	111	1.94
Other time deposits	44,092	175	1.60	49,729	224	1.83
Total interest-bearing deposits	409,167	963	0.95	389,849	1,290	1.34
Short-term borrowings	209	2	3.85	—	—	—
Total interest-bearing liabilities	409,376	965	0.95	389,849	1,290	1.34
Non-interest bearing liabilities						
Demand deposits	295,165			270,169		
Accounts and drafts payable	767,998			750,074		
Other liabilities	62,228			51,427		
Total liabilities	1,534,767			1,461,519		
Shareholders' equity	242,860			225,676		
Total liabilities and shareholders' equity	$ 1,777,627			$ 1,687,195		
Net interest income		$ 11,857			$ 12,148	
Net interest margin			3.21%			3.42%
Interest spread			2.52			2.45

1. Balances shown are daily averages.
2. Interest income on loans includes net loan fees of $156,000 and $165,000 for the First Quarter of 2020 and 2019, respectively.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21%. The tax-equivalent adjustment was approximately $484,000 and $541,000 for the First Quarter of 2020 and 2019, 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.

	First Quarter of 2020 Over First Quarter of 2019		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1]:			
Taxable	$ 948	$ (576)	$ 372
Investment securities:			
Taxable	(60)	(15)	(75)
Tax-exempt[2]	(242)	(33)	(275)
Certificates of deposit	(9)	2	(7)
Interest-bearing deposits in other financial institutions	(56)	(372)	(428)
Federal funds sold and other short-term investments	141	(344)	(203)
Total interest income	722	(1,338)	(616)
Interest expense on:			
Interest-bearing demand deposits	65	(354)	(289)
Savings deposits	(8)	(12)	(20)
Time deposits of >=$100	32	(1)	31
Other time deposits	(23)	(26)	(49)
Short-term borrowings	2	—	2
Total interest expense	68	(393)	(325)
Net interest income	$ 654	$ (945)	$ (291)

1. Interest income includes net loan fees.
2. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21%.

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 a loan loss provision of $325,000 recorded in the First Quarter of 2020 to support the growth in the loan portfolio and changes in economic and environmental conditions while a loan loss provision of $250,000 was recorded in the First Quarter of 2019. 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 during the First Quarter of 2020 were $8,000, and net loan recoveries during the First Quarter of 2019 were $11,000.

The ALLL at March 31, 2020 was $10,889,000 and at December 31, 2019 was $10,556,000. The ratio of ALLL to total loans outstanding at March 31, 2019 was 1.27% compared to 1.37% at December 31, 2019. There were no nonperforming loans at March 31, 2020 or December 31, 2019.

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 are 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:

	First Quarter of	
(In thousands)	**2020**	**2019**
Allowance at beginning of period	$ 10,556	$ 10,225
Provision	325	250
Loans charged off	—	—
Recoveries on loans previously charged off	8	11
Net recoveries	8	11
Allowance at end of period	$ 10,889	$ 10,486
Loans outstanding:		
Average	$ 799,502	$ 721,526
March 31	854,780	751,309
Ratio of ALLL to loans outstanding:		
Average	1.36%	1.45%
March 31	1.27	1.40
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 March 31, 2020 and March 31, 2019.

Operating Expenses

Total operating expenses for the First Quarter of 2020 were up 1.6%, or $467,000, compared to the First Quarter of 2019 due to on-going strategic investment in the technology and staff required to win and support new business and additional costs incurred in response to the impacts of COVID-19.

Financial Condition

Total assets at March 31, 2020 were $1,731,982,000, a decrease of $32,261,000, or 1.8%, from December 31, 2019. The most significant changes in asset balances during this period were decreases in cash and cash equivalents of $40,760,000, other assets of $40,452,000, and securities of $34,671,000. These decreases were partially offset by an increase in loans of $82,142,000. 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 March 31, 2020 were $1,490,699,000 a decrease of $29,354,000, or 1.9%, from December 31, 2019. Total deposits at March 31, 2020 were $726,607,000, a decrease of $30,529,000, or 4.0%, from December 31, 2019. The decrease in deposits was a result of daily fluctuations in the B2B payment platform. Accounts and drafts payable at March 31, 2020 were $702,069,000, an increase of $17,774,000, or 2.6%, from December 31, 2019.

Total shareholders' equity at March 31, 2020 was $241,283,000, a $2,907,000, or 1.2%, decrease from December 31, 2019. Total shareholders' equity decreased as a result of share repurchases of $5,508,000 and dividends paid of $3,918,000. These were partially offset by net income of $7,545,000.

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 money market funds, and was $163,194,000 at March 31, 2020, a decrease of $40,760,000, or 20.0%, from December 31, 2019. At March 31, 2020, these assets represented 9.4% 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 $387,994,000 at March 31, 2020, a decrease of $34,671,000 from December 31, 2019. These assets represented 22.4% of total assets at March 31, 2020. Of this total, 77% were state and political subdivision securities. Of the total portfolio, 16.1% mature in one year, 21.2% mature in one to five years, and 62.7% 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 $192,045,000 collateralized by commercial mortgage loans. The Company also has secured lines of credit with UMB Bank of $50,000,000 and First Horizon Bank of $50,000,000 collateralized by state and political subdivision securities. Effective April 30 2020, the First Horizon Bank line of credit was increased to $75,000,000. There were no amounts outstanding under any line of credit as of March 31, 2020. There was $18,000,000 outstanding under the lines of credit discussed above at December 31, 2019. The amount outstanding at the end of the 2019 was borrowed on December 31,2019 and repaid on January 2, 2020.

In addition to the lines of credit discussed above, as of April 21, 2020 the Bank was approved for the Federal Reserve’s Paycheck Protection Program Lending Facility. The Bank can receive non-recourse loans with the previously mentioned PPP loans pledged as collateral. The Bank can borrow an amount up to 100% of the amount of the PPP loans, which was approximately $180,000,000 as of April 30, 2020.

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 $43,471,000 of CDARS deposits and interest-bearing demand deposits include $94,555,000 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 $18,160,000 for the three months ended March 31, 2020, compared to $16,435,000 for the three months ended March 31, 2019, an increase of $1,725,000. 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 2020, 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. For further discussion on COVID-19, refer to Note 1 "Basis of Presentation."

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. For further discussion on COVID-19, refer to Note 1 "Basis of Presentation." Lower levels of economic activity, such as those experienced by the Company as a result of COVID-19 and governmental actions related thereto, decrease both fee income 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. For further discussion on COVID-19, refer to Note 1 "Basis of Presentation."

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:

	March 31, 2020		December 31, 2019	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 247,970	19.16%	$ 249,954	19.70%
Cass Commercial Bank	158,044	18.73%	154,011	19.32%
Common equity tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 237,081	18.32%	$ 239,398	18.86%
Cass Commercial Bank	149,373	17.70%	145,673	18.27%
Tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 237,081	18.32%	$ 239,398	18.86%
Cass Commercial Bank	149,373	17.70%	145,673	18.27%
Tier I capital (to leverage assets)				
Cass Information Systems, Inc.	$ 237,081	13.48%	$ 239,398	13.24%
Cass Commercial Bank	149,373	17.02%	145,673	16.64%

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 June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). The ASU requires measurement and recognition of expected credit losses for financial assets held, which include allowances for losses expected to be incurred over the life of the portfolio, rather than incurred losses, which include allowances for current known and inherent losses within the portfolio. 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 and was adopted on January 1, 2020. The CARES Act was signed into law on March 27, 2020 and includes provisions that temporarily delay the required implementation date of ASU 2016-13. The Company has elected to defer the adoption of ASU 2016-13 until the earlier of December 31, 2020 or the date the national emergency declaration is terminated as permitted by the CARES Act.

The Company 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 that addressed the adoption and implementation of the ASU. The Company currently expects the adoption of ASU 2016-13 will result in a one-time cumulative effect adjustment to retained earnings and an increase of up to 25% of the allowance for loan losses and the reserves for unfunded commitments. The expected increase is a result of changing from an incurred loss model, which encompasses allowances for current known and inherent losses within the portfolio, to an expected loss model, which encompasses allowances for losses expected to be incurred over the life of the portfolio based upon reasonable and supportable forecasts of economic conditions. The ASU also requires an allowance to be established for expected credit losses for certain debt securities and other financial assets, however the Company does not expect these allowances to be significant.

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, 2019, 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% from an immediate and sustained parallel change in interest rates of 200 basis points. The economic impact of the COVID-19 pandemic has introduced significant uncertainty and market volatility, which may result in the deterioration of the Company's risk position since December 31, 2019.

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 First Quarter of 2020 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, 2019, 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 2019 Annual Report on Form 10-K, other than the risks described below.

The COVID-19 pandemic creates significant risks and uncertainties for the Company's business and results of operations.

In March 2020, the World Health Organization declared COVID-19 as a global pandemic. The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and manufacturing, lowered energy prices, lowered equity market valuations, created significant volatility and disruption in financial markets, and increased unemployment levels. In addition, the pandemic has resulted in temporary closures of many businesses and the institution of social distancing and sheltering in place requirements in many states and communities, including those in major markets in which Cass Commercial Bank, the Company's St. Louis, Missouri-based bank subsidiary, is located or does business.

As a result, the demand for the Company's products and services has been, and will continue to be, significantly impacted. Demand for payment and information processing services by manufacturing, distribution, and retail enterprises, and loans and other products and services that the Company and the Bank offer and on which success the Company relies to drive growth, is highly dependent upon the business environment in the primary markets in which the Company operates and in the United States as a whole.

Business closures, including constrictions in the manufacturing sector, have decreased volumes in the Company's payment and information processing services due to the decline in customers' business activity. In addition, the dampened demand for oil and resulting plummet in oil prices has had, and can continue to have, a negative effect on both the number of freight transactions processed and the dollar amount of invoices processed.

Furthermore, the pandemic could influence the recognition of credit losses in the Company's loan and lease portfolios and increase its allowance for credit losses, as both businesses and consumers are negatively impacted by the economic downturn. Bank regulatory agencies and various governmental authorities are urging financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. In response to the pandemic and in coordination with its primary regulators, the Company has deferred borrower principle payments on loans, on an as needed basis, for periods of up to six months. In addition, the Federal Reserve has taken action to lower the Federal Funds rate, which could adversely affect interest income and therefore, the Company's results of operations and financial condition.

The Company's business operations may also be disrupted if significant portions of its workforce are unable to work effectively, including because of quarantines, illness, government actions, or other restrictions in connection with the pandemic, travel restrictions, technology limitations and/or disruptions, including remote working measures and their attendant cybersecurity risks. Furthermore, the business operations of the Company and the Bank may be disrupted due to vendors and third-party service providers being unable to work or provide services effectively, including because of quarantines, illness, government actions, or other restrictions in connection with the pandemic.

The extent to which the COVID-19 pandemic impacts the Company's business, results of operations, and financial condition, as well as its regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain, including the scope and duration of the pandemic and actions taken by governmental authorities and other third parties in response to the pandemic. Moreover, the effects of the COVID-19 pandemic may heighten many of the other risks described in the section entitled "Risk Factors" in the Company's most recent Annual Report on Form 10-K and any subsequent Quarterly Report on Form 10-Q or Current Report on Form 8-K including, but not limited to, risks of credit deterioration, interest rate changes, governmental actions, market volatility, security breaches and technology interruptions.

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

During the three months ended March 31, 2020, the Company repurchased a total of 128,779 shares of its common stock pursuant to its treasury stock buyback program, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2020 – January 31, 2020	—	—	—	500,000
February 1, 2020 – February 29, 2020	17,400	$ 50.19	17,400	482,600
March 1, 2020 – March 31, 2020	111,379	$ 41.62	111,379	371,221
Total	128,779	$ 42.77	128,779	371,221

(1) All repurchases made during the quarter ended March 31, 2020 were made pursuant to the treasury stock buyback program, which was authorized by the Board of Directors on October 17, 2011 and announced by the Company on October 20, 2011. The program, as modified by the Board of Directors on October 20, 2014, provides that the Company may repurchase up to an aggregate of 500,000 shares of common stock and has no expiration date. The program is periodically modified by the Board of Directors and was most recently modified on October 22, 2019 to restore the aggregate number of shares available for repurchase to 500,000.

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 First Quarter of 2020.

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 the Sarbanes-Oxley Act of 2002.

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.

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: May 7, 2020	By	/s/ Eric H. Brunngraber Eric H. Brunngraber Chairman, President, and Chief Executive Officer (Principal Executive Officer)
DATE: May 7, 2020	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: May 7, 2020

/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: May 7, 2020

/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 March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Eric H. Brunngraber, Chairman, 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)
May 7, 2020

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 March 31, 2020 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)
May 7, 2020

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.