UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2023

OR

o 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 x No o

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 x No o

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

Large Accelerated Filer	o	Accelerated Filer	x		
Non-Accelerated Filer	o	Smaller Reporting Company	o	Emerging Growth Company	o

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 x

The number of shares outstanding of the registrant's only class of common stock as of October 27, 2023: Common stock, par value $.50 per share – 13,596,490 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 2022 Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC"), which may be updated from time to time in our future filings with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, or changes to future results over time.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2023 (Unaudited)	December 31, 2022
Assets		
Cash and due from banks	$ 23,550	$ 20,995
Short-term investments	384,885	179,947
Cash and cash equivalents	408,435	200,942
Securities available-for-sale, at fair value	615,855	754,468
Loans	1,039,619	1,082,906
Less: Allowance for credit losses	13,319	13,539
Loans, net	1,026,300	1,069,367
Payments in advance of funding	258,587	293,775
Premises and equipment, net	26,257	19,958
Investment in bank-owned life insurance	48,857	47,998
Goodwill	17,309	17,309
Other intangible assets, net	3,540	4,126
Accounts and drafts receivable from customers	28,710	95,779
Other assets	71,028	69,301
Total assets	$ 2,504,878	$ 2,573,023
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 511,292	$ 642,757
Interest-bearing	666,050	614,460
Total deposits	1,177,342	1,257,217
Accounts and drafts payable	1,082,224	1,067,600
Other liabilities	39,076	41,881
Total liabilities	2,298,642	2,366,698
Shareholders' Equity:		
Preferred stock, par value $.50 per share; 2,000,000 shares authorized and no shares issued	—	—
Common stock, par value $.50 per share; 40,000,000 shares authorized and 15,505,772 shares issued at September 30, 2023 and December 31, 2022; 13,596,490 and 13,669,656 shares outstanding at September 30, 2023 and December 31, 2022, respectively.	7,753	7,753
Additional paid-in capital	207,663	207,422
Retained earnings	141,444	131,682
Common shares in treasury, at cost (1,909,282 shares at September 30, 2023 and 1,836,116 shares at December 31, 2022)	(83,704)	(81,211)
Accumulated other comprehensive loss	(66,920)	(59,321)
Total shareholders' equity	206,236	206,325
Total liabilities and shareholders' equity	$ 2,504,878	$ 2,573,023

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Fee Revenue and Other Income:				
Processing fees	$ 19,939	$ 18,964	$ 58,838	$ 57,184
Financial fees	11,597	11,252	34,518	32,406
Other	1,264	1,568	3,624	3,275
Total fee revenue and other income	32,800	31,784	96,980	92,865
Interest Income:				
Interest and fees on loans	12,863	10,006	38,029	27,890
Interest and dividends on securities:				
Taxable	3,428	2,947	10,702	6,679
Exempt from federal income taxes	964	1,551	3,161	4,867
Interest on federal funds sold and other short-term investments	3,934	2,249	9,147	3,423
Total interest income	21,189	16,753	61,039	42,859
Interest Expense:				
Interest on deposits	4,641	782	11,463	1,344
Interest on short-term borrowings	—	—	116	—
Total interest expense	4,641	782	11,579	1,344
Net interest income	16,548	15,971	49,460	41,515
Provision for (release of) credit losses	125	550	(335)	850
Net interest income after provision for (release of) credit losses	16,423	15,421	49,795	40,665
Total net revenue	49,223	47,205	146,775	133,530
Operating Expense:				
Personnel	29,636	26,999	89,094	77,750
Occupancy	908	970	2,670	2,801
Equipment	1,789	1,633	5,188	5,004
Amortization of intangible assets	195	195	585	485
Other operating expense	7,535	6,524	22,237	15,748
Total operating expense	40,063	36,321	119,774	101,788
Income before income tax expense	9,160	10,884	27,001	31,742
Income tax expense	1,766	2,085	5,352	6,123
Net income	$ 7,394	$ 8,799	$ 21,649	$ 25,619
Basic earnings per share	$ .55	$ .65	$ 1.60	$ 1.89
Diluted earnings per share	.54	.64	1.56	1.86

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Comprehensive Income:				
Net income	$ 7,394	$ 8,799	$ 21,649	$ 25,619
Other comprehensive (loss) income:				
Net unrealized loss on securities available-for-sale	(13,659)	(26,127)	(10,105)	(87,159)
Tax effect	3,251	6,218	2,405	20,744
Reclassification adjustments for (gains) losses included in net income	—	(13)	160	(15)
Tax effect	—	3	(38)	3
Foreign currency translation adjustments	(118)	(195)	(21)	(405)
Total comprehensive (loss) income	$ (3,132)	$ (11,315)	$ 14,050	$ (41,213)

See accompanying notes to unaudited consolidated financial statements.

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

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Cash Flows From Operating Activities:		
Net income	$ 21,649	$ 25,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of intangible assets	585	485
Net amortization of premium/discount on investment securities	3,378	4,818
Depreciation	3,061	3,008
Losses (gains) on sales of securities	160	(15)
Stock-based compensation expense	3,797	4,479
(Release of) provision for credit losses	(335)	850
(Decrease) increase in current income tax liability	(1,496)	641
Increase (decrease) in pension liability	346	(1,877)
Increase in accounts receivable	(1,234)	(2,540)
Other operating activities, net	(545)	5,331
Net cash provided by operating activities	29,366	40,799
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	111,053	3,838
Proceeds from maturities of securities available-for-sale	29,410	45,740
Purchase of securities available-for-sale	(15,332)	(231,891)
Net decrease (increase) in loans	43,286	(76,521)
Purchase of bank-owned life insurance	—	(4,538)
Asset acquisition of Touchpoint	—	(4,425)
Decrease in payments in advance of funding	35,188	22,206
Purchases of premises and equipment, net	(9,360)	(4,270)
Net cash provided by (used in) investing activities	194,245	(249,861)
Cash Flows From Financing Activities:		
Net decrease in noninterest-bearing demand deposits	(131,465)	(911)
Net increase in interest-bearing demand and savings deposits	15,304	20,672
Net increase (decrease) in time deposits	36,286	(11,543)
Net decrease (increase) in accounts and drafts receivable from customers	67,069	(45,699)
Net decrease in accounts and drafts payable	14,624	95,938
Cash dividends paid	(11,887)	(11,478)
Purchase of common shares for treasury	(5,212)	(5,299)
Other financing activities, net	(837)	(552)
Net cash (used in) provided by financing activities	(16,118)	41,128
Net increase (decrease) in cash and cash equivalents	207,493	(167,934)
Cash and cash equivalents at beginning of period	200,942	514,928
Cash and cash equivalents at end of period	$ 408,435	$ 346,994
Supplemental information:		
Cash paid for interest	$ 11,049	$ 1,314
Cash paid for income taxes	6,775	5,531

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
THREE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Unaudited)
(Dollars in Thousands except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, June 30, 2022	$ 7,753	$ 204,482	$ 121,386	$ (81,742)	$ (46,265)	$ 205,614
Net income			8,799			8,799
Cash dividends ($0.28 per share)			(3,824)			(3,824)
Issuance of 3,487 common shares pursuant to stock-based compensation plan, net		(165)		118		(47)
Stock-based compensation expense		1,307				1,307
Other comprehensive loss					(20,114)	(20,114)
Balance, September 30, 2022	$ 7,753	$ 205,624	$ 126,361	$ (81,624)	$ (66,379)	$ 191,735
Balance, June 30, 2023	$ 7,753	$ 206,734	$ 137,996	$ (80,943)	$ (56,394)	$ 215,146
Net income			7,394			7,394
Cash dividends ($0.29 per share)			(3,946)			(3,946)
Issuance of 1,685 common shares pursuant to stock-based compensation plans, net		(9)		74		65
Exercise of SARs		—		—		—
Stock-based compensation expense		938		—		938
Purchase of 73,272 common shares				(2,835)		(2,835)
Other comprehensive loss					(10,526)	(10,526)
Balance, September 30, 2023	$ 7,753	$ 207,663	$ 141,444	$ (83,704)	$ (66,920)	$ 206,236

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
NINE MONTHS ENDED SEPTEMBER 30, 2023 AND 2022
(Unaudited)
(Dollars in Thousands except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2021	$ 7,753	$ 204,276	$ 112,220	$ (78,904)	$ 453	$ 245,798
Net income			25,619			25,619
Cash dividends ($.84 per share)			(11,478)			(11,478)
Issuance of 80,396 common shares pursuant to stock-based compensation plan, net		(2,803)		2,336		(467)
Exercise of SARs		(328)		243		(85)
Stock-based compensation expense		4,479				4,479
Purchase of 130,374 common shares				(5,299)		(5,299)
Other comprehensive loss					(66,832)	(66,832)
Balance, September 30, 2022	$ 7,753	$ 205,624	$ 126,361	$ (81,624)	$ (66,379)	$ 191,735
Balance, December 31, 2022	$ 7,753	$ 207,422	$ 131,682	$ (81,211)	$ (59,321)	$ 206,325
Net income			21,649			21,649
Cash dividends ($.87 per share)			(11,887)			(11,887)
Issuance of 82,906 common shares pursuant to stock-based compensation plans, net		(3,336)		2,615		(721)
Exercise of SARs		(238)		122		(116)
Stock-based compensation expense		3,815		(18)		3,797
Purchase of 136,577 common shares				(5,212)		(5,212)
Other comprehensive loss					(7,599)	(7,599)
Balance, September 30, 2023	$ 7,753	$ 207,663	$ 141,444	$ (83,704)	$ (66,920)	$ 206,236

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 notes 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. Such reclassifications have no effect on previously reported net income or shareholders' equity. 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, 2022 ("2022 Form 10-K").

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*, 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:

	September 30, 2023		December 31, 2022	
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Assets eligible for amortization:				
Customer lists	$ 6,470	$ (4,778)	$ 6,470	$ (4,561)
Patents	72	(35)	72	(32)
Software	3,212	(1,827)	3,212	(1,508)
Trade name	373	(63)	373	(42)
Other	500	(384)	500	(358)
Unamortized intangible assets:				
Goodwill	17,309	—	17,309	—
Total intangible assets	$ 27,936	$ (7,087)	$ 27,936	$ (6,501)

The customer lists are amortized over 7 to 10 years; the patents over 18 years; software over 3 to 7 years; the trade names over 10 to 20 years; and other intangible assets over 15 years. Amortization of intangible assets amounted to $195,000 for the three month periods ended September 30, 2023 and 2022. Amortization of intangible assets amounted to $585,000 and $485,000 for the nine-month periods ended September 30, 2023 and 2022, respectively. Estimated annual amortization of intangibles is $780,000 in 2023, $738,000 in 2024, $730,000 in 2025, $582,000 in 2026, and $262,000 in 2027.

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.

The calculations of basic and diluted earnings per share are as follows:

(In thousands except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Basic				
Net income	$ 7,394	$ 8,799	$ 21,649	$ 25,619
Weighted-average common shares outstanding	13,501,469	13,542,231	13,551,070	13,554,169
Basic earnings per share	$ 0.55	$ 0.65	$ 1.60	$ 1.89
Diluted				
Net income	$ 7,394	$ 8,799	$ 21,649	$ 25,619
Weighted-average common shares outstanding	13,501,469	13,542,231	13,551,070	13,554,169
Effect of dilutive restricted stock and stock appreciation rights	291,142	262,106	285,354	252,496
Weighted-average common shares outstanding assuming dilution	13,792,611	13,804,337	13,836,424	13,806,665
Diluted earnings per share	$ 0.54	$ 0.64	$ 1.56	$ 1.86

Note 4 – Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which, in October 2021, the Board of Directors authorized the repurchase of up to 750,000 shares of the Company’s common stock with no expiration date. As of September 30, 2023, the Company had 204,130 shares remaining available for repurchase under the program. On October 17, 2023, the Board of Directors authorized the repurchase of up to 500,000 shares of the Company's common stock with no expiration date. This authorization replaces the October 2021 authorization, and as such, the Company has 500,000 shares available for repurchase effective with the October 17, 2023 authorization. The Company repurchased 73,272 and 0 shares during the three-month periods ended September 30, 2023 and 2022, respectively, and 136,577 and 130,374 shares during the nine-month periods ended September 30, 2023 and 2022, respectively. Repurchases may be made in the open market or through negotiated transactions from time to time depending on market conditions.

Note 5 – Industry Segment Information

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

The Information Services segment provides transportation, energy, telecommunication, and environmental invoice processing and payment services to large corporations. In addition, this segment provides church management software and on-line generosity services primarily for faith-based ministries. The Banking Services segment provides banking services primarily to privately held businesses, franchise restaurants, and faith-based ministries, as well as supporting the banking needs of the Information Services segment.

The Company’s accounting policies for segments are the same as those described in the summary of significant accounting policies in the Company’s 2022 Form 10-K. Management evaluates segment performance based on 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. Banking Services interest income is determined by actual interest income on loans minus actual interest expense paid on deposits plus/minus an allocation for interest income or expense dependent on the remaining available liquidity of the segment. Information Services interest income is determined by multiplying available liquidity by actual yields on short-term investments and investment securities.

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

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

(In thousands)	Information Services	Banking Services	Corporate, Eliminations and Other	Total
Three Months Ended September 30, 2023:				
Fee income	$ 31,843	$ 664	$ 293	$ 32,800
Interest income	10,143	13,879	(2,833)	21,189
Interest expense	437	7,523	(3,319)	4,641
Intersegment income (expense)	(1,117)	1,117	—	—
Tax-equivalized pre-tax income	6,100	2,282	778	9,160
Goodwill	17,173	136	—	17,309
Other intangible assets, net	3,540	—	—	3,540
Total assets	1,648,152	1,130,345	(273,619)	2,504,878
Average funding sources	$ 1,347,074	$ 795,011	$ —	$ 2,142,085
Three Months Ended September 30, 2022:				
Fee income	$ 30,399	$ 1,093	$ 292	$ 31,784
Interest income	7,468	10,525	(1,240)	16,753
Interest expense	33	1,025	(276)	782
Intersegment income (expense)	(802)	802	—	—
Tax-equivalized pre-tax income	5,933	5,622	(671)	10,884
Goodwill	17,173	136	—	17,309
Other intangible assets, net	4,321	—	—	4,321
Total assets	1,616,986	1,134,295	(140,466)	2,610,815
Average funding sources	$ 1,417,250	$ 949,454	$ —	$ 2,366,704
Nine Months Ended September 30, 2023:				
Fee income	$ 94,280	$ 2,001	$ 699	$ 96,980
Interest income	29,053	40,885	(8,899)	61,039
Interest expense	604	20,296	(9,321)	11,579
Intersegment income (expense)	(3,093)	3,093	—	—
Tax-equivalized pre-tax income	16,964	8,917	1,120	27,001
Goodwill	17,173	136	—	17,309
Other intangible assets, net	3,540	—	—	3,540
Total assets	1,648,152	1,130,345	(273,619)	2,504,878
Average funding sources	$ 1,343,750	$ 820,335	$ —	$ 2,164,085
Nine Months Ended September 30, 2022:				
Fee income	$ 89,243	$ 2,763	$ 859	$ 92,865
Interest income	17,596	28,714	(3,451)	42,859
Interest expense	73	1,578	(307)	1,344
Intersegment income (expense)	(2,476)	2,476	—	—
Tax-equivalized pre-tax income	17,803	16,224	(2,285)	31,742
Goodwill	17,173	136	—	17,309
Other intangible assets, net	4,321	—	—	4,321
Total assets	1,616,986	1,134,295	(140,466)	2,610,815
Average funding sources	$ 1,365,880	$ 963,588	$ —	$ 2,329,468

Note 6 – Loans by Type

A summary of loans is as follows:

(In thousands)	September 30, 2023	December 31, 2022
Commercial and industrial	$ 517,310	$ 561,616
Real estate:		
Commercial:		
Mortgage	115,742	108,166
Construction	21,101	17,874
Faith-based:		
Mortgage	376,186	387,114
Construction	9,249	8,094
Other	31	42
Total loans	$ 1,039,619	$ 1,082,906

The following table presents the aging of loans past due by category at September 30, 2023 and December 31, 2022:

	Performing			Nonperforming		
(In thousands)	Current	30-59 Days	60-89 Days	90 Days and Over	Non-accrual	Total Loans
September 30, 2023						
Commercial and industrial	$ 517,310	$ —	$ —	$ —	$ —	$ 517,310
Real estate						
Commercial:						
Mortgage	115,742	—	—	—	—	115,742
Construction	21,101	—	—	—	—	21,101
Faith-based:						
Mortgage	376,186	—	—	—	—	376,186
Construction	9,249	—	—	—	—	9,249
Other	31	—	—	—	—	31
Total	$ 1,039,619	$ —	$ —	$ —	$ —	$ 1,039,619
December 31, 2022						
Commercial and industrial	$ 560,466	$ —	$ —	$ —	$ 1,150	$ 561,616
Real estate						
Commercial:						
Mortgage	108,166	—	—	—	—	108,166
Construction	17,874	—	—	—	—	17,874
Faith-based:						
Mortgage	387,114	—	—	—	—	387,114
Construction	8,094	—	—	—	—	8,094
Other	42	—	—	—	—	42
Total	$ 1,081,756	$ —	$ —	$ —	$ 1,150	$ 1,082,906

The following table presents the credit exposure of the loan portfolio by internally assigned credit grade as of September 30, 2023 and December 31, 2022:

(In thousands)	Loans Subject to Normal Monitoring[1]	Performing Loans Subject to Special Monitoring[2]	Nonperforming Loans Subject to Special Monitoring[2]	Total Loans
September 30, 2023				
Commercial and industrial	$ 517,310	$ —	$ —	$ 517,310
Real estate				
Commercial:				
Mortgage	115,742	—	—	115,742
Construction	21,101	—	—	21,101
Faith-based:				
Mortgage	372,708	3,478	—	376,186
Construction	9,249	—	—	9,249
Other	31	—	—	31
Total	$ 1,036,141	$ 3,478	$ —	$ 1,039,619
December 31, 2022				
Commercial and industrial	$ 549,241	$ 11,225	$ 1,150	$ 561,616
Real estate				
Commercial:				
Mortgage	108,166	—	—	108,166
Construction	17,874	—	—	17,874
Faith-based:				
Mortgage	386,169	945	—	387,114
Construction	8,094	—	—	8,094
Other	42	—	—	42
Total	$ 1,069,586	$ 12,170	$ 1,150	$ 1,082,906

[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.

The Company adopted Accounting Standards Update ("ASU") 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures* ("ASU 2022-02") effective January 1, 2023. The amendments in ASU 2022-02 eliminated the recognition and measure of troubled debt restructurings and enhanced disclosures for loan modifications to borrowers experiencing financial difficulty. In some cases, these modifications may result in new loans. Loan modifications to borrowers experiencing financial difficulty may be in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, a term extension, or a combination thereof, among other things.

The following table shows the amortized cost of loans at September 30, 2023 that were both experiencing financial difficulty and modified during the nine months ended September 30, 2023, segregated by category and type of modification.

(In thousands)	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	Percentage of Total Loans Held for Investment
September 30, 2023					
Commercial and industrial	$ —	$ 10,709	$ —	$ —	2.07 %
Total	$ —	$ 10,709	$ —	$ —	1.03 %

There were two loans modified during the nine months ended September 30, 2023. The terms were extended by periods of two and three years, and there was not an interest rate reduction associated with the modifications.

The following table shows the performance of loans that have been modified to borrowers experiencing financial difficulty during the nine months ended September 30, 2023.

(In thousands)	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due
September 30, 2023					
Commercial and industrial	$ 10,709	$ —	$ —	$ —	$ —
Total	$ 10,709	$ —	$ —	$ —	$ —

There were no modified loans that had a payment default during the nine months ended September 30, 2023 and that had been modified due to the borrower experiencing financial difficulty within the 12 previous months preceding the default.

Upon the Company's determination that a modified loan has subsequently been deemed uncollectible, the loan is written off. There were no loans written off during the nine months ended September 30, 2023.

Prior to the adoption of ASU 2022-02, there were no loans considered troubled debt restructurings as of September 30, 2022 or December 31, 2022.

The Company had no loans evaluated for expected credit losses on an individual basis as of September 30, 2023. The Company had one loan that was considered an individually evaluated credit at December 31, 2022, with no specific allowance. This loan was paid off in full in January 2023. There were no foreclosed loans recorded as other real estate owned as of September 30, 2023 or December 31, 2022.

A summary of the activity in the allowance for credit losses ("ACL") by category for the nine month period ended September 30, 2023 and year-ended December 31, 2022 is as follows:

(In thousands)	C&I	CRE	Faith-based CRE	Construction	Total
Balance at December 31, 2021	$ 5,034	$ 1,031	$ 5,684	$ 292	$ 12,041
Provision for (release of) credit losses	931	(91)	753	(108)	1,485
Recoveries	13	—	—	—	13
Balance at December 31, 2022	$ 5,978	$ 940	$ 6,437	$ 184	$ 13,539
(Release of) provision for credit losses [(1)]	(275)	72	(48)	31	(220)
Recoveries	—	—	—	—	—
Balance at September 30, 2023	$ 5,703	$ 1,012	$ 6,389	$ 215	$ 13,319

(1) For the nine month period ended September 30, 2023 and year-ended December 31, 2022, there was a release of credit losses of $115,000 and $135,000, respectively, for unfunded commitments.

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. As more fully described in the Form 10-K, 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. 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. An allowance for unfunded commitments of $117,000 and $232,000 had been recorded at September 30, 2023 and December 31, 2022, respectively.

At September 30, 2023, the balances of unfunded commitments, standby and commercial letters of credit were $187.0 million, $12.5 million, and $502,000, respectively. Since some of the financial instruments may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements.

Note 8 – Stock-Based Compensation

Stock-based compensation awards have historically been issued under the Company's Amended and Restated Omnibus Stock and Performance Compensation Plan (the "Prior Plan"), which was amended and last approved by shareholders in 2013. The Company issued shares out of treasury stock for these awards until the expiration of the Prior Plan on April 17, 2023. During the nine months ended September 30, 2023, 35,035 restricted shares and 48,262 performance-based restricted shares were granted under the Prior Plan.

On February 16, 2023, the Board of Directors adopted the 2023 Omnibus Stock and Performance Compensation Plan (the "2023 Omnibus Plan") to replace the Prior Plan, subject to shareholder approval which occurred on April 18, 2023. Subsequent to this date, the Company will issue stock-based compensation awards under the 2023 Omnibus Plan. During the nine months ended September 30, 2023, 21,372 restricted shares and 3,191 performance-based restricted shares were granted under the 2023 Omnibus Plan.

Stock-based compensation expense for the three months ended September 30, 2023 and 2022 was $938,000 and $1.3 million, respectively, and $3.8 million and $4.5 million for the nine months ended September 30, 2023 and 2022, respectively.

Restricted Stock

Restricted shares granted to Company employees are amortized to expense over a three-year cliff vesting period, or until vesting occurs upon retirement. 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 September 30, 2023, the total unrecognized compensation expense related to non-vested restricted shares was $2.0 million, and the related weighted-average period over which it is expected to be recognized is approximately 0.51 years.

Following is a summary of the activity of the Company's restricted stock for the nine months ended September 30, 2023, with total shares and weighted-average fair value:

	Nine Months Ended September 30, 2023		
	Shares		Fair Value
Balance at December 31, 2022	205,565	$	42.64
Granted	56,407		44.59
Vested	(21,691)		53.16
Forfeitures	(398)		40.15
Balance at September 30, 2023	239,883	$	42.17

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 for the nine months ended September 30, 2023, based on 100% of target value:

	Nine Months Ended September 30, 2023		
	Shares		Fair Value
Balance at December 31, 2022	138,785	$	43.19
Granted	51,453		48.19
Vested	(30,567)		54.02
Forfeitures	(598)		40.15
Balance at September 30, 2023	159,073	$	42.74

The PBRS that vested during the nine months ended September 30, 2023 were based on the Company's achievement of 86.7% of target financial goals, resulting in the issuance of 26,499 shares of common stock. The outstanding PBRS at September 30, 2023 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 nine months ended September 30, 2023. Following is a summary of the activity of the Company's SARs program for the nine months ended September 30, 2023:

	Shares		Weighted-Average Exercise Price	Average Remaining Contractual Term Years		Aggregate Intrinsic Value *(In thousands)*
Balance at December 31, 2022	46,325	$	41.62	0.73	$	192
Exercised	(15,916)		31.92	—		—
Exercisable at September 30, 2023	30,409	$	46.70	0.33	$	—

All SARs were vested at September 30, 2023.

Note 9 – Defined Pension Plans

The Company has a noncontributory defined-benefit pension plan (the "Plan"), which covers eligible employees. Effective December 31, 2016, the Plan was closed to all new participants. Additionally, the Plan's benefits were frozen for all remaining participants as of February 28, 2021. As such, subsequent to February 28, 2021, there is no service cost associated with the Plan. The following table represents the components of net periodic pension cost (benefit):

(In thousands)		Estimated 2023		Actual 2022
Interest cost on projected benefit obligations	$	4,375	$	3,293
Expected return on plan assets		(3,977)		(5,857)
Net periodic pension cost (benefit)	$	398	$	(2,564)

The Company recorded a net periodic pension cost of $129,000 and $402,000 for the three and nine month period ended September 30, 2023, respectively, and a net periodic pension benefit of $616,000 and $1.8 million for the three and nine month period ended September 30, 2022, respectively. The Company made no contributions to the Plan during the nine month period ended September 30, 2023 and is evaluating the amount of contributions, if any, for the remainder of 2023.

In addition to the above funded defined-benefit pension plan, the Company has an unfunded supplemental executive retirement plan (the "SERP"). There are no current employees earning benefits and therefore, there is no service cost associated with the SERP. The following table represents the components of the net periodic cost for the SERP:

(In thousands)		Estimated 2023		Actual 2022
Interest cost on projected benefit obligation	$	472	$	318
Net amortization		—		108
Net periodic pension cost	$	472	$	426

SERP cost recorded to expense was $118,000 and $354,000 for the three and nine month periods ended September 30, 2023, respectively, and $107,000 and $320,000 for the three and nine month periods ended September 30, 2022, respectively.

Note 10 – Income Taxes

The effective tax rate was 19.3% and 19.8% for the three and nine month periods ended September 30, 2023, respectively, and 19.2% and 19.3% for the three and nine month periods September 30, 2022, respectively. The effective tax rate for all periods differs from the statutory rate of 21% primarily due to the tax-exempt interest received from municipal bonds and bank-owned life insurance, among other factors. The increase in the effective tax rate for the nine month period ended September 30, 2023 as compared to the same period of 2022 is primarily a result of lower tax-exempt income.

Note 11 – Investment in Securities

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

	September 30, 2023			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 241,194	$ 2	$ 25,735	$ 215,461
Mortgage-backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	192,241	—	39,806	152,435
Corporate bonds	111,172	—	11,723	99,449
Treasury securities	109,752	—	2,030	107,722
Asset backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	42,020	—	1,232	40,788
Total	$ 696,379	$ 2	$ 80,526	$ 615,855

	December 31, 2022			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 317,376	$ 54	$ 22,304	$ 295,126
Mortgage-backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	205,175	—	31,236	173,939
Corporate bonds	96,348	—	11,251	85,097
Treasury securities	158,935	—	3,652	155,283
Asset backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	47,213	—	2,190	45,023
Total	$ 825,047	$ 54	$ 70,633	$ 754,468

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

	September 30, 2023					
	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	$ 63,256	$ 1,183	$ 149,202	$ 24,552	$ 212,458	$ 25,735
Mortgage-backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	—	—	152,435	39,806	152,435	39,806
Corporate bonds	14,939	61	79,510	11,662	94,449	11,723
Treasury securities	—	—	107,722	2,030	107,722	2,030
Asset backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	—	—	40,788	1,232	40,788	1,232
Total	$ 78,195	$ 1,244	$ 529,657	$ 79,282	$ 607,852	$ 80,526

(In thousands)	December 31, 2022					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
State and political subdivisions	$ 214,919	$ 8,958	$ 47,474	$ 13,346	$ 262,393	$ 22,304
Mortgage-backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	53,732	6,135	118,017	25,101	171,749	31,236
Corporate bonds	32,517	3,629	47,580	7,622	80,097	11,251
Treasury securities	155,283	3,652	—	—	155,283	3,652
Asset backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	—	—	47,213	2,190	47,213	2,190
Total	$ 456,451	$ 22,374	$ 260,284	$ 48,259	$ 716,735	$ 70,633

There were 276 securities, or 98.2% (213 of which for greater than 12 months), in an unrealized loss position as of September 30, 2023. The unrealized losses at September 30, 2023 were primarily attributable to changes in market interest rates after the securities were purchased. The Company does not currently intend to sell, and based on current conditions, the Company does not believe it will be required to sell these available-for-sale securities before the recovery of the amortized cost basis, which may be the maturity dates of the securities. Therefore, the unrealized losses are recorded in accumulated other comprehensive loss. There were 311 securities, or 91.7% (101 of which for greater than 12 months), in an unrealized loss position as of December 31, 2022. At September 30, 2023 and December 31, 2022, the Company had not recorded an allowance for credit losses on securities.

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.

(In thousands)	September 30, 2023	
	Amortized Cost	Fair Value
Due in 1 year or less	$ 124,354	$ 122,207
Due after 1 year through 5 years	141,867	138,528
Due after 5 years through 10 years	201,815	169,520
Due after 10 years	228,343	185,600
Total	$ 696,379	$ 615,855

Proceeds from sales of investment securities classified as available-for-sale were $0 and $111.1 million for the three and nine months ended September 30, 2023, respectively, and $2.3 million and $3.8 million for the three and nine months ended September 30, 2022, respectively. Gross realized losses were $0 and $347,000 for the three and nine months ended September 30, 2023, respectively, and there were no gross realized losses for both the three and nine months ended September 30, 2022. Gross realized gains were $0 and $187,000 for the three and nine months ended September 30, 2023, respectively, and were $13,000 and $15,000 for the three and nine months ended September 30, 2022, respectively. There were no securities pledged to secure public deposits or for other purposes at September 30, 2023.

Note 12 – Fair Value of Financial Instruments

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

	September 30, 2023		December 31, 2022	
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Balance sheet assets:				
Cash and cash equivalents	$ 408,435	$ 408,435	$ 200,942	$ 200,942
Investment securities	615,855	615,855	754,468	754,468
Loans, net	1,026,300	986,503	1,069,367	1,004,682
Accrued interest receivable	8,185	8,185	8,297	8,297
Total	$ 2,058,775	$ 2,018,978	$ 2,033,074	$ 1,968,389
Balance sheet liabilities:				
Deposits	$ 1,177,342	$ 1,177,342	$ 1,257,217	$ 1,257,217
Accounts and drafts payable	1,082,224	1,082,224	1,067,600	1,067,600
Accrued interest payable	597	597	66	66
Total	$ 2,260,163	$ 2,260,163	$ 2,324,883	$ 2,324,883

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 credit 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 Payable - The carrying amount approximates fair value.

Note 13 – Revenue from Contracts with Customers

Revenue is recognized as the obligation to the customer is satisfied. The following is detail of the Company’s revenue from contracts with clients.

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.

Financial 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. The contracts have no significant impact of variable consideration and no significant financing components.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In thousands)	**2023**	**2022**	**2023**	**2022**
Fee revenue and other income				
In-scope of FASB ASC 606				
Processing fees	$ 19,939	$ 18,964	$ 58,838	$ 57,184
Financial fees	11,597	11,252	34,518	32,406
Information services payment and processing revenue	31,536	30,216	93,356	89,590
Bank service fees	247	289	764	1,142
Fee revenue (in-scope of FASB ASC 606)	31,783	30,505	94,120	90,732
Other income (out-of-scope of FASB ASC 606)	1,017	1,279	2,860	2,133
Total fee revenue and other income	$ 32,800	$ 31,784	$ 96,980	$ 92,865

Note 14 – Leases

The Company leases certain premises under operating leases. As of September 30, 2023, the Company had lease liabilities of $8.7 million and right-of-use assets of $8.4 million. 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 and nine months ended September 30, 2023, operating lease cost was $345,000 and $1.0 million, respectively, short-term lease cost was $74,000 and $200,000, respectively, and there was no variable lease cost. At September 30, 2023, the weighted-average remaining lease term for the operating leases was 7.5 years and the weighted-average discount rate used in the measurement of operating lease liabilities was 3.57%. 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. See the Company's 2022 Form 10-K for information regarding these commitments.

A maturity analysis of operating lease liabilities and undiscounted cash flows as of September 30, 2023 is as follows:

(In thousands)	**September 30, 2023**
Lease payments due	
Less than 1 year	$ 1,332
1-2 years	1,339
2-3 years	1,354
3-4 years	1,350
4-5 years	1,343
Over 5 years	3,218
Total undiscounted cash flows	9,936
Discount on cash flows	1,200
Total lease liability	$ 8,736

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the nine months ended September 30, 2023.

Note 15 – Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, the Company has evaluated subsequent events after the consolidated balance sheet date of September 30, 2023. 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

Overview

Cass Information Systems, Inc. ("Cass" or the "Company") provides payment and information processing services to large manufacturing, distribution and retail enterprises across the United States. The Company's services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays facility-related 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 integrated payments, a B2B payment platform for clients that require an agile fintech partner. Additionally, the Company offers a church management software solution and 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 held businesses in the St. Louis metropolitan area and restaurant franchises and faith-based ministries within the United States.

In general, Cass is compensated for its information processing services through service fees, transactional level payment services, and investment of account balances generated during the payment process. Both the number of transactions processed and the dollar volume processed are therefore key metrics followed by management. The Bank earns most of its revenue from net interest income.

Various factors will influence the Company's revenue and profitability, such as changes in the general level of interest rates, which has a significant effect on net interest income; industry-wide factors, such as the willingness of large corporations to outsource key business functions, the general level of transportation costs, deregulation of energy costs, and consolidation of telecommunication providers; and economic factors that include the general level of economic activity, the ability to hire and retain qualified staff, and the growth and quality of the Bank's loan portfolio. For a more detailed discussion of the Company's revenue drivers and factors that impact the Company's results of operation and financial condition generally, see Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's 2022 Form 10-K.

Recent Industry Developments

During the first half of 2023, the banking industry experienced significant volatility with high-profile bank failures and industry wide concerns related to liquidity, deposit outflows, overall level of deposit cost, unrealized securities losses and eroding consumer confidence in the banking system. The Company's average deposits have declined $112.3 million, or 9.5%, from the third quarter of 2022 to the third quarter of 2023, primarily as a result of larger commercial depository clients moving their funds to higher interest rate alternatives outside of the Company.

During the nine months ended 2023, the transportation industry has seen a decline in overall freight rates caused by an ongoing freight recession. Primarily as a result, the Company's average accounts and drafts payable has declined $112.3 million, or 9.5%, from the third quarter of 2022 to the third quarter of 2023. Transportation dollar volumes are key to the Company's revenue as higher volumes generally lead to an increase in payment float, which generates interest income, as well as an increase in payments in advance of funding, which generates financial fees.

Despite the decline in average deposits and average accounts and drafts payable, the Company's liquidity position and balance sheet remains strong. The Company has experienced recent stabilization in its deposit balances as a result of an increase in deposit rates and increased depositor confidence across the banking industry. Average deposits increased $10.0 million from the second quarter of 2023 to the third quarter of 2023. Despite the decrease in average funding sources, the Company maintained average short-term investments of $310.8 million during the third quarter of 2023. In addition, all of the Company's investment securities are classified as available-for-sale and there were no outstanding borrowings at September 30, 2023.

As a result of rising inflation, the Federal Reserve increased the Federal Funds rate over the course of 2022 and into the first nine months of 2023. The increase in the Federal Funds rate has contributed to the increase in the Company's net interest margin, therefore positively impacting net interest income. Inflation has also had the impact of increasing operating expenses, such as compensation expense.

Critical Accounting Policies

The Company has prepared the consolidated financial statements in this report in accordance with the Financial Accounting Standards Board Accounting Standards Codification. 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 and Risk Committee of the Board of Directors and is described below.

Allowance for Credit Losses. The Company performs periodic and systematic detailed reviews of its loan portfolio to determine management's estimate of the lifetime expected credit losses. 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 Credit Losses and Allowance for Unfunded Commitments" section of this report.

Results of Operations

The following paragraphs more fully discuss the results of operations and changes in financial condition for the three month period ended September 30, 2023 ("third quarter of 2023") compared to the three month period ended September 30, 2022 ("third quarter of 2022") and the nine month period ended September 30, 2023 compared to the nine month period ended September 30, 2022. 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 2022 Form 10-K. Results of operations for the three and nine months ended September 30, 2023 are not necessarily indicative of the results to be attained for any other period.

Summary of Results

The following table summarizes the Company's operating results:

	Third Quarter of			Nine Months Ended		
(In thousands except per share data)	**2023**	**2022**	**% Change**	**2023**	**2022**	**% Change**
Processing fees	$ 19,939	$ 18,964	5.1 %	$ 58,838	$ 57,184	2.9 %
Financial fees	11,597	11,252	3.1 %	34,518	32,406	6.5 %
Net interest income	16,548	15,971	3.6 %	49,460	41,515	19.1 %
Provision for (release of) credit loss	125	550	(77.3)%	(335)	850	(139.4)%
Other	1,264	1,568	(19.4)%	3,624	3,275	10.7 %
Total net revenue	49,223	47,205	4.3 %	146,775	133,530	9.9 %
Operating expense	40,063	36,321	10.3 %	119,774	101,788	17.7 %
Income before income tax expense	9,160	10,884	(15.8)%	27,001	31,742	(14.9)%
Income tax expense	1,766	2,085	(15.3)%	5,352	6,123	(12.6)%
Net income	$ 7,394	$ 8,799	(16.0)%	$ 21,649	$ 25,619	(15.5)%
Diluted earnings per share	$ 0.54	$ 0.64	(15.6)%	$ 1.56	$ 1.86	(16.1)%
Return on average assets	1.22 %	1.33 %	—	1.20 %	1.32 %	—
Return on average equity	13.80 %	16.84 %	—	13.64 %	15.80 %	—

Third quarter of 2023 compared to third quarter of 2022:

The Company recorded net revenue of $49.2 million during the three months ended September 30, 2023, up 4.3% from the three months ended September 30, 2022, primarily driven by higher processing and financial fees, along with rising interest rates which positively impacted net interest income. Operating expense increased 10.3% primarily driven by an increase in full-time equivalent employees and other expenses related to strategic investments in technology initiatives. Net income was $7.4 million and diluted EPS was $0.54 per share, decreases of 16.0% and 15.6% from the three months ended September 30, 2022, respectively.

The Company posted a 1.22% return on average assets and 13.80% return on average equity.

Nine months ended September 30, 2023 compared to nine months ended September 30, 2022:

The Company recorded net revenue of $146.8 million during the nine months ended September 30, 2023, up 9.9% from the nine months ended September 30, 2022. Operating expense increased 17.7%. Net income was $21.6 million and diluted EPS was $1.56 per share, decreases of 15.5% and 16.1% from the nine months ended September 30, 2022, respectively.

The Company posted a 1.20% return on average assets and 13.64% return on average equity.

Fee Revenue and Other Income

The Company's fee revenue is derived mainly from transportation and facility processing and financial 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, discounts received for services provided to carriers and by the accounts and drafts payable balances generated in the payment process which can be used to generate interest income. Processing volumes, average payments in advance of funding, and fee revenue were as follows:

	Third Quarter of			Nine Months Ended		
(In thousands)	**2023**	**2022**	**% Change**	**2023**	**2022**	**% Change**
Transportation invoice volume	8,925	9,385	(4.9)%	27,216	27,633	(1.5)%
Transportation invoice dollar volume	$ 9,263,453	$ 11,549,980	(19.8)%	$ 29,243,706	$ 33,818,573	(13.5)%
Facility-related transaction volume [1]	3,417	3,315	3.1 %	10,352	9,794	5.7 %
Facility-related dollar volume [1]	$ 5,096,882	$ 5,485,783	(7.1)%	$ 14,988,757	$ 14,699,903	2.0 %
Average payments in advance of funding	$ 234,684	$ 277,683	(15.5)%	$ 243,458	$ 283,431	(14.1)%
Processing fees	$ 19,939	$ 18,964	5.1 %	$ 58,838	$ 57,184	2.9 %
Financial fees	$ 11,597	$ 11,252	3.1 %	$ 34,518	$ 32,406	6.5 %
Other fees	$ 1,264	$ 1,568	(19.4)%	$ 3,624	$ 3,275	10.7 %

1. Includes energy, telecom and environmental.

Third quarter of 2023 compared to third quarter of 2022:

Processing fee revenue increased $975,000, or 5.1%, primarily attributable to an increase in ancillary fees and the increase in facility-related invoice volumes of 3.1%. Transportation invoice volumes decreased 4.9% over the same period. The decline in transportation volumes is due to the on-going freight recession.

Financial fee revenue increased $345,000, or 3.1%, primarily attributable to the increase in short-term interest rates, partially offset by a decline in transportation dollar volumes of 19.8%.

Nine months ended September 30, 2023 compared to nine months ended September 30, 2022:

Financial fee revenue increased $2.1 million, or 6.5%, primarily attributable to the increase in short-term interest rates, partially offset by a decline in transportation dollar volumes of 13.5%.

Processing fee revenue increased $1.7 million, or 2.9%, primarily attributable to the increase in facility-related transaction volume of 5.7%, partially offset by the decrease in transportation invoice volumes of 1.5%.

Net Interest Income

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

	Third Quarter of			Nine Months Ended		
(In thousands)	2023	2022	% Change	2023	2022	% Change
Average earnings assets	$ 2,059,801	$ 2,243,219	(8.2)%	$ 2,077,392	$ 2,196,704	(5.4)%
Average interest-bearing liabilities	591,567	597,469	(1.0)%	566,987	598,812	(5.3)%
Net interest income*	16,805	16,383	2.6 %	50,300	42,809	17.5 %
Net interest margin*	3.24 %	2.90 %		3.24 %	2.61 %	
Yield on earning assets*	4.13 %	3.04 %		3.98 %	2.69 %	
Cost of interest-bearing liabilities	3.11 %	0.52 %		2.73 %	0.30 %	

*Presented on a tax-equivalent basis assuming a tax rate of 21% for both 2023 and 2022.

Third quarter of 2023 compared to third quarter of 2022:

The increase in net interest income is primarily due to an increase in the Federal Funds rate throughout 2022 and into the first nine months of 2023, positively affecting the net interest margin which increased to 3.24%, as compared to 2.90% in the prior year. This was partially offset by the decrease in average earning assets of $183.4 million, or 8.2%. The yield on interest-earning assets increased 109 basis points from 3.04% to 4.13% while the cost of interest-bearing liabilities increased 259 basis points from 0.52% to 3.11%.

Average loans increased $61.9 million, or 6.3%, to $1.05 billion. This increase was due to loan growth during the second half of 2022, specifically in the Company's franchise restaurants, faith-based, and lease financing receivables portfolios. The average yield on loans increased 85 basis points to 4.88%, primarily due to the increase in short-term interest rates.

Average investment securities decreased $124.5 million, or 15.0%, due to the sale and maturity of investment securities throughout the nine months ended 2023. The average yield on taxable investment securities increased 51 basis points to 2.62% as a result of the increase in short and long-term interest rates. The average yield on tax-exempt investment securities declined 22 basis points to 2.63% driven by maturities of higher rate securities. These securities have longer term fixed rates, and the Company has not purchased any such securities since interest rates began increasing.

Average short-term investments, consisting of interest-bearing deposits in other financial institutions and federal funds sold, decreased $120.7 million, or 28.0%. The decrease is primarily a result of the increase in the average balances of loans, coupled with the decrease in average funding sources, partially offset by a decrease in average investment securities. The average yield on short-term investments increased 295 basis points to 5.02%, primarily due to the increase in short-term interest rates that began in March 2022. The majority of these short-term investments are held at the Federal Reserve Bank.

The average balance of interest-bearing deposits decreased $5.9 million, or 1.0%. Average non-interest-bearing demand deposits decreased $106.4 million, or 18.1%. The Company has experienced deposit attrition as larger commercial depository clients moved their funds to higher interest rate alternatives outside the Company. The Company also incurred a shift from non-interest bearing to interest-bearing deposits from current customers. The average rate paid on interest-bearing deposits increased 259 basis points to 3.11% due to the increase in short-term interest rates.

Average accounts and drafts payable decreased $112.3 million, or 9.5%. The decrease in average accounts and drafts payable was primarily driven by the decrease in transportation dollar volumes of 19.8%.

Nine months ended September 30, 2023 compared to nine months ended September 30, 2022:

Net interest income in the nine months ended September 30, 2023 increased primarily due to an increase in the Federal Funds rate throughout 2022 and into the first nine months of 2023, positively affecting the net interest margin which increased to 3.24%, as compared to 2.61% in the prior year. This was partially offset by the decrease in average interest-earning assets of $119.3 million, or 5.4%. The yield on interest-earning assets increased 129 basis points from 2.69% to 3.98% while the cost of interest-bearing liabilities increased 243 basis points from 0.30% to 2.73%.

Average loans increased $93.2 million, or 9.6%, to $1.07 billion. This increase was due to loan growth during 2022, specifically in the Company's franchise restaurants, faith-based, and lease financing receivables portfolios. The average yield on loans increased 94 basis points to 4.77%, primarily due to the increase in short-term interest rates.

Average investment securities decreased $24.7 million, or 3.2%. The average yield on taxable investment securities increased 77 basis points to 2.60% as a result of the increase in short and long-term interest rates. The average yield on tax-exempt investment securities declined 18 basis points to 2.72%.

Average short-term investments decreased $187.8 million, or 41.6%. The decrease is primarily a result of the increase in the average balance of loans, coupled with the decrease in average funding sources. The average yield on short-term investments increased 363 basis points to 4.64% primarily due to the increase in short-term interest rates.

The average balance of interest-bearing deposits decreased $34.8 million, or 5.8%. Average non-interest bearing demand deposits decreased $66.3 million, or 11.1%. The Company has experienced deposit attrition as larger commercial depository clients moved their funds to higher interest rate alternatives outside the Company. The Company also incurred a shift from non-interest-bearing to interest-bearing deposits from current customers. The average rate paid on interest-bearing deposits increased 242 basis points to 2.72% due to the increase in short-term interest rates.

Average accounts and drafts payable decreased $64.3 million, or 5.7%. The decrease in average accounts and drafts payable was primarily driven by the decrease in transportation dollar volumes of 13.5%, partially offset by the increase in facility-related dollar volumes of 2.0%.

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 for 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.

(In thousands)	Third Quarter of 2023 Average Balance	Third Quarter of 2023 Interest Income/ Expense	Third Quarter of 2023 Yield/ Rate	Third Quarter of 2022 Average Balance	Third Quarter of 2022 Interest Income/ Expense	Third Quarter of 2022 Yield/ Rate
Assets[1]						
Interest-earning assets						
Loans[2]:	$ 1,045,967	$ 12,863	4.88 %	$ 984,104	$ 10,005	4.03 %
Investment securities[3]:						
Taxable	518,954	3,429	2.62 %	554,315	2,948	2.11 %
Tax-exempt[4]	184,110	1,220	2.63 %	273,284	1,963	2.85 %
Short-term investments	310,770	3,934	5.02 %	431,516	2,249	2.07 %
Total interest-earning assets	2,059,801	21,446	4.13 %	2,243,219	17,165	3.04 %
Non-interest-earning assets						
Cash and due from banks	24,786			19,084		
Premises and equipment, net	25,531			19,515		
Bank-owned life insurance	48,677			47,546		
Goodwill and other intangibles	20,966			21,745		
Payments in advance of funding	234,684			277,682		
Unrealized loss on investment securities	(68,230)			(51,437)		
Other assets	62,244			53,039		
Allowance for credit losses	(13,195)			(12,579)		
Total assets	$ 2,395,264			$ 2,617,814		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand deposits	$ 508,554	$ 4,007	3.13 %	$ 545,539	$ 701	0.51 %
Savings deposits	7,716	33	1.70 %	13,547	12	0.35 %
Time deposits >= $100	23,610	203	3.41 %	16,325	37	0.90 %
Other time deposits	51,676	398	3.06 %	22,047	32	0.58 %
Total interest-bearing deposits	591,556	4,641	3.11 %	597,458	782	0.52 %
Short-term borrowings	11	—	— %	11	—	— %
Total interest-bearing liabilities	591,567	4,641	3.11 %	597,469	782	0.52 %
Non-interest bearing liabilities						
Demand deposits	480,472			586,872		
Accounts and drafts payable	1,070,057			1,182,373		
Other liabilities	40,578			43,852		
Total liabilities	2,182,674			2,410,566		
Shareholders' equity	212,590			207,248		
Total liabilities and shareholders' equity	$ 2,395,264			$ 2,617,814		
Net interest income		$ 16,805			$ 16,383	
Net interest margin			3.24 %			2.90 %
Interest spread			1.02 %			2.52 %

1. Balances shown are daily averages.
2. Interest income on loans includes net loan fees of $98,000 and $99,000 for the third quarter of 2023 and 2022, respectively.
3. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for both 2023 and 2022. The tax-equivalent adjustment was approximately $256,000 and $412,000 for the third quarter of 2023 and 2022, respectively.

(In thousands)	Nine Months Ended 2023 Average Balance	Nine Months Ended 2023 Interest Income/ Expense	Nine Months Ended 2023 Yield/ Rate	Nine Months Ended 2022 Average Balance	Nine Months Ended 2022 Interest Income/ Expense	Nine Months Ended 2022 Yield/ Rate
Assets[1]						
Interest-earning assets						
Loans[2]:						
Taxable	$ 1,065,915	$ 38,029	4.77 %	$ 972,698	$ 27,890	3.83 %
Investment securities[3]:						
Taxable	550,680	10,702	2.60 %	488,257	6,679	1.83 %
Tax-exempt[4]	197,023	4,001	2.72 %	284,187	6,161	2.90 %
Short-term investments	263,774	9,147	4.64 %	451,562	3,423	1.01 %
Total interest-earning assets	2,077,392	61,879	3.98 %	2,196,704	44,153	2.69 %
Non-interest-earning assets:						
Cash and due from banks	23,774			20,304		
Premises and equipment, net	22,984			19,192		
Bank-owned life insurance	48,395			46,009		
Goodwill and other intangibles	21,159			18,887		
Payments in advance of funding	243,458			283,430		
Unrealized loss on investment securities	(65,882)			(31,791)		
Other assets	63,322			47,374		
Allowance for credit losses	(13,327)			(12,349)		
Total assets	$ 2,421,275			$ 2,587,760		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 491,495	$ 10,060	2.74 %	$ 542,378	$ 1,102	0.27 %
Savings deposits	7,094	82	1.55 %	14,628	17	0.16 %
Time deposits >= $100	23,115	463	2.68 %	17,054	115	0.90 %
Other time deposits	42,290	858	2.71 %	24,741	110	0.59 %
Total interest-bearing deposits	563,994	11,463	2.72 %	598,801	1,344	0.30 %
Short-term borrowings	2,993	116	5.18 %	11	—	— %
Total interest-bearing liabilities	566,987	11,579	2.73 %	598,812	1,344	0.30 %
Non-interest bearing liabilities:						
Demand deposits	528,677			594,994		
Accounts and drafts payable	1,071,414			1,135,673		
Other liabilities	42,037			41,454		
Total liabilities	2,209,115			2,370,933		
Shareholders' equity	212,159			216,827		
Total liabilities and shareholders' equity	$ 2,421,274			$ 2,587,760		
Net interest income		$ 50,300			$ 42,809	
Net interest margin			3.24 %			2.61 %
Interest spread			1.25 %			2.39 %

1. Balances shown are daily averages.
2. Interest income on loans includes net loan fees of $609,000 and $500,000 for the nine months ended September 30, 2023 and 2022, respectively.
3. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for both the nine months ended September 30, 2023 and 2022. The tax-equivalent adjustment was approximately $840,000 and $1,294,000 for the nine months ended September 30, 2023 and 2022, respectively.

Analysis of Net Interest Income Changes

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

	Third Quarter of 2023 Compared to Third Quarter of 2022		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1]:	$ 659	$ 2,199	$ 2,858
Investment securities:			
Taxable	(198)	679	481
Tax-exempt[2]	(600)	(143)	(743)
Short-term investments	(777)	2,462	1,685
Total interest income	(916)	5,197	4,281
Increase (decrease) in interest expense:			
Interest-bearing demand deposits	(51)	3,357	3,306
Savings deposits	(7)	28	21
Time deposits >=$100	23	143	166
Other time deposits	87	279	366
Short-term borrowings	—	—	—
Total interest expense	52	3,807	3,859
Net interest income	$ (968)	$ 1,390	$ 422

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 three months ended September 30, 2023 and 2022.

	Nine Months Ended 2023 Compared to Nine Months Ended of 2022		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1]:			
Taxable	$ 2,857	$ 7,282	$ 10,139
Investment securities:			
Taxable	938	3,085	4,023
Tax-exempt[2]	(1,791)	(369)	(2,160)
Short-term investments	(1,954)	7,678	5,724
Total interest income	50	17,676	17,726
Interest expense on:			
Interest-bearing demand deposits	(113)	9,071	8,958
Savings deposits	(13)	78	65
Time deposits >=$100	53	295	348
Other time deposits	124	624	748
Short-term borrowings	—	116	116
Total interest expense	51	10,184	10,235
Net interest income	$ (1)	$ 7,492	$ 7,491

1. Interest income includes net loan fees.
2. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for the nine months ended September 30, 2023 and 2022.

Provision and Allowance for Credit Losses and Allowance for Unfunded Commitments

The Company recorded a provision for credit losses and off-balance sheet credit exposures of $125,000 and $550,000 in the third quarter of 2023 and 2022, respectively. The Company recorded a release of credit losses and off-balance sheet credit exposures of $335,000 and a provision for credit losses of $850,000 in the nine months ended 2023 and 2022, respectively. The amount of the provision for (release of) credit losses is derived from the Company's quarterly Current Expected Credit Loss ("CECL") model. The amount of the provision for (release of) credit losses will fluctuate as determined by these quarterly analyses. The provision for credit losses in the third quarter of 2023 was driven by certain changes to assumptions in the Company's CECL model, partially offset by a decrease in total loans of $16.2 million, or 1.5%, as compared to June 30, 2023. The release of credit losses for the nine months ended September 30, 2023 was primarily driven by the decrease in loan balances outstanding from December 31, 2022.

The Company experienced no loan charge-offs in the third quarter of 2023 and 2022. The ACL was $13.3 million at September 30, 2023 and $13.5 million at December 31, 2022. The ACL represented 1.28% of outstanding loans at September 30, 2023 and 1.25% of outstanding loans at December 31, 2022. The allowance for unfunded commitments was $117,000 at September 30, 2023 and $232,000 at December 31, 2022. There were no nonperforming loans outstanding at September 30, 2023. The Company had one loan that was considered an individually evaluated credit at December 31, 2022, with no specific allowance. This loan was paid off in full in January 2023.

The ACL has been established and is maintained to estimate the lifetime expected credit losses in the loan portfolio. An ongoing assessment is performed to determine if the balance is adequate. Charges or credits are made to expense based on changes in the economic forecast, qualitative risk factors, loan volume, and individual loans. 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.

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

Summary of Credit Loss Experience

The following table presents information on the Company's provision for (release of) credit losses and analysis of the ACL:

	Third Quarter of		Nine Months Ended	
(In thousands)	2023	2022	2023	2022
Allowance for credit losses at beginning of period	$ 13,194	$ 12,573	$ 13,539	$ 12,041
Provision for (release of) credit losses	125	476	(220)	996
Net recoveries	—	—	—	12
Allowance for credit losses at end of period	$ 13,319	$ 13,049	$ 13,319	$ 13,049
Allowance for unfunded commitments at beginning of period	$ 117	$ 147	$ 232	$ 367
Provision for (release of) credit losses	—	75	(115)	(145)
Allowance for unfunded commitments at end of period	$ 117	$ 222	$ 117	$ 222
Loans outstanding:				
Average	$ 1,045,967	$ 984,104	$ 1,065,915	$ 972,698
September 30	$ 1,039,619	$ 1,037,101	$ 1,039,619	$ 1,037,101
Ratio of allowance for credit losses to loans outstanding at September 30	1.28 %	1.26 %	1.28 %	1.26 %

Operating Expenses

Total operating expenses for the third quarter of 2023 increased $3.7 million, or 10.3%, compared to the third quarter of 2022. Total operating expenses for the nine months ended September 30, 2023 increased $18.0 million, or 17.7%, compared to the nine months ended September 30, 2022. The following table details the components of operating expenses:

(In thousands)	Third Quarter of 2023	Third Quarter of 2022	Nine Months Ended 2023	Nine Months Ended 2022
Salaries and commissions	$ 23,391	$ 21,953	$ 69,613	$ 62,516
Share-based compensation	938	1,260	3,796	4,431
Net periodic pension cost (benefit)	129	(616)	402	(1,847)
Other benefits	5,178	4,402	15,283	12,650
Personnel	$ 29,636	$ 26,999	$ 89,094	$ 77,750
Occupancy	908	970	2,670	2,801
Equipment	1,789	1,633	5,188	5,004
Amortization of intangible assets	195	195	585	485
Other operating	7,535	6,524	22,237	15,748
Total operating expense	$ 40,063	$ 36,321	$ 119,774	$ 101,788

Third quarter of 2023 compared to third quarter of 2022:

Personnel expenses increased $2.6 million, or 9.8%. Salaries and commissions increased $1.4 million, or 6.6%, as a result of merit increases and an increase in average full-time equivalent employees of 8.1% due to strategic investments in various technology initiatives. Share-based compensation decreased $322,000, primarily related to lower performance-based restricted share expense. Pension expense increased $745,000. Despite the Company's defined benefit pension plan being frozen in the first quarter of 2021, resulting in no service cost in subsequent periods, expense increased as a result of the accounting impact of the decline in plan assets during 2022 and corresponding decline in expected return on plan assets for 2023. Other benefits, such as 401(k) match, health insurance and payroll taxes, increased $776,000, or 17.6%, primarily due to the 8.1% increase in average full-time equivalent employees as well as a significant increase in employer health insurance costs over prior year levels.

Other operating expenses increased $1.0 million, or 15.5%. Certain expense categories such as outside service fees and data processing are elevated as the Company invests in, and transitions to, improved technology. Multiple technology platforms are being maintained prior to switching over to what the Company believes will be more efficient technology platforms for data entry processing by the end of 2023.

Nine months ended September 30, 2023 compared to nine months ended September 30, 2022:

Personnel expenses increased $11.3 million, or 14.6%, which included a salary and commission increase of $7.1 million, or 11.4%. Share-based compensation decreased $635,000 and pension expense increased $2.2 million. Other benefits, such as 401(k) match, health insurance and payroll taxes, increased $2.6 million, or 20.8%. These personnel expense changes were all a result of the same factors as the increase for the third quarter of 2023 compared to the third quarter of 2022.

Other operating expenses increased $6.5 million, or 41.2%, a result of the same factors as the third quarter of 2023. Certain expense categories such as outside service fees and data processing are elevated as the Company invests in, and transitions to, improved technology. Multiple technology platforms are being maintained prior to switching over to what the Company believes will be more efficient technology platforms for facility and transportation data entry processing by the end of 2023.

Financial Condition

Total assets at September 30, 2023 were $2.50 billion, a decrease of $68.1 million, or 2.6%, from December 31, 2022.

The Company experienced an increase in cash and cash equivalents of $207.5 million, or 103.3%, during the first nine months of 2023. The change in cash and cash equivalents reflects the Company's daily liquidity position and is primarily affected by changes in funding sources, mainly accounts and drafts payable and deposits, cash flows in and out of loans, investments securities and payments in advance of funding.

The investment securities portfolio decreased $138.6 million, or 18.4%, during the first nine months of 2023. The decrease is due to the sale of $111.1 million of available-for-sale securities, maturities of $29.4 million and an increase in unrealized losses of $7.6 million driven by the increase in long-term interest rates, partially offset by purchases of $15.3 million.

Loans decreased $43.3 million, or 4.0%, from December 31, 2022. The decrease was primarily due to a decrease in lease financing receivables of $33.0 million. The Company has opted to be more selective in booking new loans as a result of the decline in deposits during the first half of 2023, focusing on building new client relationships rather than transactional opportunities like investment grade leases.

Payments in advance of funding decreased $35.2 million, or 12.0%. The decrease is primarily due to a 13.5% decrease in transportation dollar volumes during the first nine months of 2023, which led to fewer dollars advanced to freight carriers.

Accounts and drafts receivable from customers decreased $67.1 million, or 70.0%, from December 31, 2022. The decrease is solely due to timing of customer funding.

Total deposits at September 30, 2023 were $1.18 billion, a decrease of $79.9 million, or 6.4%, from December 31, 2022. The Company experienced deposit attrition during the first six months of 2023 as larger commercial depository clients moved their funds to higher interest rate alternatives outside of Cass Commercial Bank. The Company has experienced a recent increase in its deposit balances as a result of an increase in its deposit rates and increased depositor confidence across the banking industry.

Accounts and drafts payable at September 30, 2023 were $1.08 billion, an increase of $14.6 million, or 1.4%, from December 31, 2022. Accounts and drafts payable are a stable source of funding generated by payment float from transportation and facility clients. 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 generally a more meaningful measure of accounts and drafts payable.

Total liabilities at September 30, 2023 were $2.30 billion, a decrease of $68.1 million, or 2.9%, from December 31, 2022.

Total shareholders’ equity at September 30, 2023 was $206.2 million, an $89,000 decrease from December 31, 2022. The decrease in shareholders’ equity is a result of dividends paid of $11.9 million, an increase in accumulated other comprehensive loss of $7.6 million due to the increase in market interest rates and resulting negative impact on the fair value of available-for-sale investment securities, and the repurchase of Company stock of $5.2 million, partially offset by year-to-date 2023 earnings of $21.6 million.

Liquidity and Capital Resources

The discipline of liquidity management as practiced by the Company seeks to ensure that funds are available to fulfill all payment obligations relating to invoices processed as they become due and meet depositor withdrawal requests and borrower credit demands while at the same time maximizing profitability. This is accomplished by balancing changes in demand for funds with changes in supply of funds. Primary liquidity to meet demand is provided by short-term liquid assets that can be converted to cash, maturing securities and the ability to obtain funds from external sources. The Company's Asset/Liability Committee has direct oversight responsibility for the Company's liquidity position and profile. Management considers both on-balance sheet and off-balance sheet items in its evaluation of liquidity.

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. Cash and cash equivalents totaled $408.4 million at September 30, 2023, an increase of $207.5 million, or 103.3%, from December 31, 2022. At September 30, 2023, these assets represented 16.3% of total assets and 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 securities were $615.9 million at September 30, 2023, a decrease of $138.6 million from December 31, 2022. These assets represented 24.6% of total assets at September 30, 2023. Of the total portfolio, 19.8% mature in one year, 22.5% mature in one to five years, and 57.7% mature in five or more years.

The Bank has unsecured lines of credit at six correspondent banks to purchase federal funds up to a maximum of $83.0 million in aggregate. As of September 30, 2023, the Bank also has secured lines of credit with the Federal Home Loan Bank of $207.8 million collateralized by mortgage loans. The Company also has secured lines of credit from three banks up to a maximum of $250.0 million in aggregate collateralized by investment securities. There were no amounts outstanding under any line of credit as of September 30, 2023 or December 31, 2022.

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, including CassPay and faith-based customers. 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 $49.2 million of CDARS deposits and interest-bearing demand deposits include $130.8 million 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 $29.4 million for the nine months ended September 30, 2023, compared to $40.8 million for the nine months ended September 30, 2022, a decrease of $11.4 million. 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 2023, which are estimated to range from $8 million to $10 million.

Net income plus amortization of intangible assets, net amortization of premium/discount on investment securities and depreciation of premises and equipment was $28.7 million and $33.9 million for the nine months ended September 30, 2023 and 2022, respectively, a decrease of $5.3 million. The decrease was due to lower net income of $4.0 million and lower net amortization of premium/discount on investment securities of $1.4 million. The net amortization of premium/discount on investment securities is dependent on the type of securities purchased and changes in the prevailing market interest rate environment.

Other factors impacting the $11.4 million decrease in net cash provided by operating activities include:

- A decrease in other operating activities, net of $5.9 million, primarily due to changes in various accounts receivable and payable;
- A decrease in current income tax liability of $2.1 million; and
- A change in the provision for (release of) credit losses of $1.2 million primarily due to changes in loans outstanding during the respective periods.

These factors were partially offset by an increase in the pension liability of $2.2 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. Those that could significantly impact the Company include the general levels of interest rates, business activity, inflation, and energy costs as well as new business opportunities available to the Company. For more detailed information on these trends and uncertainties and how they can generally affect the Company’s available liquidity, see Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity” in the Company’s 2022 Form 10-K.

As a bank holding company, the Company and the Bank are subject to capital requirements administered by state and federal banking agencies. Capital adequacy guidelines, and, for banks, prompt correct action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are subject to qualitative judgments by regulators about components, risk weighting, and other factors. In addition, the calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. For example, as allowed under the Basel III Capital Rules, the Company has elected to opt-out of the requirement to include most components of accumulated other comprehensive income in common equity Tier 1 capital. For more information on these regulatory requirements, including the Basel III Capital Rules and capital classifications, see Item 1, "Business-Supervision and Regulation" of the Company's 2022 Form 10-K.

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

	Actual		Capital Requirements		Requirement to be Well-Capitalized	
(In thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2023						
Total capital (to risk-weighted assets)						
Cass Information Systems, Inc.	$ 265,286	15.30 %	$ 138,669	8.00 %	$ N/A	N/A %
Cass Commercial Bank	197,767	18.14	87,236	8.00	109,045	10.00
Common Equity Tier I Capital (to risk-weighted assets)						
Cass Information Systems, Inc.	251,850	14.53	78,001	4.50	N/A	N/A
Cass Commercial Bank	185,127	16.98	49,070	4.50	70,879	6.50
Tier I capital (to risk-weighted assets)						
Cass Information Systems, Inc.	251,850	14.53	104,002	6.00	N/A	N/A
Cass Commercial Bank	185,127	16.98	65,427	6.00	87,236	8.00
Tier I capital (to average assets)						
Cass Information Systems, Inc.	251,850	10.61	94,977	4.00	N/A	N/A
Cass Commercial Bank	185,127	12.17	60,847	4.00	76,059	5.00
At December 31, 2022						
Total capital (to risk-weighted assets)						
Cass Information Systems, Inc.	$ 257,313	13.52 %	$ 152,306	8.00 %	$ N/A	N/A %
Cass Commercial Bank	186,075	16.00	93,044	8.00	116,305	10.00
Common Equity Tier I Capital (to risk-weighted assets)						
Cass Information Systems, Inc.	243,774	12.80	85,672	4.50	N/A	N/A
Cass Commercial Bank	172,848	14.86	52,337	4.50	75,598	6.50
Tier I capital (to risk-weighted assets)						
Cass Information Systems, Inc.	243,774	12.80	114,229	6.00	N/A	N/A
Cass Commercial Bank	172,848	14.86	69,783	6.00	93,044	8.00
Tier I capital (to average assets)						
Cass Information Systems, Inc.	243,774	9.52	102,386	4.00	N/A	N/A
Cass Commercial Bank	172,848	10.77	64,196	4.00	80,245	5.00

Impact of New and Not Yet Adopted Accounting Pronouncements

In March 2022, the FASB issued ASU 2022-02. This ASU eliminates the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL methodology for estimating allowances for credit losses and enhances the disclosure requirements for loan restructurings made with borrowers experiencing financial difficulty. Instead, entities are required to evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or continuation of an existing loan. In addition, the amendments require a public business entity to disclose current period gross charge-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. ASU 2022-02 was effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The implementation of this ASU effective January 1, 2023 did not have a material impact on the consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As described in the Company's 2022 Form 10-K for the year ended December 31, 2022, 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 following table summarizes simulated changes in net interest income versus unchanged rates over the next 12 months as of September 30, 2023 and December 31, 2022.

	% change in projected net interest income	
	September 30, 2023	December 31, 2022
+200 basis points	13.7 %	10.6 %
+100 basis points	8.2 %	4.2 %
Flat rates	— %	— %
-100 basis points	(3.2)%	— %
-200 basis points	(6.0)%	(1.5)%

The Company is generally asset sensitive as average interest-earning assets of $2.06 billion for the third quarter of 2023 greatly exceeded average interest-bearing liabilities of $591.6 million. The table above on the projected impact of interest rate shocks results from a static balance sheet at September 30, 2023.

ITEM 4. CONTROLS AND PROCEDURES

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

There were no changes in the third quarter of 2023 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 2022 Form 10-K, a description of certain risks and uncertainties that could affect the Company's business, future performance or financial condition (the "Risk Factors"). Except as set forth below, there are no material changes to the Risk Factors as disclosed in the Company's 2022 Form 10-K.

The Company could experience an unexpected inability to obtain needed liquidity which could adversely affect the Company's business, profitability, and viability as a going concern.

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities and is essential to a financial institution's business. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets, and its access to alternative sources of funds. The bank failures in March 2023 exemplify the potential serious results of the unexpected inability of insured depository institutions to obtain needed liquidity to satisfy deposit withdrawal requests, including how quickly such requests can accelerate once uninsured depositors lose confidence in an institution's ability to satisfy its obligations to depositors. The Company seeks to ensure funding needs are met by maintaining a level of liquidity through asset and liability management. If the Company becomes unable to obtain funds when needed, it could have a material adverse effect on its business, financial condition, and results of operations.

Recent negative developments affecting the banking industry, and resulting media coverage, have eroded customer confidence in the banking system.

The recent high-profile bank failures have generated significant market volatility among publicly traded bank holding companies. These market developments have negatively impacted customer confidence in the safety and soundness of regional banks. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short-term fixed income securities, all of which could materially adversely impact the Company's liquidity, loan funding capacity, net interest margin, capital and results of operations. While the Department of the Treasury, the Federal Reserve, and the FDIC have made statements ensuring that depositors of these recently failed banks would have access to their deposits, including uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence in regional banks and the banking system more broadly.

Rising interest rates have decreased the value of the Company's available-for-sale securities portfolio, and the Company would realize losses if it were required to sell such securities to meet liquidity needs.

As a result of inflationary pressures and the resulting rapid increases in interest rates over the last year, the fair value of previously issued government and other fixed income securities has declined significantly, resulting in unrealized losses. While the Company does not currently intend to sell these securities, if the Company were required to sell such securities to meet liquidity needs, it may incur losses, which could impair the Company's capital, financial condition, and results of operations and require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs. Furthermore, while the Federal Reserve Board has announced a Bank Term Funding Program available to eligible depository institutions secured by U.S. Treasuries, agency debt, mortgage-backed securities, and other qualifying assets as collateral at par to mitigate the risk of potential losses on the sale of such instruments, there is no guarantee that such programs will be effective in addressing liquidity needs as they arise.

Any regulatory examination scrutiny or new regulatory requirements arising from the recent events in the banking industry could increase the Company's expenses and affect the Company's operations.

The Company anticipates increased regulatory scrutiny and new regulations designed to address the recent negative developments in the banking industry, all of which may increase the Company's costs of doing business and reduce its profitability. Among other things, there may be an increased focus by regulators on deposit composition and the level of uninsured deposits. As primarily a commercial bank, the Bank has a higher degree of uninsured deposits compared to larger national banks or smaller community banks with a stronger focus on retail deposits. As a result, the Bank could face increased scrutiny or be viewed as higher risk.

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

During the three months ended September 30, 2023, the Company repurchased a total of 73,272 shares of its common stock pursuant to its treasury stock buyback program, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2023–July 31, 2023	1,122	$ 38.68	1,122	276,280
August 1, 2023–August 31, 2023	60,900	38.79	60,900	215,380
September 1, 2023–September 30, 2023	11,250	38.16	11,250	204,130
Total	73,272	$ 38.69	73,272	204,130

(1) All repurchases made during the quarter ended September 30, 2023 were made pursuant to the treasury stock buyback program, authorized by the Board of Directors on October 19, 2021 and announced by the Company on October 21, 2021. The program provides that the Company may repurchase up to an aggregate of 750,000 shares of common stock and has no expiration date. On October 17, 2023, the Board of Directors authorized the repurchase of up to 500,000 shares of the Company's common stock with no expiration date. This authorization replaces the October 2021 authorization, and as such, the Company has 500,000 shares available for repurchase effective with the October 17, 2023 authorization.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) None.

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company’s Board of Directors implemented in the third quarter of 2023.

(c) During the three months ended September 30, 2023, none of the Company's officers or directors adopted or terminated any "Rule 10b5-1 trading arrangement" or any “non-Rule 10b5-1 trading arrangement,” as such terms are defined under Item 408 of Regulation S-K.

ITEM 6. EXHIBITS

Exhibit 10.1 Cass Information Systems, Inc. 2023 Omnibus Stock and Performance Compensation Plan, incorporated by reference to Exhibit 10.1 to the current report on Form 8-K, filed with the SEC on April 21, 2023.*

Exhibit 10.2 Form of Employee Restricted Stock Award Agreement under the Cass Information Systems, Inc. 2023 Omnibus Stock and Performance Compensation Plan, incorporated by reference to Exhibit 10.2 to the current report on Form 8-K, filed with the SEC on April 21, 2023.*

Exhibit 10.3 Form of Non-Employee Director Restricted Stock Award Agreement under the Cass Information Systems, Inc. 2023 Omnibus Stock and Performance Compensation Plan, incorporated by reference to Exhibit 10.3 to the quarterly report on Form 10-Q filed with the SEC on May 9, 2023.

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).

*Management contract or compensatory plan arrangement.

SIGNATURES

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

CASS INFORMATION SYSTEMS, INC.

DATE: November 7, 2023	By	/s/ Martin H. Resch
		Martin H. Resch
		President and Chief Executive Officer
		(Principal Executive Officer)
DATE: November 7, 2023	By	/s/ Michael J. Normile
		Michael J. Normile
		Executive Vice President and Chief Financial Officer
		(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, Martin H. Resch, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cass Information Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

/s/ Martin H. Resch

Martin H. Resch
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Michael J. Normile, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cass Information Systems, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

/s/ Michael J. Normile

Michael J. Normile
Executive Vice President and Chief
Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report of Cass Information Systems, Inc. (“the Company”) on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Martin H. Resch, 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/ Martin H. Resch

Martin H. Resch
President and Chief Executive Officer
(Principal Executive Officer)
November 7, 2023

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

Exhibit 32.2

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

In connection with the Quarterly Report of Cass Information Systems, Inc. (“the Company”) on Form 10-Q for the period ended September 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael J. Normile, 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/ Michael J. Normile

Michael J. Normile
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
November 7, 2023

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.