UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from _____________ to _____________

Commission File No. 000-20827

CASS INFORMATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

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 _____

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes X No _____

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

Large Accelerated Filer _____ Accelerated Filer X

Non-Accelerated Filer _____ Smaller Reporting Company _____ Emerging Growth Company _____
(Do not check if a smaller reporting company)

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

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

Yes _____ No X

The number of shares outstanding of the registrant's only class of common stock as of October 30, 2017: Common stock, par value $.50 per share –11,166,349 shares outstanding.

TABLE OF CONTENTS

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 2016 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, 2017 (Unaudited)	December 31, 2016
Assets		
Cash and due from banks	$ 13,961	$ 11,814
Interest-bearing deposits in other financial institutions	90,789	136,852
Federal funds sold and other short-term investments	137,348	118,077
Cash and cash equivalents	242,098	266,743
Securities available-for-sale, at fair value	457,068	390,552
Loans	658,090	664,866
Less: Allowance for loan losses	10,202	10,175
Loans, net	647,888	654,691
Premises and equipment, net	21,168	21,086
Investment in bank-owned life insurance	16,812	16,445
Payments in excess of funding	119,802	105,347
Goodwill	12,569	11,590
Other intangible assets, net	2,106	1,997
Other assets	37,239	36,388
Total assets	$ 1,556,750	$ 1,504,839
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 211,413	$ 214,656
Interest-bearing	397,817	407,305
Total deposits	609,230	621,961
Accounts and drafts payable	687,233	642,287
Other liabilities	36,332	32,556
Total liabilities	1,332,795	1,296,804
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 11,931,147 shares issued at September 30, 2017 and December 31, 2016	5,966	5,966
Additional paid-in capital	129,052	128,455
Retained earnings	130,321	118,363
Common shares in treasury, at cost (764,798 shares at September 30, 2017 and 742,681 shares at December 31, 2016)	(32,167)	(30,206)
Accumulated other comprehensive loss	(9,217)	(14,543)
Total shareholders' equity	223,955	208,035
Total liabilities and shareholders' equity	$ 1,556,750	$ 1,504,839

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, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Fee Revenue and Other Income:				
Information services payment and processing revenue	$ 23,761	$ 21,737	$ 69,332	$ 62,162
Bank service fees	327	284	998	931
Gains on sales of securities	—	—	—	387
Other	119	127	448	630
Total fee revenue and other income	24,207	22,148	70,778	64,110
Interest Income:				
Interest and fees on loans	7,209	7,264	21,266	21,711
Interest and dividends on securities:				
Taxable	107	36	268	69
Exempt from federal income taxes	2,605	2,386	7,865	7,217
Interest on federal funds sold and other short-term investments	744	299	1,597	775
Total interest income	10,665	9,985	30,996	29,772
Interest Expense:				
Interest on deposits	571	505	1,521	1,522
Net interest income	10,094	9,480	29,475	28,250
Provision for loan losses	—	—	—	(1,000)
Net interest income after provision for loan losses	10,094	9,480	29,475	29,250
Total net revenue	34,301	31,628	100,253	93,360
Operating Expense:				
Personnel	19,423	18,319	57,384	54,267
Occupancy	903	860	2,634	2,560
Equipment	1,242	1,124	3,746	3,289
Amortization of intangible assets	110	101	317	305
Other operating expense	3,364	3,147	10,180	9,105
Total operating expense	25,042	23,551	74,261	69,526
Income before income tax expense	9,259	8,077	25,992	23,834
Income tax expense	2,396	1,855	6,309	5,910
Net income	$ 6,863	$ 6,222	$ 19,683	$ 17,924
Basic earnings per share	$ .62	$ .56	$ 1.77	$ 1.61
Diluted earnings per share	.61	.55	1.74	1.58

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,	
	2017	**2016**	**2017**	**2016**
Comprehensive income:				
Net income	$ 6,863	$ 6,222	$ 19,683	$ 17,924
Other comprehensive income:				
Net unrealized (loss) gain on securities available-for-sale	(99)	(3,176)	8,246	5,036
Tax effect	37	1,180	(3,063)	(1,871)
Reclassification adjustments for gains included in net income	—	—	—	(387)
Tax effect	—	—	—	143
Foreign currency translation adjustments	41	9	143	20
Total comprehensive income	$ 6,842	$ 4,235	$ 25,009	$ 20,865

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, 2017	Nine Months Ended September 30, 2016
Cash Flows From Operating Activities:		
Net income	$ 19,683	$ 17,924
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,361	6,964
Net gains on sales of securities	—	(387)
Stock-based compensation expense	1,658	1,471
Provision for loan losses	—	(1,000)
Increase in income tax benefit	—	(121)
Increase in income tax liability	551	973
Increase in pension liability	3,476	3,102
Increase in accounts receivable	(3,637)	(3,742)
Other operating activities, net	(2,156)	431
Net cash provided by operating activities	27,936	25,615
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	—	21,491
Proceeds from maturities of securities available-for-sale	33,856	29,970
Purchase of securities available-for-sale	(97,473)	(57,637)
Net decrease (increase) in loans	6,803	(25,781)
Net increase in payments in excess of funding	(14,455)	(5,808)
Purchases of premises and equipment, net	(2,780)	(3,549)
Net cash used in investing activities	(74,049)	(41,314)
Cash Flows From Financing Activities:		
Net (decrease) increase in noninterest-bearing demand deposits	(3,243)	20,561
Net decrease in interest-bearing demand and savings deposits	(6,504)	(37,855)
Net decrease in time deposits	(2,984)	(5,177)
Net increase in accounts and drafts payable	44,946	105,503
Cash dividends paid	(7,725)	(7,406)
Purchase of common shares for treasury	(2,270)	(9,217)
Other financing activities, net	(752)	(779)
Net cash provided by financing activities	21,468	65,630
Net (decrease) increase in cash and cash equivalents	(24,645)	49,931
Cash and cash equivalents at beginning of period	266,743	253,172
Cash and cash equivalents at end of period	$ 242,098	$ 303,103
Supplemental information:		
Cash paid for interest	$ 1,520	$ 1,517
Cash paid for income taxes	5,758	5,128

See accompanying notes to unaudited consolidated financial statements.

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. 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, 2016.

Note 2 – Intangible Assets

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

In March 2017, the Company completed an acquisition and recorded intangible assets of $1,406,000. Those intangible assets were valued as $980,000 for goodwill, $355,000 for the customer list and $71,000 for non-compete agreements.

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

	September 30, 2017		December 31, 2016	
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Assets eligible for amortization:				
Customer lists	$ 4,288	$ (2,610)	$ 3,933	$ (2,342)
Patents	72	(11)	72	(8)
Non-compete agreements	332	(282)	261	(261)
Software	234	(234)	234	(234)
Other	500	(183)	500	(158)
Unamortized intangible assets:				
Goodwill[1]	12,796	(227)	11,817	(227)
Total intangible assets	$ 18,222	$ (3,547)	$ 16,817	$ (3,230)

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

The customer lists are amortized over seven and ten years; the patents over 18 years; the non-compete agreements over two and five years; software over three years; and other intangible assets over fifteen years. Amortization of intangible assets amounted to $317,000 and $305,000 for the nine-month periods ended September 30, 2017 and 2016, respectively. Estimated annual amortization of intangibles is as follows: $427,000 in 2017, $442,000 in 2018, $412,000 in 2019, and $406,000 in each of 2020 and 2021.

Note 3 – Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding and the weighted-average number of potential common shares outstanding. There were no anti-dilutive shares in the three and nine months ended September 30, 2017 and 2016. 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, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Basic				
Net income	$ 6,863	$ 6,222	$ 19,683	$ 17,924
Weighted-average common shares outstanding	11,137,451	11,110,824	11,143,116	11,159,469
Basic earnings per share	$ .62	$ .56	$ 1.77	$ 1.61
Diluted				
Net income	$ 6,863	$ 6,222	$ 19,683	$ 17,924
Weighted-average common shares outstanding	11,137,451	11,110,824	11,143,116	11,159,469
Effect of dilutive restricted stock and stock appreciation rights	164,439	158,541	166,442	155,112
Weighted-average common shares outstanding assuming dilution assuming dilution	11,301,890	11,269,365	11,309,558	11,314,581
Diluted earnings per share	$ .61	$ .55	$ 1.74	$ 1.58

Note 4 – Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to 500,000 shares of the Company's common stock. As restored by the Board of Directors on October 17, 2016, the program provides that the Company may repurchase up to an aggregate of 500,000 shares of common stock and has no expiration date. The Company repurchased 38,042 and 0 shares during the three-month periods and 38,042 and 187,123 during the nine-month periods ended September 30, 2017 and 2016, respectively. As of September 30, 2017, 461,958 shares remained available for repurchase under the program. Repurchases may be made in the open market or through negotiated transactions from time to time depending on market conditions. On October 24, 2017, the Company's Board of Directors restored the repurchase program to 500,000 shares.

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, processing and capital requirements.

The Information Services segment provides transportation, energy, telecommunication, and environmental invoice processing and payment services to large corporations. The Banking Services segment provides banking services primarily to privately held businesses and churches.

The Company's accounting policies for segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. Management evaluates segment performance based on net income after allocations for corporate expenses and income taxes. 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.

Assets represent actual assets owned by Information Services and Banking Services and there is no allocation methodology used. Segment interest from customers is the actual interest earned on the loans owned by Information Services and Banking Services, respectively.

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, 2017				
Fee revenue and other income:				
Income from customers	$ 27,276	$ 7,025	$ —	$ 34,301
Intersegment income (expense)	3,078	377	(3,455)	—
Net income	4,237	2,626	—	6,863
Goodwill	12,433	136	—	12,569
Other intangible assets, net	2,106	—	—	2,106
Total assets	820,596	738,478	(2,324)	1,556,750
Three Months Ended September 30, 2016				
Fee revenue and other income:				
Income from customers	$ 25,090	$ 6,538	$ —	$ 31,628
Intersegment income (expense)	2,797	416	(3,213)	—
Net income	3,806	2,416	—	6,222
Goodwill	11,454	136	—	11,590
Other intangible assets, net	2,099	—	—	2,099
Total assets	808,568	742,933	(3,848)	1,547,653
Nine Months Ended September 30, 2017				
Fee revenue and other income:				
Income from customers	$ 79,671	$ 20,582	$ —	$ 100,253
Intersegment income (expense)	9,090	1,122	(10,212)	—
Net income	11,992	7,691	—	19,683
Goodwill	12,433	136	—	12,569
Other intangible assets, net	2,106	—	—	2,106
Total assets	820,596	738,478	(2,324)	1,556,750
Nine Months Ended September 30, 2016				
Fee revenue and other income:				
Income from customers	$ 73,084	$ 20,276	$ —	$ 93,360
Intersegment income (expense)	8,870	1,195	(10,065)	—
Net income	10,231	7,693	—	17,924
Goodwill	11,454	136	—	11,590
Other intangible assets, net	2,099	—	—	2,099
Total assets	808,568	742,933	(3,848)	1,547,653

Note 6 – Loans by Type

A summary of loan categories is as follows:

(In thousands)	September 30, 2017	December 31, 2016
Commercial and industrial	$ 213,942	$ 214,767
Real estate		
Commercial:		
Mortgage	94,485	104,779
Construction	14,919	6,325
Church, church-related:		
Mortgage	322,614	321,168
Construction	7,907	11,152
Industrial Revenue Bonds	4,191	6,639
Other	32	36
Total loans	$ 658,090	$ 664,866

The following table presents the aging of loans by loan categories at September 30, 2017 and December 31, 2016:

(In thousands)	Current	Performing 30-59 Days	Performing 60-89 Days	Nonperforming 90 Days and Over	Nonperforming Non-accrual	Total Loans
September 30, 2017						
Commercial and industrial	$ 213,942	$ —	$ —	$ —	$ —	$ 213,942
Real estate						
Commercial:						
Mortgage	94,270	—	—	—	215	94,485
Construction	14,919	—	—	—	—	14,919
Church, church-related:						
Mortgage	322,614	—	—	—	—	322,614
Construction	7,907	—	—	—	—	7,907
Industrial Revenue Bonds	4,191	—	—	—	—	4,191
Other	32	—	—	—	—	32
Total	$ 657,875	$ —	$ —	$ —	$ 215	$ 658,090
December 31, 2016						
Commercial and industrial	$ 214,767	$ —	$ —	$ —	$ —	$ 214,767
Real estate						
Commercial:						
Mortgage	104,534	—	—	—	245	104,779
Construction	6,325	—	—	—	—	6,325
Church, church-related:						
Mortgage	321,168	—	—	—	—	321,168
Construction	11,152	—	—	—	—	11,152
Industrial revenue bonds	6,639	—	—	—	—	6,639
Other	24	12	—	—	—	36
Total	$ 664,609	$ 12	$ —	$ —	$ 245	$ 664,866

The following table presents the credit exposure of the loan portfolio as of September 30, 2017 and December 31, 2016:

(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, 2017				
Commercial and industrial	$ 211,820	$ 2,122	$ —	$ 213,942
Real estate				
Commercial:				
Mortgage	93,560	710	215	94,485
Construction	14,919	—	—	14,919
Church, church-related:				
Mortgage	322,561	53	—	322,614
Construction	7,907	—	—	7,907
Industrial Revenue Bonds	4,191	—	—	4,191
Other	32	—	—	32
Total	$ 654,990	$ 2,885	$ 215	$ 658,090
December 31, 2016				
Commercial and industrial	$ 213,024	$ 1,743	$ —	$ 214,767
Real estate				
Commercial:				
Mortgage	103,778	756	245	104,779
Construction	6,325	—	—	6,325
Church, church-related:				
Mortgage	318,030	3,138	—	321,168
Construction	11,152	—	—	11,152
Industrial revenue bonds	6,639	—	—	6,639
Other	36	—	—	36
Total	$ 658,984	$ 5,637	$ 245	$ 664,866

[1]Loans subject to normal monitoring involve borrowers of acceptable-to-strong credit quality and risk, who have the apparent ability to satisfy their loan obligations.
[2]Loans subject to special monitoring possess some credit deficiency or potential weakness which requires a high level of management attention.

Impaired loans consist primarily of nonaccrual loans, loans greater than 90 days past due and still accruing interest and troubled debt restructurings, both performing and nonperforming. Troubled debt restructuring involves the granting of a concession to a borrower experiencing financial difficulty resulting in the modification of terms of the loan, such as changes in payment schedule or interest rate. Management measures impairment in accordance with FASB ASC 310, "Allowance for Credit Losses." At September 30, 2017 and December 31, 2016, impaired loans were evaluated using the expected cash flow method. There were no loans delinquent 90 days or more and still accruing interest at September 30, 2017 or December 31, 2016. There were no loans classified as troubled debt restructuring at September 30, 2017 or December 31, 2016.

There were no foreclosed loans recorded as other real estate owned (included in other assets) as of September 30, 2017 and December 31, 2016.

The following table presents the recorded investment and unpaid principal balance for impaired loans at September 30, 2017 and December 31, 2016:

(In thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance for Loan Losses**
September 30, 2017			
Commercial and industrial:			
Nonaccrual	$ —	$ —	$ —
Real estate			
Commercial – Mortgage:			
Nonaccrual	215	215	—
Church – Mortgage:			
Nonaccrual	—	—	—
Total impaired loans	$ 215	$ 215	$ —
December 31, 2016			
Commercial and industrial:			
Nonaccrual	$ —	$ —	$ —
Real estate			
Commercial – Mortgage:			
Nonaccrual	245	245	—
Church – Mortgage:			
Nonaccrual	—	—	—
Total impaired loans	$ 245	$ 245	$ —

A summary of the activity in the allowance for loan losses from December 31, 2016 to September 30, 2017 is as follows:

(In thousands)	**December 31, 2016**	**Charge-Offs**	**Recoveries**	**Provision**	**September 30, 2017**
Commercial and industrial	$ 3,261	$ —	$ 27	$ (61)	$ 3,227
Real estate					
Commercial:					
Mortgage	1,662	—	—	(160)	1,502
Construction	47	—	—	54	101
Church, church-related:					
Mortgage	4,027	—	—	20	4,047
Construction	85	—	—	(26)	59
Industrial Revenue Bonds	101	—	—	(37)	64
Other	992	—	—	210	1,202
Total	$ 10,175	$ —	$ 27	$ —	$ 10,202

A summary of the activity in the allowance for loan losses from December 31, 2015 to September 30, 2016 is as follows:

(In thousands)	**December 31, 2015**	**Charge-Offs**	**Recoveries**	**Provision**	**September 30, 2016**
Commercial and industrial	$ 3,083	$ —	$ 38	$ 217	$ 3,338
Real estate					
Commercial:					
Mortgage	2,803	—	—	(1,179)	1,624
Construction	9	—	—	93	102
Church, church-related:					
Mortgage	4,082	—	—	48	4,130
Construction	217	—	—	(102)	115
Industrial Revenue Bonds	320	—	—	(47)	273
Other	1,121	—	—	(30)	1,091
Total	$ 11,635	$ —	$ 38	$ (1,000)	$ 10,673

Note 7 – Commitments and Contingencies

In the normal course of business, the Company is party to activities that contain credit, market and operational risks that are not reflected in whole or in part in the Company's consolidated financial statements. Such activities include traditional off-balance sheet credit-related financial instruments and commitments under operating leases. These financial instruments include commitments to extend credit, commercial letters of credit and standby letters of credit. The Company's maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, commercial letters of credit and standby letters of credit is represented by the contractual amounts of those instruments. At September 30, 2017 and December 31, 2016, no amounts have been accrued for any estimated losses for these instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commercial and standby letters of credit are conditional commitments issued by the Company or its subsidiaries to guarantee the performance of a customer to a third party. These off-balance sheet financial instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The balance of unused loan commitments, standby and commercial letters of credit were $91,117,000, $13,841,000, and $3,184,000 at September 30, 2017. Since some of the financial instruments may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. Commitments to extend credit and letters of credit are subject to the same underwriting standards as those financial instruments included on the consolidated balance sheets. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held varies, but is generally accounts receivable, inventory, residential or income-producing commercial property or equipment. In the event of nonperformance, the Company or its subsidiaries may obtain and liquidate the collateral to recover amounts paid under guarantees on these financial instruments.

The following table summarizes contractual cash obligations of the Company related to operating lease commitments and time deposits at September 30, 2017:

	Amount of Commitment Expiration per Period				
(In thousands)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Operating lease commitments	$ 6,798	$ 1,498	$ 2,562	$ 2,240	$ 498
Time deposits	52,800	48,161	3,034	1,605	—
Total	$ 59,598	$ 49,659	$ 5,596	$ 3,845	$ 498

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

Note 8 – Stock-Based Compensation

The Amended and Restated Omnibus Stock and Performance Compensation Plan (the "Omnibus Plan") permits the issuance of up to 1,500,000 shares of the Company's common stock in the form of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units and performance awards. The Company issues shares out of treasury stock for these awards. During the nine months ended September 30, 2017, 23,135 restricted shares and 0 SARs were granted under the Omnibus Plan.

Restricted Stock

Restricted shares granted prior to April 16, 2013 are amortized to expense over a three-year vesting period. Beginning on April 16, 2013, restricted shares granted to Company employees are amortized to expense over a three-year vesting period whereas restricted shares granted to members of the Board of Directors are amortized to expense over a one-year service period, with the exception of those shares granted in lieu of cash payments for retainer fees which are expensed in the period earned. As of September 30, 2017, the total unrecognized compensation expense related to non-vested restricted shares was $1,781,000, and the related weighted-average period over which it is expected to be recognized is approximately 0.8 years.

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

	Nine Months Ended September 30, 2017	
	Shares	Fair Value
Balance at December 31, 2016	73,840	$ 51.03
Granted	23,135	65.36
Vested	(26,545)	52.34
Balance at September 30, 2017	70,430	$ 55.24

Performance-Based Restricted Stock

On February 2, 2017, the Company granted three-year performance based restricted stock ("PBRS") awards which are contingent upon the achievement of pre-established financial goals over the period from January 1, 2017 through December 31, 2019. The PBRS awards cliff vest on the three-year anniversary of their grant date at levels ranging from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the three-year performance period. The target number of PBRS shares granted was 23,038 with a grant date fair value of $65.12 per share. The 2017 expense related to this grant is currently estimated to be $458,000 and is based on the grant date fair value and the achievement of 100% of the target financial goals. The estimated expense for 2017 and each future period through the vesting date is subject to prospective adjustment based upon changes in the expected achievement of the financial goals.

SARs

SARs vest over a three-year period, with one-third of the shares vesting and becoming exercisable each year on the anniversary date of the grant, and they expire 10 years from the original grant date. As of September 30, 2017, all compensation expense has been recognized and all granted SARs are vested. Following is a summary of the activity of the Company's SARs program for the nine-month period ended September 30, 2017:

	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term Years	Aggregate Intrinsic Value *(In thousands)*
Outstanding at December 31, 2016	237,468	$ 38.22	5.73	$ 3,201
Exercised	(15,547)	40.60		
Outstanding at September 30, 2017	221,921	$ 38.05	4.45	$ 5,634
Exercisable at September 30, 2017	221,921	$ 38.05	4.45	$ 5,634

Note 9 – Defined Pension Plans

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

(In thousands)	Estimated 2017	Actual 2016
Service cost – benefits earned during the year	$ 3,733	$ 3,559
Interest cost on projected benefit obligations	3,621	3,505
Expected return on plan assets	(4,681)	(4,734)
Net amortization and deferral	1,382	1,259
Net periodic pension cost	$ 4,055	$ 3,589

Pension costs recorded to expense were $1,033,000 and $965,000 for the three-month periods ended September 30, 2017 and 2016, respectively, and totaled $3,070,000 and $2,724,000 for the nine-month periods ended September 30, 2017 and 2016, respectively. Pension costs increased in 2017 due to a decrease in the discount rate and expected return on plan assets assumptions and the use of the updated mortality tables. The Company made no contribution to the plan during the nine-month period ended September 30, 2017 and is evaluating the amount of additional contributions, if any, in the remainder of 2017.

In addition to the above funded benefit plan, the Company has an unfunded supplemental executive retirement plan which covers key executives of the Company. This is a noncontributory plan in which the Company and its subsidiaries make accruals designed to fund normal service costs on a current basis using the same method and criteria as its defined benefit plan. The following table represents the components of the net periodic pension costs for 2016 and an estimate for 2017:

(In thousands)	Estimated 2017	Actual 2016
Service cost – benefits earned during the year	$ 143	$ 133
Interest cost on projected benefit obligation	361	367
Net amortization	323	295
Net periodic pension cost	$ 827	$ 795

Pension costs recorded to expense were $210,000 and $201,000 for the three-month periods ended September 30, 2017 and 2016, respectively, and were $628,000 and $604,000 for the nine-month periods ended September 30, 2017 and 2016, respectively.

Note 10 – Income Taxes

As of September 30, 2017, the Company's unrecognized tax benefits were approximately $1,840,000, of which $1,409,000 would, if recognized, affect the Company's effective tax rate. As of December 31, 2016, the Company's unrecognized tax benefits were approximately $1,623,000, of which $1,225,000 would, if recognized, affect the Company's effective tax rate. During the next 12 months, the Company may realize a reduction of its unrecognized tax benefits of approximately $226,000 due to the lapse of federal and state statutes of limitations.

The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. The Company had $159,000 and $108,000 of gross interest accrued as of September 30, 2017 and December 31, 2016, respectively. There were no penalties for unrecognized tax benefits accrued at September 30, 2017 and December 31, 2016.

The Company is subject to income tax in the U.S. federal jurisdiction and numerous state jurisdictions. U.S. federal income tax returns for tax years 2014 through 2016 remain subject to examination by the Internal Revenue Service. In addition, the Company is subject to state tax examinations for the tax years 2013 through 2016.

On January 1, 2017, the Company adopted Accounting Standards Update ("ASU") No. 2016-09 – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The adoption of this new accounting pronouncement resulted in a $0 and $278,000 reduction in income tax expense for the three-month and nine-month periods ending September 30, 2017, respectively.

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, 2017			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 406,833	$ 11,086	$ 924	$ 416,995
U.S. government agencies	32,241	—	409	31,832
Certificates of deposit	8,241	—	—	8,241
Total	$ 447,315	$ 11,086	$ 1,333	$ 457,068

(In thousands)	December 31, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 368,223	$ 5,239	$ 3,328	$ 370,134
U.S. government agencies	13,075	—	403	12,672
Certificates of deposit	7,746	—	—	7,746
Total	$ 389,044	$ 5,239	$ 3,731	$ 390,552

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

	September 30, 2017					
	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	$ 33,567	$ 336	$ 16,288	$ 588	$ 49,855	$ 924
U.S. government agencies	29,162	338	2,670	71	31,832	409
Certificates of deposit	—	—	—	—	—	—
Total	$ 62,729	$ 674	$ 18,958	$ 659	$ 81,687	$ 1,333

	December 31, 2016					
	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	$ 140,384	$ 3,328	$ —	$ —	$ 140,384	$ 3,328
U.S. government agencies	12,672	403	—	—	12,672	403
Certificates of deposit	—	—	—	—	—	—
Total	$ 153,056	$ 3,731	$ —	$ —	$ 153,056	$ 3,731

There were 44 securities, or 12% of the total (13 greater than 12 months), in an unrealized loss position as of September 30, 2017. There were 108 securities, or 31% of the total (none greater than 12 months), in an unrealized loss position as of December 31, 2016. All unrealized losses were reviewed to determine whether the losses were other than temporary. Management believes that all unrealized losses are temporary since they were market driven, and it is more likely than not that the Company will not be required to sell prior to recovery of the amortized basis.

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

(In thousands)	September 30, 2017 Amortized Cost	Fair Value
Due in 1 year or less	$ 22,366	$ 22,562
Due after 1 year through 5 years	56,315	57,476
Due after 5 years through 10 years	237,366	245,720
Due after 10 years	131,268	131,310
Total	$ 447,315	$ 457,068

There were no sales of investment securities classified as available for sale for the three months ended September 30, 2017 or 2016. Proceeds from sales of investment securities classified as available for sale were $0 and $21,491,000 for the nine months ended September 30, 2017 and 2016, respectively. There were no gross realized gains for the three months ended September 30, 2017 or 2016. Gross gains realized were $0 and $387,000 for the nine months ended September 30, 2017 and 2016, respectively. There was one security totaling $3,750,000 pledged to secure public deposits and for other purposes at September 30, 2017.

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, 2017		December 31, 2016	
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Balance sheet assets:				
Cash and cash equivalents	$ 242,098	$ 242,098	$ 266,743	$ 266,743
Investment securities	457,068	457,068	390,552	390,552
Loans, net	647,888	650,593	654,691	652,028
Accrued interest receivable	6,267	6,267	6,543	6,543
Total	$ 1,353,321	$ 1,356,026	$ 1,318,529	$ 1,315,866
Balance sheet liabilities:				
Deposits	$ 609,230	$ 609,199	$ 621,961	$ 622,173
Accounts and drafts payable	687,233	687,233	642,287	642,287
Accrued interest payable	47	47	46	46
Total	$ 1,296,510	$ 1,296,479	$ 1,264,294	$ 1,264,506

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

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

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

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

Impaired loans are valued using the fair value of the collateral which is based upon an observable market price or a current appraised value and therefore, the fair value is a nonrecurring Level 3 valuation.

Accrued Interest Receivable – The carrying amount approximates fair value.

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

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

Accrued Interest – The carrying amount approximates fair value.

There were no transfers between Levels 1 and 2 of the fair value hierarchy for the nine months ended September 30, 2017 and 2016. No financial instruments are measured using Level 3 inputs for the nine months ended September 30, 2017 and 2016.

Note 13 – Subsequent Events

On October 24, 2017, the Company's board of directors declared a 10% common stock dividend payable on December 15, 2017 to shareholders of record on December 5, 2017. Shareholders will receive one additional share of Cass common stock for each 10 shares of common stock owned. No fractional shares will be issued. Shareholders will receive cash for any fractional shares owned based on the share price reported by the Nasdaq Stock Market at the close of trading on December 5, 2017.

Additionally, on October 24, 2017, the Company's board of directors declared a fourth quarter cash dividend of $0.24 per share payable on December 15, 2017 to shareholders of record on December 5, 2017. The cash dividend will apply to all shares of common stock held after the 10% common stock dividend is completed.

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

Overview

Cass provides payment and information processing services to large manufacturing, distribution and retail enterprises from its offices/locations in St. Louis, Missouri, Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina, Wellington, Kansas, Jacksonville, Florida, and Breda, Netherlands. The Company's services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays energy invoices, which include electricity and gas as well as environmental and telecommunications expense and is a provider of telecom expense management solutions. Cass extracts, stores, and presents information from transportation, energy, telecommunication and environmental invoices, assisting its customers' transportation, energy, environmental and information technology managers in making decisions that will enable them to improve operating performance. The Company receives data from multiple sources, electronic and otherwise, and processes the data to accomplish the specific operating requirements of its customers. It then provides the data in a central repository for access and archiving. The data is finally transformed into information through the Company's databases that allow client interaction as required and provide Internet-based tools for analytical processing. The Company also, through Cass Commercial Bank, its St. Louis, Missouri-based bank subsidiary provides banking services in the St. Louis metropolitan, Orange County, California, Colorado Springs, Colorado, and other selected cities in the United States. In addition to supporting the Company's payment operations, the Bank provides banking services to its target markets, which include privately-owned businesses and churches and church-related ministries.

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

Industry-wide factors that impact the Company include the willingness of large corporations to outsource key business functions such as freight, energy, telecommunication and environmental payment and audit. The benefits that can be achieved by outsourcing transaction processing, and the management information generated by Cass' systems can be influenced by factors such as the competitive pressures within industries to improve profitability, the general level of transportation costs, deregulation of energy costs, and consolidation of telecommunication providers. Economic factors that impact the Company include the general level of economic activity that can affect the volume and size of invoices processed, the ability to hire and retain qualified staff, and the growth and quality of the loan portfolio. The general level of interest rates also has a significant effect on the revenue of the Company. As discussed in greater detail in Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," in the Company's 2016 Annual Report on Form 10-K, a decline in the general level of interest rates can have a negative impact on net interest income and conversely, a rise in the general level of interest rates can have a positive impact on net interest income.

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

Critical Accounting Policies

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

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

Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in the Company's financial statements or tax returns such as the realization of deferred tax assets or changes in tax laws or interpretations thereof. In addition, the Company is subject to the continuous examination of its income tax returns by the Internal Revenue Service and other taxing authorities. In accordance with FASB ASC 740, "Income Taxes," the Company has unrecognized tax benefits related to tax positions taken or expected to be taken. See Note 10 to the unaudited consolidated financial statements contained herein.

Pension Plans. The amounts recognized in the unaudited consolidated financial statements related to pension plans are determined from actuarial valuations. Inherent in these valuations are assumptions, including expected return on plan assets, discount rates at which the liabilities could be settled at December 31, 2016, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Item 8, Note 10 to the consolidated financial statements filed with the Company's Annual Report on Form 10-K for the year ended December 31, 2016. Pursuant to FASB ASC 715, "Compensation – Retirement Benefits," the Company has recognized the funded status of its defined benefit postretirement plan in its balance sheet and has recognized changes in that funded status through comprehensive income. The funded status is measured as the difference between the fair value of the plan assets and the projected benefit obligation as of the date of its fiscal year-end.

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, 2017 ("Third Quarter of 2017") compared to the three-month period ended September 30, 2016 ("Third Quarter of 2016") and the nine-month period ended September 30, 2017 ("Nine Months Ended 2017") compared to the nine-month period ended September 30, 2016 ("Nine Months Ended 2016"). 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 2016 Annual Report on Form 10-K. Results of operations for the Third Quarter of 2017 are not necessarily indicative of the results to be attained for any other period.

Net Income

The following table summarizes the Company's operating results:

	Third Quarter of			Nine Months Ended		
(In thousands except per share data)	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
Net income	$ 6,863	$ 6,222	10.3	$ 19,683	$ 17,924	9.8
Diluted earnings per share	$ .61	$ .55	10.9	$ 1.74	$ 1.58	10.1
Return on average assets	1.70%	1.59%	—	1.70%	1.60%	—
Return on average equity	12.34%	11.84%	—	12.27%	11.56%	—

Fee Revenue and Other Income

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

	Third Quarter of			Nine Months Ended		
(In thousands)	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
Transportation invoice volume	8,962	8,898	0.7%	26,585	25,786	3.1%
Transportation invoice dollar volume	$ 6,162,957	$ 5,864,716	5.1%	$ 18,271,178	$ 17,107,723	6.8%
Expense management transaction volume*	6,935	6,034	14.9%	20,477	16,989	20.5%
Expense management dollar volume*	$ 3,391,672	$ 3,301,049	2.7%	$ 9,647,573	$ 8,882,181	8.6%
Payment and processing revenue	$ 23,761	$ 21,737	9.3%	$ 69,332	$ 62,162	11.5%

*Includes energy, telecom and waste

Third Quarter of 2017 compared to Third Quarter of 2016:

In the transportation sector, invoice volume was up 0.7% while dollar volume rose 5.1%. The expense management group had 14.9% growth in transaction volume. New customer wins, combined with increased volume from current accounts, fueled the increase. Expense management dollar volume was also up 2.7% for the quarter.

The increase in payment and processing revenue of 9.3% was primarily attributable to two factors: continued growth in the customer base of each market and the development, deployment, and expansion of new revenue-generating services.

There were no gains on sales of securities in either the Third Quarter of 2017 or 2016.

Nine Months Ended 2017 compared to Nine Months Ended 2016:

Transportation invoice and dollar volumes, as well as expense management transaction and dollar volumes, increased for the same reasons as the Third Quarter.

The increase in payment and processing revenue of 11.5% was primarily attributable to two factors: continued growth in the customer base of each market and the development, deployment, and expansion of new revenue-generating services.

There were no gains on sales of securities in the Nine Months Ended 2017, compared to $387,000 in the Nine Months Ended 2016.

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)	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
Average earnings assets	$ 1,395,025	$ 1,351,638	3.2%	$ 1,348,253	$ 1,301,280	3.6%
Average interest-bearing liabilities	393,262	428,786	(8.3%)	388,693	426,825	(8.9%)
Net interest income*	11,513	10,842	6.2%	33,765	32,370	4.3%
Net interest margin*	3.27%	3.19%		3.35%	3.32%	
Yield on earning assets*	3.44%	3.34%		3.50%	3.48%	
Rate on interest-bearing liabilities	.58%	.47%		.52%	.48%	

*Presented on a tax-equivalent basis assuming a tax rate of 35%.

Third Quarter of 2017 compared to Third Quarter of 2016:

Third Quarter of 2017 average earning assets increased $43,387,000, or 3.2%, compared to the same period in the prior year as the result of growth in funding sources. Components of these variances are as follows:

Earning Assets. Average investment securities increased $77,815,000, or 22.4%, and average federal funds sold and other short-term investments increased $14,478,000, or 7.8%, for the Third Quarter of 2017 as compared to the Third Quarter of 2016. Interest-bearing deposits in other financial institutions decreased $25,111,000, or 19.7%, and loans decreased $22,219,000, or 3.3%, compared to the same period in the prior year.

Funding Sources. Average accounts and drafts payable balances for the Third Quarter of 2017 increased $46,748,000, or 6.8%, and non-interest bearing demand deposits increased $15,244,000, or 7.9%, as compared to the Third Quarter of 2016. Total average interest-bearing liabilities for the Third Quarter of 2017 decreased by $35,524,000, or 8.3%, compared to the Third Quarter of 2016.

Net interest margin and yield on earning assets both increased in the Third Quarter of 2017 compared to the Third Quarter of 2016 as a result of Federal Reserve actions which increased yield on short-term investments and led to an increase in the Cass prime rate.

Nine Months Ended 2017 compared to Nine Months Ended 2016:

Nine Months Ended 2017 average earning assets increased $46,973,000, or 3.6%, compared to the same period in the prior year as the result of growth in funding sources. Components of these variances are as follows:

Earning Assets. Average investment securities increased $72,045,000, or 20.8%, and other short-term investments increased $24,577,000, or 17.7%, for the Nine Months Ended 2017 as compared to the Nine Months Ended 2016. Interest-bearing deposits in other financial institutions decreased $30,251,000, or 23.4%, and loans decreased $18,364,000, or 2.7%, compared to the same period in the prior year.

Funding Sources. Average accounts and drafts payable balances for the Nine Months Ended 2017 increased $55,231,000, or 8.5%, and non-interest bearing demand deposits increased $17,959,000, or 9.6%, as compared to the Nine Months Ended 2016. Total average interest-bearing liabilities for the Nine Months Ended 2017 decreased by $38,132,000, or 8.9%, compared to the Nine Months Ended 2016.

Net interest margin and yield on earning assets both increased in the Nine Months Ended 2017 compared to the Nine Months Ended 2016 as a result of Federal Reserve actions which increased yield on short-term investments and led to an increase in the Cass prime rate.

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

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

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

(In thousands)	Third Quarter of 2017 Average Balance	Interest Income/ Expense	Yield/ Rate	Third Quarter of 2016 Average Balance	Interest Income/ Expense	Yield/ Rate
Assets[1]						
Earning assets						
Loans[2, 3]:						
Taxable	$ 655,723	$ 7,178	4.34%	$ 664,705	$ 7,121	4.26%
Tax-exempt[4]	4,466	47	4.18	17,703	219	4.92
Investment securities[5]:						
Taxable	19,703	94	1.89	5,714	22	1.53
Tax-exempt[4]	406,131	4,007	3.91	342,305	3,672	4.27
Certificates of deposit	6,763	14	.82	8,339	14	.67
Interest-bearing deposits in other financial institutions	102,203	300	1.16	127,314	162	.51
Federal funds sold and other short-term investments	200,036	444	.88	185,558	137	.29
Total earning assets	1,395,025	12,084	3.44	1,351,638	11,347	3.34
Non-earning assets						
Cash and due from banks	12,704			12,097		
Premises and equipment, net	21,256			20,773		
Bank-owned life insurance	16,738			16,238		
Goodwill and other intangibles	14,742			13,749		
Other assets	149,266			148,734		
Allowance for loan losses	(10,199)			(10,673)		
Total assets	$ 1,599,532			$ 1,552,556		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand deposits	$ 327,997	$ 434	.52%	$ 351,971	$ 347	.39%
Savings deposits	12,493	17	.54	19,679	24	.49
Time deposits >= $100	23,486	68	1.15	22,237	69	1.23
Other time deposits	29,286	52	.70	34,899	65	.74
Total interest-bearing liabilities	393,262	571	.58	428,786	505	.47
Non-interest bearing liabilities						
Demand deposits	208,932			193,688		
Accounts and drafts payable	739,293			692,545		
Other liabilities	37,317			28,467		
Total liabilities	1,378,804			1,343,486		
Shareholders' equity	220,728			209,070		
Total liabilities and shareholders' equity	$ 1,599,532			$ 1,552,556		
Net interest income		$ 11,513			$ 10,842	
Net interest margin			3.27%			3.19%
Interest spread			2.86			2.87

1. Balances shown are daily averages.
2. For purposes of these computations, nonaccrual loans are included in the average loan amounts outstanding. Interest on nonaccrual loans is recorded when received as discussed further in Note 1 to the Company's 2016 consolidated financial statements, filed with the Company's 2016 Annual Report on Form 10-K.
3. Interest income on loans includes net loan fees of $76,000 for both the Third Quarter of 2017 and 2016.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately $1,419,000 and $1,361,000 for the Third Quarter of 2017 and 2016, respectively.
5. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

(In thousands)	Nine Months Ended 2017 Average Balance	Nine Months Ended 2017 Interest Income/ Expense	Nine Months Ended 2017 Yield/ Rate	Nine Months Ended 2016 Average Balance	Nine Months Ended 2016 Interest Income/ Expense	Nine Months Ended 2016 Yield/ Rate
Assets[1]						
Earning assets						
Loans[2, 3]:						
Taxable	$ 656,314	$ 21,164	4.31%	$ 661,435	$ 21,278	4.30%
Tax-exempt[4]	5,274	157	3.98	18,517	666	4.80
Investment securities[5]:						
Taxable	15,905	232	1.95	2,711	33	1.63
Tax-exempt[4]	401,903	12,100	4.03	343,052	11,104	4.32
Certificates of deposit	6,592	36	.73	7,626	36	.63
Interest-bearing deposits in other financial institutions	99,206	703	.95	129,457	484	.50
Federal funds sold and other short-term investments	163,059	894	.73	138,482	291	.28
Total earning assets	1,348,253	35,286	3.50	1,301,280	33,892	3.48
Non-earning assets						
Cash and due from banks	12,729			11,716		
Premises and equipment, net	21,225			20,371		
Bank-owned life insurance	16,615			16,110		
Goodwill and other intangibles	14,408			13,851		
Other assets	144,086			144,129		
Allowance for loan losses	(10,190)			(10,981)		
Total assets	$ 1,547,126			$ 1,496,476		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand deposits	$ 317,046	$ 1,090	.46%	$ 348,221	$ 1,043	.40%
Savings deposits	17,007	62	.49	18,756	68	.48
Time deposits >= $100	23,238	195	1.12	22,425	201	1.20
Other time deposits	31,402	174	.74	37,423	210	.75
Total interest-bearing liabilities	388,693	1,521	.52	426,825	1,522	.48
Non-interest bearing liabilities						
Demand deposits	205,298			187,339		
Accounts and drafts payable	703,912			648,681		
Other liabilities	34,821			26,475		
Total liabilities	1,332,724			1,289,320		
Shareholders' equity	214,402			207,156		
Total liabilities and shareholders' equity	$ 1,547,126			$ 1,496,476		
Net interest income		$ 33,765			$ 32,370	
Net interest margin			3.35%			3.32%
Interest spread			2.98			3.00

1. Balances shown are daily averages.
2. For purposes of these computations, nonaccrual loans are included in the average loan amounts outstanding. Interest on nonaccrual loans is recorded when received as discussed further in Note 1 to the Company's 2016 consolidated financial statements, filed with the Company's 2016 Annual Report on Form 10-K.
3. Interest income on loans includes net loan fees of $319,000 and $311,000 for the Nine Months Ended 2017 and 2016, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%. The tax-equivalent adjustment was approximately $4,290,000 and $4,119,000 for the Nine Months Ended 2017 and 2016, respectively.
5. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

Analysis of Net Interest Income Changes

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

	Third Quarter of 2017 Over Third Quarter of 2016		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1, 2]:			
Taxable	$ (89)	$ 146	$ 57
Tax-exempt[3]	(143)	(29)	(172)
Investment securities:			
Taxable	66	6	72
Tax-exempt[3]	653	(318)	335
Certificates of deposit	(4)	4	—
Interest-bearing deposits in other financial institutions	(37)	175	138
Federal funds sold and other short-term investments	12	295	307
Total interest income	458	279	737
Interest expense on:			
Interest-bearing demand deposits	(25)	112	87
Savings deposits	(9)	2	(7)
Time deposits >=$100	3	(4)	(1)
Other time deposits	(10)	(3)	(13)
Total interest expense	(41)	107	66
Net interest income	$ 499	$ 172	$ 671

1. Average balances include nonaccrual loans.
2. Interest income includes net loan fees.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%.

	Nine Months Ended 2017 Over Nine Months Ended 2016		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1, 2]:			
Taxable	$ (178)	$ 64	$ (114)
Tax-exempt[3]	(411)	(98)	(509)
Investment securities:			
Taxable	191	8	199
Tax-exempt[3]	1,799	(803)	996
Certificates of deposit	(4)	4	—
Interest-bearing deposits in other financial institutions	(134)	353	219
Federal funds sold and other short-term investments	60	543	603
Total interest income	1,323	71	1,394
Interest expense on:			
Interest-bearing demand deposits	(99)	146	47
Savings deposits	(6)	—	(6)
Time deposits >=$100	7	(13)	(6)
Other time deposits	(33)	(3)	(36)
Total interest expense	(131)	130	(1)
Net interest income	$ 1,454	$ (59)	$ 1,395

1. Average balances include nonaccrual loans.
2. Interest income includes net loan fees.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35%.

Provision and Allowance for Loan Losses (“ALLL”)

A significant determinant of the Company’s operating results can be the provision for loan losses. There was no provision for loan losses during the Third Quarter of 2017 or the Third Quarter of 2016. There was no loan loss provision recorded during the Nine Months Ended 2017 and a negative loan loss provision of $1,000,000 was recorded during the Nine Months Ended 2016. As discussed below, the Company continually analyzes the outstanding loan portfolio based on the performance, financial condition and collateralization of the credits. Net loan recoveries were $6,000 and $1,000 during the Third Quarter of 2017 and the Third Quarter of 2016, respectively. Net loan recoveries were $27,000 in the Nine Months Ended 2017 and $38,000 during the Nine Months Ended 2016.

The ALLL at September 30, 2017 was $10,202,000 and at December 31, 2016 was $10,175,000. The ratio of ALLL to total loans outstanding at September 30, 2017 was 1.55% compared to 1.53% at December 31, 2016. Nonperforming loans were $215,000, or .03% of total loans, at September 30, 2017 compared to $245,000, or .04% of total loans, at December 31, 2016. This consists of one nonaccrual loan, which is also considered impaired, at September 30, 2017. Total nonaccrual loans decreased $30,000 from December 31, 2016 to September 30, 2017.

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

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

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

Summary of Asset Quality

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

	Third Quarter of		**Nine Months Ended**	
(In thousands)	**2017**	**2016**	**2017**	**2016**
Allowance at beginning of period	$ 10,196	$ 10,672	$ 10,175	$ 11,635
Provision charged to expense	—	—	—	(1,000)
Loans charged off	—	—	—	—
Recoveries on loans previously charged off	6	1	27	38
Net recoveries	6	1	27	38
Allowance at end of period	$ 10,202	$ 10,673	$ 10,202	$ 10,673
Loans outstanding:				
Average	$ 660,189	$ 682,408	$ 661,588	$ 679,952
September 30	658,090	684,874	658,090	684,874
Ratio of ALLL to loans outstanding:				
Average	1.55%	1.56%	1.54%	1.57%
September 30	1.55%	1.56%	1.55%	1.56%
Impaired loans:				
Nonaccrual loans	$ 215	$ 340	$ 215	$ 340
Loans past due 90 days or more	—	984	—	984
Troubled debt restructurings	—	—	—	—
Total impaired loans	$ 215	$ 1,324	$ 215	$ 1,324
Foreclosed assets	$ —	—	$ —	—
Impaired loans as percentage of average loans	.03%	.19%	.03%	.19%

The Bank had no property carried as other real estate owned as of September 30, 2017 or December 31, 2016.

Operating Expenses

Total operating expenses for the Third Quarter of 2017 were up 6.3%, or $1,491,000, compared to the Third Quarter of 2016 and were up $4,735,000 for the Nine Months Ended 2017 compared to the Nine Months Ended 2016.

Personnel expense for the Third Quarter of 2017 increased $1,104,000 compared to the Third Quarter of 2016 and increased $3,117,000 to $57,384,000 for the Nine Months Ended 2017 compared to the Nine Months Ended 2016 due to strategic investment in staff and technology to win and support new business, annual merit increases, and increased retirement plan costs.

Equipment expense for the Third Quarter of 2017 increased $118,000, or 10.5%, compared to the Third Quarter of 2016 and increased $457,000, or 13.9%, for the Nine Months Ended 2017 from the Nine Months Ended 2016. This increase was the result of the continued strategic investment in technology.

Income tax expense for the Third Quarter of 2017 increased $541,000 compared to the Third Quarter of 2016 and increased $399,000 for the Nine Months Ended 2017 compared to the Nine Months Ended 2016. The effective tax rate was 25.9% and 23.0% for the Third Quarters of 2017 and 2016, respectively, and was 24.3% and 24.8% for the Nine Months Ended 2017 and 2016, respectively. The increase in Third Quarter of 2017 tax rate was the result of higher credits for investment in technology recorded last year. The decrease in the Nine Months Ended 2017 tax rate was the result of the adoption of ASU No. 2016-09 – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.

Financial Condition

Total assets at September 30, 2017 were $1,556,750,000, an increase of $51,911,000, or 3.4%, from December 31, 2016. The most significant changes in asset balances during this period were increases of $66,516,000 in investment securities and payments in excess of funding of $14,455,000. This was partially offset by a decrease in cash and cash equivalents of $24,645,000. Changes in cash and cash equivalents reflect the Company's daily liquidity position and are affected by the changes in the other asset balances and changes in deposit and accounts and drafts payable balances.

Total liabilities at September 30, 2017 were $1,332,795,000, an increase of $35,991,000, or 2.8%, from December 31, 2016. Accounts and drafts payable at September 30, 2017 were $687,233,000, an increase of $44,946,000, or 7.0%, from December 31, 2016. Total deposits decreased $12,731,000, or 2.0%, from December 31, 2016. Total shareholders' equity at September 30, 2017 was $223,955,000, a $15,920,000, or 7.7%, increase from December 31, 2016.

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

The increase in total shareholders' equity of $15,920,000 resulted primarily from net income of $19,683,000 and a decrease of $5,326,000 in accumulated other comprehensive loss. These were offset by dividends paid of $7,725,000 and an increase in common shares in treasury of $1,961,000 resulting from treasury stock repurchases.

Liquidity and Capital Resources

The balance of liquid assets consists of cash and cash equivalents, which include cash and due from banks, interest-bearing deposits in other financial institutions, federal funds sold and other short-term investments, was $242,098,000 at September 30, 2017, a decrease of $24,645,000, or 9.2%, from December 31, 2016. At September 30, 2017, these assets represented 15.6% of total assets. These funds are the Company's and its subsidiaries' primary source of liquidity to meet future expected and unexpected loan demand, depositor withdrawals or reductions in accounts and drafts payable.

Secondary sources of liquidity include the investment portfolio and borrowing lines. Total investment in securities was $457,068,000 at September 30, 2017, an increase of $66,516,000 from December 31, 2016. These assets represented 29.4% of total assets at September 30, 2017. Of this total, 91% were state and political subdivision securities. Of the total portfolio, 4.9% mature in one year or less, 12.6% mature in one to five years, and 82.5% mature in five or more years.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $68,000,000 at the following banks: US Bank, $20,000,000; Wells Fargo Bank, $15,000,000; Frost National Bank, $10,000,000; PNC Bank, $12,000,000; UMB Bank, $5,000,000; and JPM Chase Bank, $6,000,000. The Bank also has secured lines of credit with the Federal Home Loan Bank of $211,513,000 collateralized by commercial mortgage loans. The Company also has secured lines of credit with UMB Bank of $50,000,000 and First Tennessee Bank of $50,000,000 collateralized by state and political subdivision securities. There were no amounts outstanding under any line of credit as of September 30, 2017 or December 31, 2016.

The deposits of the Company's banking subsidiary have historically been stable, consisting of a sizable volume of core deposits related to customers that utilize other commercial products of the Bank. The accounts and drafts payable generated by the Company has also historically been a stable source of funds. The Company is part of the Certificate of Deposit Account Registry Service ("CDARS") and Insured Cash Sweep ("ICS") deposit placement programs. Time deposits include $28,858,000 of CDARS deposits and interest-bearing demand deposits include $84,763,000 of ICS deposits. These programs offer the Bank's customers the ability to maximize Federal Deposit Insurance Corporation ("FDIC") insurance coverage. The Company uses these programs to retain or attract deposits from existing customers.

Net cash flows provided by operating activities were $27,936,000 for the Nine Months Ended 2017 compared with $25,615,000 for the Nine Months ended 2016, an increase of $2,321,000. Net cash flows from investing and financing activities fluctuate greatly as the Company actively manages its investment and loan portfolios and customer activity influences changes in deposit and accounts and drafts payable balances. Other causes for the changes in these account balances are discussed earlier in this report. Due to the daily fluctuations in these account balances, the analysis of changes in average balances, also discussed earlier in this report, can be more indicative of underlying activity than the period-end balances used in the statements of cash flows. Management anticipates that cash and cash equivalents, maturing investments and cash from operations will continue to be sufficient to fund the Company's operations and capital expenditures in 2017, which are estimated to range from $5 million to $7 million.

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

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

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

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

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

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

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

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

In addition to establishing the minimum regulatory capital requirements, the Basel III Capital Rules limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements. The capital conservation buffer requirement is being phased in beginning January 1, 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented at 2.5% on January 1, 2019.

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

	September 30, 2017		December 31, 2016	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 229,044	22.97%	$ 219,747	22.75%
Cass Commercial Bank	118,295	17.13%	110,576	16.72%
Common Equity Tier I Capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 218,842	21.95%	$ 209,572	21.70%
Cass Commercial Bank	110,461	16.00%	102,769	15.54%
Tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 218,842	21.95%	$ 209,572	21.70%
Cass Commercial Bank	110,461	16.00%	102,769	15.54%
Tier I capital (to average assets)				
Cass Information Systems, Inc.	$ 218,842	13.80%	$ 209,572	13.83%
Cass Commercial Bank	110,461	14.90%	102,769	13.98%

On October 24, 2017, the Company's board of directors declared a 10% common stock dividend payable on December 15, 2017 to shareholders of record on December 5, 2017. Shareholders will receive one additional share of Cass common stock for each 10 shares of common stock owned. No fractional shares will be issued. Shareholders will receive cash for any fractional shares owned based on the share price reported by the Nasdaq Stock Market at the close of trading on December 5, 2017.

Additionally, on October 24, 2017, the Company's board of directors declared a fourth quarter cash dividend of $0.24 per share payable on December 15, 2017 to shareholders of record on December 5, 2017. The cash dividend will apply to all shares of common stock held after the 10% common stock dividend is completed.

Inflation

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

Impact of New and Not Yet Adopted Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09 – Revenue from Contracts with Customers. The ASU supersedes revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance in the FASB ASC. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance identifies specific steps that entities should apply in order to achieve this principle. Under the ASU, the amendments are effective for interim and annual periods beginning January 1, 2018 and must be applied retrospectively. The impact of the adoption of this ASU is currently being evaluated but is not expected to have a material impact on the Company's consolidated financial statements or results of operations.

In February 2016, the FASB issued ASU No. 2016-02 – Leases (ASC Topic 842). The ASU improves financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. Consistent with current Generally Accepted Accounting Principles (GAAP), the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP—which requires only capital leases to be recognized on the balance sheet—the new ASU will require both types of leases to be recognized on the balance sheet. The ASU also will require disclosures to help investors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements, providing additional information about the amounts recorded in the financial statements. The ASU on leases will take effect for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The impact of the adoption of this ASU is currently being evaluated but is not expected to have a material impact on the Company's consolidated financial statements or results of operations.

In June 2016, the FASB issued ASU No. 2016-13 - Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires measurement and recognition of expected credit losses for financial assets held. Under this standard, it will be required to hold an allowance equal to the expected life-of-loan losses on the loan portfolio. The standard is effective for fiscal periods beginning after December 15, 2019. The impact of the adoption of this ASU is currently being evaluated.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016, the Company manages its interest rate risk through measurement techniques that include gap analysis and a simulation model. As part of the risk management process, asset/liability management policies are established and monitored by management. The policy objective is to limit the change in annualized net interest income to 15.0% from an immediate and sustained parallel change in interest rates of 200 basis points. Based on the Company's most recent evaluation, management does not believe the Company's risk position at September 30, 2017 has changed materially from that at December 31, 2016.

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-15e and 15d-15e 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 2017 in the Company's internal control over financial reporting identified by the Company's principal executive officer and principal financial officer in connection with their evaluation that materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended).

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

The Company has included in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2016, a description of certain risks and uncertainties that could affect the Company's business, future performance or financial condition (the "Risk Factors"). There are no material changes to the Risk Factors as disclosed in the Company's 2016 Annual Report on Form 10-K.

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

During the three months ended September 30, 2017, the Company repurchased a total of 38,042 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, 2017 – July 31, 2017	—	—	—	500,000
August 1, 2017– August 31, 2017	13,242	$ 59.80	13,242	486,758
September 1, 2017 – September 30, 2017	24,800	$ 59.59	24,800	461,958
Total	38,042	$ 59.67	38,042	461,958

1. All repurchases made during the quarter ended September 30, 2017 were made pursuant to the treasury stock buyback program, which was authorized by the Board of Directors on October 17, 2011 and announced by the Company on October 20, 2011. The program, as modified by the Board of Directors on October 20, 2014, provides that the Company may repurchase up to an aggregate of 500,000 shares of common stock and has no expiration date. The program is periodically modified by the Board of Directors and was most recently modified on October 24, 2017 to restore the aggregate number of shares available for repurchase to 500,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) None.

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors implemented in the Third Quarter of 2017.

ITEM 6. EXHIBITS

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

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

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

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

Exhibit 101.INS XBRL Instance Document.

Exhibit 101.SCH XBRL Taxonomy Extension Schema Document.

Exhibit 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

Exhibit 101.LAB XBRL Taxonomy Extension Label Linkbase Document.

Exhibit 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

Exhibit 101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

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, 2017

By /s/ Eric H. Brunngraber

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

DATE: November 7, 2017

By /s/ P. Stephen Appelbaum

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

Exhibit 31.1

CERTIFICATIONS

I, Eric H. Brunngraber, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2017

/s/ Eric H. Brunngraber

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

Exhibit 31.2

CERTIFICATIONS

I, P. Stephen Appelbaum, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 7, 2017

/s/ P. Stephen Appelbaum

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

Exhibit 32.1

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

In connection with the Quarterly Report of Cass Information Systems, Inc. (“the Company”) on Form 10-Q for the period ended September 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Eric H. Brunngraber, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Eric H. Brunngraber
Eric H. Brunngraber
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
November 7, 2017

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, 2017 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, P. Stephen Appelbaum, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ P. Stephen Appelbaum

P. Stephen Appelbaum
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
November 7, 2017

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.