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 June 30, 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," a "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 July 24, 2020: Common stock, par value $.50 per share – 14,421,079 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)

	June 30, 2020 (Unaudited)	December 31, 2019
Assets		
Cash and due from banks	$ 11,861	$ 18,076
Interest-bearing deposits in other financial institutions	208,573	172,422
Federal funds sold and other short-term investments	11,705	13,456
Cash and cash equivalents	232,139	203,954
Securities available-for-sale, at fair value	379,971	422,665
Loans	963,726	772,638
Less: Allowance for loan losses	11,292	10,556
Loans, net	952,434	762,082
Payments in excess of funding	162,210	206,158
Premises and equipment, net	19,695	20,527
Investment in bank-owned life insurance	17,827	17,599
Goodwill	14,262	14,262
Other intangible assets, net	3,852	4,281
Other assets	46,594	112,715
Total assets	$ 1,828,984	$ 1,764,243
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 343,567	$ 351,091
Interest-bearing	482,389	406,045
Total deposits	825,956	757,136
Accounts and drafts payable	687,538	684,295
Short-term borrowings	—	18,000
Other liabilities	66,963	60,622
Total liabilities	1,580,457	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 June 30, 2020 and December 31, 2019	7,753	7,753
Additional paid-in capital	204,258	205,397
Retained earnings	95,514	90,341
Common shares in treasury, at cost (1,084,693 shares at June 30, 2020 and 991,406 shares at December 31, 2019)	(49,457)	(45,381)
Accumulated other comprehensive loss	(9,541)	(13,920)
Total shareholders' equity	248,527	244,190
Total liabilities and shareholders' equity	$ 1,828,984	$ 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 June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Fee Revenue and Other Income:				
Information services payment and processing revenue	$ 22,661	$ 26,852	$ 48,164	$ 53,309
Bank service fees	398	301	808	677
Gains on sales of securities	—	8	1,069	19
Other	115	211	228	380
Total fee revenue and other income	23,174	27,372	50,269	54,385
Interest Income:				
Interest and fees on loans	9,298	9,387	18,299	18,016
Interest and dividends on securities:				
Taxable	473	639	1,033	1,281
Exempt from federal income taxes	1,785	1,994	3,604	4,031
Interest on federal funds sold and other short-term investments	86	1,307	1,044	2,896
Total interest income	11,642	13,327	23,980	26,224
Interest Expense:				
Interest on deposits	481	1,305	1,444	2,595
Interest on short-term borrowings	—	—	2	—
Total interest expense	481	1,305	1,446	2,595
Net interest income	11,161	12,022	22,534	23,629
Provision for loan losses	400	—	725	250
Net interest income after provision for loan losses	10,761	12,022	21,809	23,379
Total net revenue	33,935	39,394	72,078	77,764
Operating Expense:				
Personnel	20,891	22,803	43,318	45,080
Occupancy	938	998	1,879	1,957
Equipment	1,617	1,552	3,252	3,021
Amortization of intangible assets	214	102	429	209
Other operating expense	3,697	4,516	7,408	8,166
Total operating expense	27,357	29,971	56,286	58,433
Income before income tax expense	6,578	9,423	15,792	19,331
Income tax expense	1,139	1,739	2,808	3,484
Net income	$ 5,439	$ 7,684	$ 12,984	$ 15,847
Basic earnings per share	$ .38	$ .53	$ .90	$ 1.10
Diluted earnings per share	.37	.52	.89	1.08

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 June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Comprehensive Income:				
Net income	$ 5,439	$ 7,684	$ 12,984	$ 15,847
Other comprehensive income:				
Net unrealized gain on securities available-for-sale	6,407	4,609	6,985	11,746
Tax effect	(1,525)	(1,097)	(1,663)	(2,796)
Reclassification adjustments for gains included in net income	—	(8)	(1,069)	(19)
Tax effect	—	2	254	5
Foreign currency translation adjustments	16	18	(128)	4
Total comprehensive income	$ 10,337	$ 11,208	$ 17,363	$ 24,787

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Cash Flows From Operating Activities:		
Net income	$ 12,984	$ 15,847
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,564	5,366
Gains on sales of securities	(1,069)	(19)
Stock-based compensation expense	1,478	1,417
Provision for loan losses	725	250
Decrease (increase) in income tax liability	593	(1,054)
Increase in pension liability	2,167	2,590
Decrease (increase) in accounts receivable	1,472	(1,351)
Other operating activities, net	8,741	3,327
Net cash provided by operating activities	32,655	26,373
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	19,629	4,648
Proceeds from maturities of securities available-for-sale	27,130	10,161
Net increase in loans	(191,077)	(68,934)
Decrease (increase) in payments in excess of funding	43,948	(13,571)
Purchases of premises and equipment, net	(1,383)	(1,202)
Net cash used in investing activities	(101,753)	(68,898)
Cash Flows From Financing Activities:		
Net decrease in noninterest-bearing demand deposits	(7,524)	(54,176)
Net increase (decrease) in interest-bearing demand and savings deposits	79,066	(32,058)
Net (decrease) increase in time deposits	(2,721)	937
Net increase in accounts and drafts payable	60,966	96,033
Net decrease in short-term borrowings	(18,000)	—
Cash dividends paid	(7,811)	(7,548)
Purchase of common shares for treasury	(5,508)	(7,799)
Other financing activities, net	(1,185)	(284)
Net cash provided by (used in) financing activities	97,283	(4,895)
Net increase (decrease) in cash and cash equivalents	28,185	(47,420)
Cash and cash equivalents at beginning of period	203,954	230,933
Cash and cash equivalents at end of period	$ 232,139	$ 183,513
Supplemental information:		
Cash paid for interest	$ 1,429	$ 2,496
Cash paid for income taxes	2,219	4,545

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
THREE MONTHS ENDED June 30, 2019 AND 2020
(Unaudited)
(Dollars in Thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive (Loss) Income	Total
Balance, March 31, 2019	$ 7,753	$ 205,310	$ 79,558	$ (44,685)	$ (13,456)	$ 234,480
Net income			7,684			7,684
Cash dividends ($.26 per share)			(3,772)			(3,772)
Issuance of 8,968 common shares pursuant to stock-based compensation plan, net		(407)		450		43
Stock-based compensation expense		560				560
Purchase of 46,778 common shares				(2,098)		(2,098)
Other comprehensive income					3,524	3,524
Balance, June 30, 2019	$ 7,753	$ 205,463	$ 83,470	$ (46,333)	$ (9,932)	$ 240,421
Balance, March 31, 2020	$ 7,753	$ 203,801	$ 93,968	$ (49,800)	$ (14,439)	$ 241,283
Net income			5,439			5,439
Cash dividends ($.27 per share)			(3,893)			(3,893)
Issuance of 9,292 common shares pursuant to stock-based compensation plan, net		(299)		343		44
Stock-based compensation expense		756				756
Other comprehensive income					4,898	4,898
Balance, June 30, 2020	$ 7,753	$ 204,258	$ 95,514	$ (49,457)	$ (9,541)	$ 248,527

(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			15,847			15,847
Cash dividends ($.26 per share)			(7,548)			(7,548)
Issuance of 34,092 common shares pursuant to stock-based compensation plan, net		(1,421)		1,276		(145)
Exercise of SARs		(303)		164		(139)
Stock-based compensation expense		1,417				1,417
Purchase of 154,593 common shares				(7,799)		(7,799)
Other comprehensive income					8,940	8,940
Balance, June 30, 2019	$ 7,753	$ 205,463	$ 83,470	$ (46,333)	$ (9,932)	$ 240,421
Balance, December 31, 2019	$ 7,753	$ 205,397	$ 90,341	$ (45,381)	$ (13,920)	$ 244,190
Net income			12,984			12,984
Cash dividends ($.27 per share)			(7,811)			(7,811)
Issuance of 66,625 common shares pursuant to stock-based compensation plan, net		(2,374)		1,291		(1,083)
Exercise of SARs		(243)		141		(102)
Stock-based compensation expense		1,478				1,478
Purchase of 128,779 common shares				(5,508)		(5,508)
Other comprehensive income					4,379	4,379
Balance, June 30, 2020	$ 7,753	$ 204,258	$ 95,514	$ (49,457)	$ (9,541)	$ 248,527

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 June 30, 2020 and 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 have occurred and could continue to 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. 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. 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 addition, employees are now being permitted to return to the offices on a voluntary basis. Employees are required to report any exposure or diagnosis and must adhere to the defined safety protocol to enter the 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 fully lift the actions put in place as part of the Business Continuity Plan, including work from home requirements and travel restrictions. 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:

	June 30, 2020		**December 31, 2019**	
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Assets eligible for amortization:				
Customer lists	$ 4,778	$ (3,682)	$ 4,778	$ (3,463)
Patents	72	(22)	72	(20)
Non-compete agreements	332	(332)	332	(332)
Software	2,844	(545)	2,844	(358)
Trade Name	190	(8)	190	(3)
Other	500	(275)	500	(259)
Unamortized intangible assets:				
Goodwill[1]	14,489	(227)	14,489	(227)
Total intangible assets	$ 23,205	$ (5,091)	$ 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 $429,000 and $209,000 for the six-month periods ended June 30, 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 June 30,		**Six Months Ended June 30,**	
(In thousands except share and per share data)	**2020**	**2019**	**2020**	**2019**
Basic				
Net income	$ 5,439	$ 7,684	$ 12,984	$ 15,847
Weighted-average common shares outstanding	14,349,040	14,434,232	14,385,927	14,444,821
Basic earnings per share	$ .38	$ .53	$ .90	$ 1.10
Diluted				
Net income	$ 5,439	$ 7,684	$ 12,984	$ 15,847
Weighted-average common shares outstanding	14,349,040	14,434,232	14,385,927	14,444,821
Effect of dilutive restricted stock and stock appreciation rights	196,159	258,032	201,930	255,613
Weighted-average common shares outstanding assuming dilution	14,545,199	14,692,264	14,587,857	14,700,434
Diluted earnings per share	$ .37	$ .52	$ .89	$ 1.08

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 0 and 46,778 shares during the three-month periods ended June 30, 2020 and 2019 and 128,779 and 154,593 shares for the six-month periods ended June 30, 2020 and 2019, respectively. As of June 30, 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 June 30, 2020:				
Fee income	$ 22,460	$ 640	$ 74	$ 23,174
Interest income*	6,056	6,601	(541)	12,116
Interest expense	—	481	—	481
Intersegment income (expense)	—	556	(556)	—
Tax-equivalized pre-tax income*	4,537	2,981	(466)	7,052
Goodwill	12,433	1,829	—	14,262
Other intangible assets, net	939	2,913	—	3,852
Total assets	822,684	1,109,676	(103,376)	1,828,984
Average funding sources	680,061	746,619	—	1,426,680
Three Months Ended June 30, 2019:				
Fee income	$ 27,227	$ 392	$ (247)	$ 27,372
Interest income*	6,336	7,666	(144)	13,858
Interest expense	—	1,305	—	1,305
Intersegment income (expense)	—	535	(535)	—
Tax-equivalized pre-tax income*	6,791	3,555	(392)	9,954
Goodwill	12,433	136	—	12,569
Other intangible assets, net	1,345	—	—	1,345
Total assets	934,620	816,661	(22,597)	1,728,684
Average funding sources	650,231	570,980	—	1,221,211
Six Months Ended June 30, 2020:				
Fee income	$ 47,900	$ 1,255	$ 1,114	$ 50,269
Interest income*	11,847	13,885	(794)	24,938
Interest expense	—	1,446	—	1,446
Intersegment income (expense)	—	1,081	(1,081)	—
Tax-equivalized pre-tax income*	10,744	5,684	322	16,750
Goodwill	12,433	1,829	—	14,262
Other intangible assets, net	939	2,913	—	3,852
Total assets	822,684	1,109,676	(103,376)	1,828,984
Average funding sources	678,945	678,877	—	1,357,822
Six Months Ended June 30, 2019:				
Fee income	$ 54,023	$ 783	$ (421)	$ 54,385
Interest income*	12,513	15,152	(369)	27,296
Interest expense	—	2,595	—	2,595
Intersegment income (expense)	—	1,054	(1,054)	—
Tax-equivalized pre-tax income*	14,378	6,815	(790)	20,403
Goodwill	12,433	136	—	12,569
Other intangible assets, net	1,345	—	—	1,345
Total assets	934,620	816,661	(22,597)	1,728,684
Average funding sources	648,918	581,034	—	1,229,952

* Presented on a tax-equivalent basis assuming a tax rate of 21% for both 2020 and 2019. The tax-equivalent adjustment was approximately $474,000 and $531,000 for the Second Quarter of 2020 and 2019, respectively, and $958,000 and $1,072,000 for the First Half of 2020 and 2019, respectively.

Note 6 – Loans by Type

A summary of loan categories is as follows:

(In thousands)	**June 30, 2020**	**December 31, 2019**
Commercial and industrial	$ 341,888	$ 323,857
Paycheck protection program ("PPP")	172,563	—
Real estate:		
Commercial:		
Mortgage	95,865	101,654
Construction	22,219	25,299
Faith-based:		
Mortgage	$ 302,895	305,826
Construction	$ 28,293	15,945
Other	3	57
Total loans	$ 963,726	$ 772,638

In support of the CARES Act, the Bank had processed nearly 350 applications for PPP loans of approximately $170,000,000 to provide much-needed cash to small business and self-employed taxpayers during the COVID-19 crisis. The loans were primarily made to existing bank customers and are 100% guaranteed by the Small Business Administration and no allowance for loan loss was recorded for these loans.

The following table presents the aging of loans by loan categories at June 30, 2020 and December 31, 2019:

	Performing			Nonperforming		
(In thousands)	**Current**	**30-59 Days**	**60-89 Days**	**90 Days and Over**	**Non-accrual**	**Total Loans**
June 30, 2020						
Commercial and industrial	$ 341,888	$ —	$ —	$ —	$ —	$ 341,888
PPP	172,563	—	—	—	—	172,563
Real estate:						
Commercial:						
Mortgage	95,865	—	—	—	—	95,865
Construction	22,219	—	—	—	—	22,219
Faith-based:						
Mortgage	302,895	—	—	—	—	302,895
Construction	28,293	—	—	—	—	28,293
Other	3	—	—	—	—	3
Total	$ 963,726	$ —	$ —	$ —	$ —	$ 963,726
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 June 30, 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**
June 30, 2020				
Commercial and industrial	$ 328,740	$ 13,148	$ —	$ 341,888
PPP	172,563	—	—	172,563
Real estate:				
Commercial:				
Mortgage	94,655	1,210	—	95,865
Construction	22,219	—	—	22,219
Faith-based:				
Mortgage	301,623	1,272	—	302,895
Construction	28,293	—	—	28,293
Other	3	—	—	3
Total	$ 948,096	$ 15,630	$ —	$ 963,726
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.

A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement. When measuring impairment, the expected future cash flows of an impaired loan are discounted at the loan's effective interest rate. Alternatively, impairment could be measured by reference to an observable market price, if one exists, or the fair value of the collateral for a collateral-dependent loan. Regardless of the historical measurement method used, the Company measures impairment based on the fair value of the collateral when the Company determines foreclosure is probable. Additionally, impairment of a restructured loan is measured by discounting the total expected future cash flows at the loan's effective rate of interest as stated in the original loan agreement. To measure impairment at June 30, 2020, the optional use of the practical expedient to use the fair value of collateral was utilized. The Company uses its nonaccrual methods as discussed in greater detail in the Company’s 2019 Annual Report on Form 10-K.

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 or loans delinquent 90 days or more and still accruing interest at June 30, 2020 or December 31, 2019. There were two loans classified as troubled debt restructurings totaling $9,682,000 and one loan that was considered impaired totaling $2,500,000 at June 30, 2020 and none at December 31, 2019. There were no foreclosed loans recorded as other real estate owned (included in other assets) as of June 30, 2020 or December 31, 2019.

The following table presents the recorded investment and unpaid principal balance for impaired loans at June 30, 2020. There were no impaired loans at December 31, 2019 or June 30, 2019.

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses
Commercial and industrial:	$ 11,135	$ 11,135	$ 500
Real estate:			
Faith-based:			
Mortgage	1,047	1,047	—
Total impaired loans	$ 12,182	$ 12,182	$ 500

A summary of the activity in the allowance for loan losses from December 31, 2019 to June 30, 2020 is as follows:

(In thousands)	December 31, 2019	Charge-Offs	Recoveries	Provision	June 30, 2020
Commercial and industrial	$ 4,874	$ —	$ 10	$ 686	$ 5,570
Real estate:					
Commercial:					
Mortgage	1,528	—	—	(60)	1,468
Construction	191	—	—	(21)	170
Faith-based:					
Mortgage	3,842	—	1	21	3,864
Construction	121	—	—	99	220
Total	$ 10,556	$ —	$ 11	$ 725	$ 11,292

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

(In thousands)	December 31, 2018	Charge-Offs	Recoveries	Provision	June 30, 2019
Commercial and industrial	$ 4,179	$ —	$ 31	$ 1,058	$ 5,268
Real estate:					
Commercial:					
Mortgage	1,417	—	—	(148)	1,269
Construction	89	—	—	51	140
Faith-based:					
Mortgage	3,961	—	—	36	3,997
Construction	155	—	—	(24)	131
Other	424	—	—	(723)	(299)
Total	$ 10,225	$ —	$ 31	$ 250	$ 10,506

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 June 30, 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 June 30, 2020, the balance of unused loan commitments, standby and commercial letters of credit were $197,932,000, $10,710,000, and $650,000, 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 June 30, 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	$ 68,246	$ 46,188	$ 21,922	$ 136	$ —

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, SARs, restricted stock, restricted stock units and performance awards. The Company may issue shares out of treasury stock for these awards. During the six months ended June 30, 2020, 32,403 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 June 30, 2020 and 2019 was $756,000 and $560,000, respectively, and $1,478,000 and $1,417,000 for the six months ended June 30, 2020 and 2019, 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 June 30, 2020, the total unrecognized compensation expense related to non-vested restricted shares was $2,023,000, and the related weighted-average period over which it is expected to be recognized is approximately .84 years.

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

	Six Months Ended June 30, 2020	
	Shares	**Fair Value**
Balance at December 31, 2019	123,272	$ 47.24
Granted	32,403	48.21
Vested	(20,369)	49.32
Forfeited	(4,962)	50.08
Balance at June 30, 2020	130,344	$ 47.05

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 June 30, 2020	
	Shares	**Fair Value**
Balance at December 31, 2019	102,116	$ 49.13
Granted	32,910	54.02
Vested	(29,175)	49.33
Forfeited	(7,441)	50.08
Balance at June 30, 2020	98,410	$ 50.64

The PBRS that vested during the six months ended June 30, 2020 achieved financial goals of 117.3%, resulting in the issuance of 34,222 shares of common stock. The outstanding PBRS at June 30, 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 June 30, 2020. Following is a summary of the activity of the Company's SARs program for the three-month period ended June 30, 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 June 30, 2020	144,999	$ 32.99	2.46	$ 1,109

There were no non-vested SARs at June 30, 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 $1,027,000 and $1,186,000 for the three-month periods ended June 30, 2020 and 2019, respectively and $2,056,000 and $2,365,000 for the six-month periods ended June 30, 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 six-month period ended June 30, 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 $196,000 for the three-month periods ended June 30, 2020 and 2019, respectively, and were $290,000 and $391,000 for the six-month periods ended June 30, 2020 and 2019, 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 17.3% and 18.5% for the three-month periods ended June 30, 2020 and 2019, respectively, and 17.8% and 18.0% for the six-month periods ended June 30, 2020 and 2019, respectively. The 2020 and 2019 effective tax rates for the three and six-month periods differ 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:

	June 30, 2020							
(In thousands)		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
State and political subdivisions	$	287,151	$	18,615	$	—	$	305,766
U.S. government agencies		72,589		1,366		—		73,955
Certificates of deposit		250		—		—		250
Total	$	359,990	$	19,981	$	—	$	379,971

	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 at December 31, 2019 are as follows:

	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 June 30, 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.

	June 30, 2020	
(In thousands)	Amortized Cost	Fair Value
Due in 1 year or less	$ 54,652	$ 55,208
Due after 1 year through 5 years	85,421	89,213
Due after 5 years through 10 years	188,475	202,974
Due after 10 years	31,442	32,576
Total	$ 359,990	$ 379,971

Proceeds from sales of investment securities classified as available-for-sale were $0 and $3,547,000 for the three months ended June 30, 2020 and 2019, respectively, and were $19,629,000 and $4,648,000 for the six months ended June 30, 2020 and 2019, respectively. There were no realized gains for the 3 months ended June 30, 2020 while there were gross realized gains of $8,000 for the three months ended June 30, 2019. Gross realized gains were $1,069,000 and $19,000 for the six months ended June 30, 2020 and 2019, respectively. There were no securities pledged to secure public deposits and for other purposes at June 30, 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:

	June 30, 2020		December 31, 2019	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance sheet assets:				
Cash and cash equivalents	$ 232,139	$ 232,139	$ 203,954	$ 203,954
Investment securities	379,971	379,971	422,665	422,665
Loans, net	952,434	953,118	762,082	776,653
Accrued interest receivable	6,582	6,582	6,706	6,706
Total	$ 1,571,126	$ 1,571,810	$ 1,395,407	$ 1,409,978
Balance sheet liabilities:				
Deposits	$ 825,956	$ 825,956	$ 757,136	$ 757,790
Accounts and drafts payable	687,538	687,538	684,295	684,295
Accrued interest payable	119	119	103	103
Total	$ 1,513,613	$ 1,513,613	$ 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.

No financial instruments are measured using Level 3 inputs for the three months ended June 30, 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 June 30, 2020	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
Fee revenue and other income				
In-scope of FASB ASC 606				
Invoice processing fees	$ 17,923	$ 20,447	$ 37,047	$ 40,989
Invoice payment fees	4,738	6,405	11,117	12,320
Information services payment and processing revenue	22,661	26,852	48,164	53,309
Bank service fees	398	301	808	677
Fee revenue (in-scope of FASB ASC 606)	23,059	27,153	48,972	53,986
Other income (out-of-scope of FASB ASC 606)	115	219	1,297	399
Total fee revenue and other income	23,174	27,372	50,269	54,385
Net interest income after provision for loan losses (out-of-scope of FASB ASC 606)[1]	10,761	12,022	21,809	23,379
Total net revenue	$ 33,935	$ 39,394	$ 72,078	$ 77,764

[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 revenue, 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 June 30, 2020, the Company had lease liabilities of $6,916,000 and right-of-use assets of $6,192,000. As of June 30, 2019, the Company had lease liabilities of $7,290,000 and right-of-use assets of $6,570,000. 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 June 30, 2020, operating lease cost was $419,000, short-term lease cost was $33,000, and there was no variable lease cost. For the six months ended June 30, 2020, the operating lease cost was $837,000, short-term lease cost was $57,000, and there was no variable lease cost. For the three months ended June 30, 2020, the weighted average remaining lease term for the operating leases was 6.5 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 June 30, 2020 was as follows:

(In thousands)	June 30, 2020
Lease payments due	
Less than 1 year	$ 1,856
1-2 years	1,688
2-3 years	1,348
3-4 years	499
4-5 years	509
Over 5 years	2,279
Total undiscounted cash flows	8,179
Discount on cash flows	1,263
Total lease liability	$ 6,916

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the six months ended June 30, 2020. At June 30, 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 June 30, 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 remains 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. In support of the CARES Act, the Bank had processed nearly 350 applications for PPP loans of approximately $170,000,000 to provide much-needed cash to small business and self-employed taxpayers during the COVID-19 crisis. The loans were primarily made to existing bank 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 solutions include a B2B payment platform for clients that require an agile fintech partner. Additionally, the Company offers an on-line platform to provide generosity services for faith-based and non-profit organizations. The Company's bank subsidiary, Cass Commercial Bank (the "Bank"), supports the Company's payment operations. The Bank also provides banking services to its target markets, which include privately-owned businesses and faith-based ministries in the St. Louis metropolitan area as well as other selected cities in the United States.

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 June 30, 2020 ("Second Quarter of 2020") compared to the three-month period ended June 30, 2019 ("Second Quarter of 2019") and the six-month period ended June 30, 2020 ("First Half of 2020") compared to the six-month period ended June 30, 2019 ("First Half 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 Second Quarter and First Half 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:

	Second Quarter of			First Half of		
(In thousands except per share data)	**2020**	**2019**	**% Change**	**2020**	**2019**	**% Change**
Net income	$ 5,439	$ 7,684	(29.2)%	$ 12,984	$ 15,847	(18.1)%
Diluted earnings per share	$ .37	$ .52	(28.2)%	$ .89	$ 1.08	(17.6)%
Return on average assets	1.16%	1.81%	—	1.43%	1.89%	—
Return on average equity	9.04%	13.21%	—	10.77%	13.92%	—

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:

	Second Quarter of			First Half of		
(In thousands)	2020	2019	% Change	2020	2019	% Change
Transportation invoice volume	7,294	9,222	(20.9)%	15,574	18,170	(14.3)%
Transportation invoice dollar volume	$ 5,697,627	$ 7,121,202	(20.0)%	$ 12,164,678	$ 14,106,975	(13.8)%
Facility Expense transaction volume*	6,704	6,892	(2.7)%	13,213	13,886	(4.8)%
Facility Expense dollar volume*	$ 3,064,038	$ 3,733,075	(17.9)%	$ 6,522,684	$ 7,350,503	(11.3)%
Payment and processing revenue	$ 22,661	$ 26,852	(15.6)%	$ 48,164	$ 53,309	(9.7)%

* Includes energy, telecom and environmental

Second Quarter of 2020 compared to Second Quarter of 2019:

Payment and processing fee revenue decreased 16%. Transportation volumes for invoices and dollars declined 21% and 20%, respectively. With manufacturing companies representing an important component of the transportation customer base, the previously reported contraction in the sector, combined with the effects of COVID-19, created significant challenges. Facility-related invoice and dollar volume declined 3% and 18%, respectively, as the impact of COVID-19 spawned customer bankruptcies or significant loss of dollar volume in the restaurant, retail and hospitality sectors as customers either temporarily closed locations or operated with minimal services.

There were no gains on the sales of securities in the Second Quarter of 2020, compared to $8,000 in gains in the Second Quarter of 2019.

First Half of 2020 compared to First Half of 2019:

Payment and processing revenue decreased 10% for the same reasons as the Second Quarter. Transportation invoice and dollar volumes, as well as expense management transaction and dollar volumes, fluctuated for the same reasons as the Second Quarter.

Gains of $1,069,000 on the sales of securities were recognized in the First Half of 2020, compared to gains of $19,000 in the First Half 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:

	Second Quarter of			First Half of		
(In thousands)	2020	2019	% Change	2020	2019	% Change
Average earnings assets	$ 1,624,415	$ 1,430,983	13.5%	$ 1,556,144	$ 1,434,777	8.5%
Average interest-bearing liabilities	478,370	379,422	26.1%	443,873	384,607	15.4%
Net interest income*	11,635	12,553	(7.3)%	23,492	24,701	(4.9)%
Net interest margin*	2.88%	3.52%		3.04%	3.47%	
Yield on earning assets*	3.00%	3.88%		3.22%	3.84%	
Rate on interest-bearing liabilities	.40%	1.38%		.66%	1.36%	

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

Second Quarter of 2020 compared to Second Quarter of 2019:

Second Quarter of 2020 average earning assets increased $193,432,000, or 13.5%, compared to the same period in the prior year. Average loans increased $194,666,000, or 25.3%, due to the PPP loans and federal funds sold and interest-bearing deposits in other financial institutions increased $185,404,000, or 211.0%. These were partially offset as other short-term investments decreased $128,193,000, or 88.6%, and average investment securities decreased $56,763,000, or 13.3%, in the Second Quarter of 2020 compared to the Second Quarter of 2019.

Total non-interest-bearing liabilities for the Second Quarter of 2020 increased $100,431,000, or 38.7% and average interest-bearing liabilities increased $98,948,000, or 26.1%, compared to the Second Quarter of 2019 as the funds from the PPP loans largely remained in deposit accounts. Average accounts and drafts payable decreased $33,076,000, or 4.3%, in the Second Quarter of 2020 compared to the Second Quarter of 2019.

The changes to the interest rate environment led to decreases in net interest income and the net interest margin. The impact of this was partially offset by higher average earning assets.

First Half of 2020 compared to First Half of 2019:

First Half of 2020 average earning assets increased $121,367,000, or 8.5%, compared to the same period in the prior year. Loans increased $136,189,000, or 18.3% due to the PPP loans and interest-bearing deposits in other financial institutions increased $87,635,000, or 76.7%. These were offset by a decrease in average investment securities of $50,618,000, or 11.7%, and a decrease in average federal funds sold and short-term investments of $50,251,000, or 35.7%, for the First Half of 2020 as compared to the First Half of 2019.

Non-interest-bearing demand deposits increased $62,743,000, or 23.7%, and total average interest-bearing liabilities increased $59,266,000, or 15.4%, compared to the First Half of 2019 as the funds from the PPP loans largely remained in deposit accounts and higher time deposits. These were partially offset by a decrease in the average accounts and drafts payable balances for the First Half of 2020 of $7,643,000, or 1.0%, Net interest income and net interest margin were impacted by the same factors as the Second Quarter.

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

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

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

	Second Quarter of 2020			Second Quarter of 2019		
(In thousands)	Average Balance	Interest Income/ Expense	Yield/Rate	Average Balance	Interest Income/ Expense	Yield/Rate
Assets[1]						
Interest-earning assets						
Loans[2]:						
Taxable	$ 964,060	$ 9,298	3.88%	$ 769,394	$ 9,387	4.89%
Investment securities[4]:				—	—	—
Taxable	82,107	471	2.31	104,740	630	2.41
Tax-exempt[3]	288,078	2,260	3.16	322,208	2,524	3.14
Certificates of deposit	313	2	2.57	1,995	10	2.01
Interest-bearing deposits in other financial institutions	273,287	73	0.11	87,883	477	2.18
Federal funds sold and other short-term investments	16,570	12	0.29	144,763	830	2.30
Total interest-earning assets	1,624,415	12,116	3.00	1,430,983	13,858	3.88
Non-interest-earning assets						
Cash and due from banks	15,948			12,726		
Premises and equipment, net	20,069			21,580		
Bank-owned life insurance	17,760			17,540		
Goodwill and other intangibles	18,239			13,975		
Other assets	200,779			216,337		
Allowance for loan losses	(10,895)			(10,498)		
Total assets	$ 1,886,315			$ 1,702,643		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand Deposits	$ 394,756	$ 202	0.21%	$ 296,017	$ 923	1.25%
Savings deposits	12,921	3	0.09	9,867	26	1.06
Time deposits >= $100	28,268	138	1.96	24,954	120	1.93
Other time deposits	42,414	138	1.31	48,559	236	1.95
Total interest-bearing deposits	478,359	481	0.40	379,397	1,305	1.38
Short-term borrowings	11	—	—	25	—	—
Total interest-bearing liabilities	478,370	481	0.40	379,422	1,305	1.38
Non-interest bearing liabilities						
Demand deposits	359,808			259,377		
Accounts and drafts payable	741,547			774,623		
Other liabilities	64,489			55,854		
Total liabilities	1,644,214			1,469,276		
Shareholders' equity	242,101			233,367		
Total liabilities and shareholders' equity	$ 1,886,315			$ 1,702,643		
Net interest income		$ 11,635			$ 12,553	
Net interest margin			2.88%			3.52%
Interest spread			2.60			2.50

1. Balances shown are daily averages.
2. Interest income on loans includes net loan fees of $565,000 and $77,000 for the Second Quarter of 2020 and 2019, respectively due to higher PPP loan fees.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for both 2020 and 2019. The tax-equivalent adjustment was approximately $474,000 and $531,000 for the Second 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.

	First Half of 2020			First Half of 2019		
(In thousands)	**Average Balance**	**Interest Income/ Expense**	**Yield/Rate**	**Average Balance**	**Interest Income/ Expense**	**Yield/Rate**
Assets[1]						
Interest-earning assets						
Loans[2, 3]:						
Taxable	$ 881,781	$ 18,299	4.17%	$ 745,592	$ 18,016	4.87%
Investment securities[4]:						
Taxable	88,899	1,028	2.33	105,685	1,262	2.41
Tax-exempt[3]	292,561	4,562	3.14	326,393	5,103	3.15
Certificates of deposit	407	5	2.47	1,995	20	2.02
Interest-bearing deposits in other financial institutions	201,949	456	0.45	114,314	1,286	2.27
Federal funds sold and other short-term investments	90,547	588	1.31	140,798	1,609	2.30
Total interest-earning assets	1,556,144	24,938	3.22	1,434,777	27,296	3.84
Non-interest-earning assets:						
Cash and due from banks	16,649			13,268		
Premises and equipment, net	20,182			21,796		
Bank-owned life insurance	17,703			17,485		
Goodwill and other intangibles	18,347			14,027		
Other assets	213,674			203,974		
Allowance for loan losses	(10,728)			(10,365)		
Total assets	$ 1,831,971			$ 1,694,962		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 360,804	$ 835	0.47%	$ 300,429	$ 1,845	1.24%
Savings deposits	10,662	16	0.30	10,932	59	1.09
Time deposits >= $100	29,044	279	1.93	24,092	231	1.93
Other time deposits	43,253	314	1.46	49,141	460	1.89
Total interest-bearing deposits	443,763	1,444	0.65	384,594	2,595	1.36
Short-term borrowings	110	2	3.66	13	—	—
Total interest-bearing liabilities	443,873	1,446	0.66	384,607		
Non-interest bearing liabilities:						
Demand deposits	327,486			264,743		
Accounts and drafts payable	754,773			762,416		
Other liabilities	63,359			53,653		
Total liabilities	1,589,491			1,465,419		
Shareholders' equity	242,480			229,543		
Total liabilities and shareholders' equity	$ 1,831,971			$ 1,694,962		
Net interest income		$ 23,492			$ 24,701	
Net interest margin			3.04%			3.47%
Interest spread			2.56			2.48

1. Balances shown are daily averages.
2. Interest income on loans includes net loan fees of $721,000 and $242,000 for the First Half of 2020 and 2019, respectively due to higher PPP loan fees.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for both 2020 and 2019. The tax-equivalent adjustment was approximately $958,000 and $1,072,000 for the First Half 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.

	Second Quarter of 2020 Over Second Quarter of 2019		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1]:			
Taxable	$ 2,090	$ (2,179)	$ (89)
Investment securities:			
Taxable	(132)	(27)	(159)
Tax-exempt[2]	(274)	10	(264)
Certificates of deposit	(10)	2	(8)
Interest-bearing deposits in other financial institutions	347	(751)	(404)
Federal funds sold and other short-term investments	(412)	(406)	(818)
Total interest income	1,609	(3,351)	(1,742)
Interest expense on:			
Interest-bearing demand deposits	234	(955)	(721)
Savings deposits	6	(29)	(23)
Time deposits >=$100	16	2	18
Other time deposits	(27)	(71)	(98)
Total interest expense	229	(1,053)	(824)
Net interest income	$ 1,380	$ (2,298)	$ (918)

1. Interest income includes net loan fees.
2. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for the Second Quarter of 2020 and 2019.

	First Half of 2020 Over First Half of 2019		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1]:			
Taxable	$ 3,071	$ (2,788)	$ 283
Investment securities:			
Taxable	(192)	(42)	(234)
Tax-exempt[2]	(514)	(27)	(541)
Certificates of deposit	(19)	4	(15)
Interest-bearing deposits in other financial institutions	606	(1,436)	(830)
Federal funds sold and other short-term investments	(461)	(560)	(1,021)
Total interest income	2,490	(4,849)	(2,358)
Interest expense on:			
Interest-bearing demand deposits	318	(1,328)	(1,010)
Savings deposits	(1)	(42)	(43)
Time deposits >=$100	48	(0)	48
Other time deposits	(50)	(96)	(146)
Short-term borrowings	—	2	2
Total interest expense	315	(1,464)	(1,149)
Net interest income	$ 2,176	$ (3,385)	$ (1,209)

1. Interest income includes net loan fees.
2. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for the First Half of 2020 and 2019.

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 $400,000 recorded in the Second Quarter of 2020 to support the growth in the loan portfolio and as a result of the impact of COVID-19 while no loan loss provision was recorded in the Second Quarter of 2019. There was a loan loss provision of $725,000 recorded in the First Half of 2020 to support the growth in the loan portfolio and as a result of the impact of COVID-19 while there was a loan loss provision of $250,000 in the First Half 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 were $3,000 during the Second Quarter of 2020 and $20,000 during the Second Quarter of 2019. Net loan recoveries were $11,000 in the First Half of 2020 and $31,000 during the First Half of 2019.

The ALLL at June 30, 2020 was $11,292,000 and at December 31, 2019 was $10,556,000. The ratio of ALLL to total loans outstanding was 1.17% and 1.37% at June 30, 2020 and December 31, 2019, respectively. In support of the CARES Act, the Bank had processed nearly 350 applications for PPP loans of approximately $170,000,000 to provide much-needed cash to small business and self-employed taxpayers during the COVID-19 crisis. The loans were primarily made to existing bank customers and are 100% guaranteed by the Small Business Administration and no allowance for loan loss was recorded for these loans. There were no nonperforming loans at June 30, 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 is an estimate of the current amount of loans that is probable the Company will be unable to collect according to the original terms.

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

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

Summary of Asset Quality

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

	Second Quarter of		First Half of	
(In thousands)	**2020**	**2019**	**2020**	**2019**
Allowance at beginning of period	$ 10,889	$ 10,486	$ 10,556	$ 10,225
Provision	400	—	725	250
Loans charged off	—	—	—	—
Recoveries on loans previously charged off	3	20	11	31
Net recoveries	3	20	11	31
Allowance at end of period	$ 11,292	$ 10,506	$ 11,292	$ 10,506
Loans outstanding:				
Average	$ 964,060	$ 769,394	$ 881,781	$ 745,592
June 30	963,726	790,552	963,726	790,552
Ratio of ALLL to loans outstanding:				
Average	1.17%	1.37%	1.28%	1.41%
June 30	1.17%	1.33%	1.17%	1.33%
Non-performing loans:				
Nonaccrual loans	$ —	$ —	$ —	$ —
Loans past due 90 days or more	—	—	—	—
Total non-performing loans	$ —	$ —	$ —	$ —
Foreclosed assets	$ —	$ —	$ —	$ —
Non-performing loans as percentage of average loans	—	—	—	—

The Bank had no property carried as other real estate owned as of June 30, 2020 and June 30, 2019.

Operating Expenses

Total operating expenses for the Second Quarter of 2020 were down 8.7%, or $2,614,000, compared to the Second Quarter of 2019 as personnel expense decreased due to the decline in transportation and facility-related transaction volumes. Total operating expenses for the First Half of 2020 were down $2,147,000, or 3.7%, compared to the First Half of 2019 for the same reason as the Second Quarter.

Financial Condition

Total assets at June 30, 2020 were $1,828,984,000, an increase of $64,741,000, or 3.7%, from December 31, 2019. The most significant changes in asset balances during this period were increases in loans of $191,088,000 due to the PPP loans and cash and cash equivalents of $28,185,000. These increases were partially offset by a decrease in other assets of $66,121,000, payments in excess of funding of $43,948,000, and in security investments of $42,694,000. 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 June 30, 2020 were $1,580,457,000 an increase of $60,404,000, or 4.0%, from December 31, 2019. Total deposits at June 30, 2020 were $825,956,000, an increase of $68,820,000, or 9.1%, from December 31, 2019 as the funds from the PPP loans largely remained in deposit accounts. Accounts and drafts payable at June 30, 2020 were $687,538,000, an increase of $3,243,000, or 0.5%, from December 31, 2019.

Total shareholders' equity at June 30, 2020 was $248,527,000, a $4,337,000, or 1.8%, increase from December 31, 2019. Total shareholders' equity increased due to net income of $12,984,000 and a decrease in accumulated other comprehensive loss of $4,379,000. These were offset by dividends paid of $7,811,000 and share repurchases of $5,508,000.

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 consists 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 $232,139,000 at June 30, 2020, an increase of $28,185,000, or 13.8%, from December 31, 2019. At June 30, 2020, these assets represented 12.7% 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 $379,971,000 at June 30, 2020, a decrease of $42,694,000 from December 31, 2019. These assets represented 20.8% of total assets at June 30, 2020. Of this total, 80% were state and political subdivision securities. Of the total portfolio, 14.5% mature in one year, 23.5% mature in one to five years, and 62.0% 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 $193,362,000 collateralized by commercial mortgage loans. The Company also has secured lines of credit with UMB Bank of $75,000,000 and First Horizon Bank of $75,000,000 collateralized by state and political subdivision securities. There were no amounts outstanding under any line of credit as of June 30, 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 $172,563,000 as of June 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 $41,521,000 of CDARS deposits and interest-bearing demand deposits include $88,323,000 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 $32,655,000 for the First Half of 2020, compared to $26,373,000 for the First Half of 2019, an increase of $6,282,000. 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 a discussion of trends and impacts relating to 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 a discussion of trends and impacts relating to 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 a discussion of trends and impacts relating to 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:

	June 30, 2020		December 31, 2019	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 250,949	21.32%	$ 249,954	19.70%
Cass Commercial Bank	162,782	20.08%	154,011	19.32%
Common equity tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 239,657	20.36%	$ 239,398	18.86%
Cass Commercial Bank	153,708	18.96%	145,673	18.27%
Tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 239,657	20.36%	$ 239,398	18.86%
Cass Commercial Bank	153,708	18.96%	145,673	18.27%
Tier I capital (to leverage assets)				
Cass Information Systems, Inc.	$ 239,657	12.83%	$ 239,398	13.24%
Cass Commercial Bank	153,708	13.13%	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 Second 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 has and could continue to 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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) None.

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors implemented in the Second 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: August 6, 2020	By	/s/ Eric H. Brunngraber
		Eric H. Brunngraber Chairman, President, and Chief Executive Officer (Principal Executive Officer)
DATE: August 6, 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: August 6, 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: August 6, 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 June 30, 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)
August 6, 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 June 30, 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)
August 6, 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.