UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2022

OR

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

For the transition period from __________ to __________

Commission File No. 000-20827

CASS INFORMATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Yes x No o

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

Yes x No o

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

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

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

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

Yes ☐ No x

The number of shares outstanding of the registrant's only class of common stock as of July 22, 2022: Common stock, par value $.50 per share – 13,657,724 shares outstanding.

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Forward-looking Statements - Factors That May Affect Future Results

This report may contain or incorporate by reference forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although we believe that, in making any such statements, our expectations are based on reasonable assumptions, forward-looking statements are not guarantees of future performance and involve risks, uncertainties, and other factors beyond our control, which may cause future performance to be materially different from expected performance summarized in the forward-looking statements. These risks, uncertainties and other factors are discussed in Part I, Item 1A, "Risk Factors" of the Company's 2021 Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC"), which may be updated from time to time in our future filings with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, or changes to future results over time.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2022 (Unaudited)	December 31, 2021
Assets		
Cash and due from banks	$ 20,194	$ 12,301
Short-term investments	241,040	502,627
Cash and cash equivalents	261,234	514,928
Securities available-for-sale, at fair value	740,074	673,453
Loans	959,487	960,567
Less: Allowance for credit losses	12,573	12,041
Loans, net	946,914	948,526
Payments in advance of funding	313,172	291,427
Premises and equipment, net	19,470	18,113
Investment in bank-owned life insurance	47,435	43,176
Goodwill	17,309	14,262
Other intangible assets, net	4,516	2,564
Other assets	93,864	48,452
Total assets	$ 2,443,988	$ 2,554,901
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 604,492	$ 582,642
Interest-bearing	585,083	638,861
Total deposits	1,189,575	1,221,503
Accounts and drafts payable	998,870	1,050,396
Other liabilities	49,929	37,204
Total liabilities	2,238,374	2,309,103
Shareholders' Equity:		
Preferred stock, par value $.50 per share; 2,000,000 shares authorized and no shares issued	—	—
Common stock, par value $.50 per share; 40,000,000 shares authorized and 15,505,772 shares issued at June 30, 2022 and December 31, 2021; 13,657,724 and 13,734,295 shares outstanding at June 30, 2022 and December 31, 2021, respectively.	7,753	7,753
Additional paid-in capital	204,482	204,276
Retained earnings	121,386	112,220
Common shares in treasury, at cost (1,848,048 shares at June 30, 2022 and 1,771,477 shares at December 31, 2021)	(81,742)	(78,904)
Accumulated other comprehensive (loss) income	(46,265)	453
Total shareholders' equity	205,614	245,798
Total liabilities and shareholders' equity	$ 2,443,988	$ 2,554,901

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Fee Revenue and Other Income:				
Processing fees	$ 19,326	$ 19,048	$ 38,362	$ 37,423
Financial fees	10,623	7,500	21,155	14,497
Other	702	439	1,564	1,242
Total fee revenue and other income	30,651	26,987	61,081	53,162
Interest Income:				
Interest and fees on loans	9,107	8,696	17,884	17,283
Interest and dividends on securities:				
Taxable	2,276	458	3,732	656
Exempt from federal income taxes	1,639	1,832	3,316	3,571
Interest on federal funds sold and other short-term investments	958	122	1,174	274
Total interest income	13,980	11,108	26,106	21,784
Interest Expense:				
Interest on deposits	339	297	562	628
Total interest expense	339	297	562	628
Net interest income	13,641	10,811	25,544	21,156
Provision for (release of) credit losses	70	(610)	300	(1,210)
Net interest income after provision for (release of) credit losses	13,571	11,421	25,244	22,366
Total net revenue	44,222	38,408	86,325	75,528
Operating Expense:				
Personnel	26,033	22,880	50,751	45,406
Occupancy	916	959	1,831	1,906
Equipment	1,660	1,653	3,371	3,328
Amortization of intangible assets	155	214	290	429
Other operating expense	4,875	4,097	9,224	7,259
Total operating expense	33,639	29,803	65,467	58,328
Income before income tax expense	10,583	8,605	20,858	17,200
Income tax expense	2,021	1,579	4,038	3,103
Net income	$ 8,562	$ 7,026	$ 16,820	$ 14,097
Basic earnings per share	$ .63	$ .49	$ 1.24	$ .99
Diluted earnings per share	.62	.48	1.22	.97

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Comprehensive Income:				
Net income	$ 8,562	$ 7,026	$ 16,820	$ 14,097
Other comprehensive (loss) income:				
Net unrealized (loss) gain on securities available-for-sale	(23,538)	1,566	(61,037)	(2,648)
Tax effect	5,602	(373)	14,527	630
Reclassification adjustments for losses (gains) included in net income	2	3	2	(45)
Tax effect	—	(1)	—	10
Foreign currency translation adjustments	(209)	152	(210)	23
Total comprehensive (loss) income	$ (9,581)	$ 8,373	$ (29,898)	$ 12,067

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Cash Flows From Operating Activities:		
Net income	$ 16,820	$ 14,097
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,647	6,167
Gains on sales of securities	(2)	(45)
Stock-based compensation expense	3,172	1,519
Provision for (release of) credit losses	300	(1,210)
Decrease in deferred income tax asset	—	22
Increase (decrease) in current income tax liability	634	(88)
Decrease in pension liability	(1,274)	(294)
Increase in accounts receivable	(1,805)	(1,131)
Other operating activities, net	7,570	2,722
Net cash provided by operating activities	31,062	21,759
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	1,521	13,116
Proceeds from maturities of securities available-for-sale	30,357	70,209
Purchase of securities available-for-sale	(162,853)	(238,831)
Net decrease in loans	1,092	21,093
Purchase of bank-owned life insurance	(4,259)	—
Asset acquisition of Touchpoint	(4,425)	—
(Increase) decrease in payments in advance of funding	(21,745)	10,301
Purchases of premises and equipment, net	(3,393)	(1,886)
Net cash used in investing activities	(163,705)	(125,998)
Cash Flows From Financing Activities:		
Net increase (decrease) in noninterest-bearing demand deposits	21,850	(71,130)
Net (decrease) increase in interest-bearing demand and savings deposits	(48,982)	40,759
Net decrease in time deposits	(4,796)	(4,542)
Net (decrease) increase in accounts and drafts payable	(75,665)	104,184
Cash dividends paid	(7,654)	(7,761)
Purchase of common shares for treasury	(5,299)	(5,260)
Other financing activities, net	(505)	(958)
Net cash (used in) provided by financing activities	(121,051)	55,292
Net decrease in cash and cash equivalents	(253,694)	(48,947)
Cash and cash equivalents at beginning of period	514,928	670,528
Cash and cash equivalents at end of period	$ 261,234	$ 621,581
Supplemental information:		
Cash paid for interest	$ 549	$ 608
Cash paid for income taxes	2,609	3,164

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
THREE MONTHS ENDED JUNE 30, 2022 AND 2021
(Unaudited)
(Dollars in Thousands except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, March 31, 2021	$ 7,753	$ 202,828	$ 102,247	$ (49,949)	$ (3,392)	$ 259,487
Net income			7,026			7,026
Cash dividends ($0.27 per share)			(3,875)			(3,875)
Issuance of 9,720 common shares pursuant to stock-based compensation plan, net		(455)		450		(5)
Exercise of SARs		(101)		94		(7)
Stock-based compensation expense		826				826
Purchase of 89,010 common shares				(4,032)		(4,032)
Other comprehensive income					1,347	1,347
Balance, June 30, 2021	$ 7,753	$ 203,098	$ 105,398	$ (53,437)	$ (2,045)	$ 260,767
Balance, March 31, 2022	$ 7,753	$ 203,149	$ 116,646	$ (82,348)	$ (28,122)	$ 217,078
Net income			8,562			8,562
Cash dividends ($0.28 per share)			(3,822)			(3,822)
Issuance of 18,637 common shares pursuant to stock-based compensation plan, net		(749)		819		70
Stock-based compensation expense		2,082				2,082
Purchase of 5,500 common shares				(213)		(213)
Other comprehensive loss					(18,143)	(18,143)
Balance, June 30, 2022	$ 7,753	$ 204,482	$ 121,386	$ (81,742)	$ (46,265)	$ 205,614

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2022 AND 2021
(Unaudited)
(Dollars in Thousands except per share data)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2020	$ 7,753	$ 204,875	$ 99,062	$ (50,515)	$ (15)	$ 261,160
Net income			14,097			14,097
Cash dividends ($.54 per share)			(7,761)			(7,761)
Issuance of 79,094 common shares pursuant to stock-based compensation plan, net		(2,881)		2,046		(835)
Exercise of SARs		(415)		292		(123)
Stock-based compensation expense		1,519				1,519
Purchase of 120,266 common shares				(5,260)		(5,260)
Other comprehensive loss					(2,030)	(2,030)
Balance, June 30, 2021	$ 7,753	$ 203,098	$ 105,398	$ (53,437)	$ (2,045)	$ 260,767
Balance, December 31, 2021	$ 7,753	$ 204,276	$ 112,220	$ (78,904)	$ 453	$ 245,798
Net income			16,820			16,820
Cash dividends ($.56 per share)			(7,654)			(7,654)
Issuance of 76,909 common shares pursuant to stock-based compensation plan, net		(2,638)		2,218		(420)
Exercise of SARs		(328)		243		(85)
Stock-based compensation expense		3,172				3,172
Purchase of 130,374 common shares				(5,299)		(5,299)
Other comprehensive loss					(46,718)	(46,718)
Balance, June 30, 2022	$ 7,753	$ 204,482	$ 121,386	$ (81,742)	$ (46,265)	$ 205,614

See accompanying notes to unaudited consolidated financial statements.

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

Note 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Certain amounts in prior-period financial statements have been reclassified to conform to the current period's presentation. Such reclassifications have no effect on previously reported net income or shareholders' equity. For further information, refer to the audited consolidated financial statements and related footnotes included in Cass Information System, Inc.'s (the "Company" or "Cass") Annual Report on Form 10-K for the year ended December 31, 2021.

Risks and Uncertainties

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic. While the impact of COVID-19 is significantly lessened from March 2020, the ongoing impact, including resurgences of the virus and restrictions imposed to combat its spread, could result in additional and prolonged business closures, supply chain disruptions, work restrictions and activity restrictions. The Company continues to closely monitor developments related to COVID-19 and remains subject to heightened business, operational, market, credit and other risks which may have an adverse effect on its financial condition and results of operations.

Note 2 – Intangible Assets

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

In June 2022, the Company acquired the assets of mobile church management software developer Touchpoint, a division of the Pursuant Group, Inc., and recorded intangible assets of $5,289,000. Those intangible assets were valued at $3,046,000 for goodwill, $1,692,000 for the customer list, $368,000 for software, and $183,000 for the trade name. The amounts for these intangible assets have been recorded on a provisional basis and will be adjusted upon the completion of the valuation. The goodwill is deductible for tax purposes over 15 years, starting in 2022. The intangible assets and results of Touchpoint are included in the Information Services operating segment.

The purchase price of the acquisition consisted of a cash payment of $4,900,000 and potential contingent consideration in the form of an earn out up to $2,500,000. The Company valued the contingent earn out component at $389,000. The fair value of the contingent consideration was estimated on the acquisition date as the present value of the expected future contingent payments which were determined using a Monte Carlo simulation. The contingent consideration is based upon four years of earnings before interest, taxes, depreciation and amortization (EBITDA) subsequent to the acquisition date. Any changes in the estimated fair value of the contingent earn out consideration, up to the contracted amount, will be reflected in the results of operations in future periods as they are identified.

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

(In thousands)	June 30, 2022 Gross Carrying Amount	June 30, 2022 Accumulated Amortization	December 31, 2021 Gross Carrying Amount	December 31, 2021 Accumulated Amortization
Assets eligible for amortization:				
Customer lists	$ 6,470	$ (4,416)	$ 4,778	$ (4,341)
Patents	72	(29)	72	(28)
Software	3,212	(1,295)	2,844	(1,104)
Trade Name	373	(29)	190	(22)
Other	500	(342)	500	(325)
Unamortized intangible assets:				
Goodwill	17,309	—	14,262	—
Total intangible assets	$ 27,936	$ (6,111)	$ 22,646	$ (5,820)

The customer lists are amortized over 7 to 10 years; the patents over 18 years; software over 3 to 7 years, the trade name over 10 to 20 years and other intangible assets over 15 years. Amortization of intangible assets amounted to $155,000 and $214,000 for the three month periods ended June 30, 2022 and 2021, respectively. Amortization of intangible assets amounted to $290,000 and $429,000 for the six-month periods ended June 30, 2022 and 2021, respectively. Estimated annual amortization of intangibles is $680,000 in 2022, $780,000 in 2023, $738,000 in 2024, $730,000 in 2025, and $582,000 in 2026.

Note 3 – Earnings Per Share

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding and the weighted-average number of potential common shares outstanding. Under the treasury stock method, stock appreciation rights ("SARs") are dilutive when the average market price of the Company's common stock, combined with the effect of any unamortized compensation expense, exceeds the SAR price during a period.

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

(In thousands except share and per share data)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Basic				
Net income	$ 8,562	$ 7,026	$ 16,820	$ 14,097
Weighted-average common shares outstanding	13,542,677	14,267,290	13,560,237	14,286,362
Basic earnings per share	$ 0.63	$ 0.49	$ 1.24	$ 0.99
Diluted				
Net income	$ 8,562	$ 7,026	$ 16,820	$ 14,097
Weighted-average common shares outstanding	13,542,677	14,267,290	13,560,237	14,286,362
Effect of dilutive restricted stock and stock appreciation rights	258,864	243,192	247,611	239,906
Weighted-average common shares outstanding assuming dilution	13,801,541	14,510,482	13,807,848	14,526,268
Diluted earnings per share	$ 0.62	$ 0.48	$ 1.22	$ 0.97

Note 4 – Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which, in October 2021, the Board of Directors authorized the repurchase of up to 750,000 shares of the Company's common stock with no expiration date. As of June 30, 2022, 340,707 shares remained available for repurchase under the program. The Company repurchased 5,500 and 89,010 shares during the three-month periods ended June 30, 2022 and 2021, and 130,374 and 120,266 shares during the six-month periods ended June 30, 2022 and 2021, respectively. Repurchases may be made in the open market or through negotiated transactions from time to time depending on market conditions.

Note 5 – Industry Segment Information

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

The Information Services segment provides transportation, energy, telecommunication, and environmental invoice processing and payment services to large corporations as well as church management and on-line generosity services to faith-based ministries. The Banking Services segment provides banking services primarily to privately held businesses, restaurant franchises, and faith-based ministries and supports the banking needs of the Information Services segment.

The Company's accounting policies for segments are the same as those described in the summary of significant accounting policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. Management evaluates segment performance based on tax-equivalized (as defined in the footnote to the chart on the following table) pre-tax income after allocations for corporate expenses. Transactions between segments are accounted for at what management believes to be fair value.

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

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

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

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

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

(In thousands)	Information Services	Banking Services	Corporate, Eliminations and Other	Total
Three Months Ended June 30, 2022:				
Fee income	$ 29,677	$ 408	$ 566	$ 30,651
Interest income*	6,691	7,263	464	14,418
Interest expense	—	339	—	339
Intersegment income (expense)	—	1,292	(1,292)	—
Tax-equivalized pre-tax income*	6,839	3,442	738	11,019
Goodwill	17,173	136	—	17,309
Other intangible assets, net	4,516	—	—	4,516
Total assets	1,067,732	1,386,753	(10,497)	2,443,988
Average funding sources	1,097,416	974,681	—	2,072,097
Three Months Ended June 30, 2021:				
Fee income	$ 26,391	$ 319	$ 277	$ 26,987
Interest income*	5,884	6,563	(853)	11,594
Interest expense	—	297	—	297
Intersegment income (expense)	—	688	(688)	—
Tax-equivalized pre-tax income*	6,182	3,655	(744)	9,093
Goodwill	14,126	136	—	14,262
Other intangible assets, net	2,993	—	—	2,993
Total assets	1,062,536	1,215,799	(6,002)	2,272,333
Average funding sources	905,983	860,956	—	1,766,939
Six Months Ended June 30, 2022:				
Fee income	$ 58,911	$ 1,036	$ 1,134	$ 61,081
Interest income*	13,017	13,745	227	26,989
Interest expense	—	562	—	562
Intersegment income (expense)	—	2,425	(2,425)	—
Tax-equivalized pre-tax income*	14,654	6,292	794	21,740
Goodwill	17,173	136	—	17,309
Other intangible assets, net	4,516	—	—	4,516
Total assets	1,067,732	1,386,753	(10,497)	2,443,988
Average funding sources	1,053,417	970,772	—	2,024,189
Six Months Ended June 30, 2021:				
Fee income	$ 51,689	$ 636	$ 837	$ 53,162
Interest income*	11,393	12,314	(975)	22,732
Interest expense	—	628	—	628
Intersegment income (expense)	—	1,311	(1,311)	—
Tax-equivalized pre-tax income*	11,968	6,643	(461)	18,150
Goodwill	14,126	136	—	14,262
Other intangible assets, net	2,993	—	—	2,993
Total assets	1,062,536	1,215,799	(6,002)	2,272,333
Average funding sources	872,106	855,099	—	1,727,205

* Presented on a tax-equivalent basis assuming a tax rate of 21% for both 2022 and 2021. The tax-equivalent adjustment was approximately $436,000 and $487,000 for the Second Quarter of 2022 and 2021, respectively and $882,000 and $949,000 for the First Half of 2022 and 2021, respectively.

Note 6 – Loans by Type

A summary of loans is as follows:

(In thousands)	June 30, 2022	December 31, 2021
Commercial and industrial	$ 464,684	$ 450,336
Real estate:		
Commercial:		
Mortgage	99,081	108,759
Construction	25,117	24,797
Faith-based:		
Mortgage	355,073	355,582
Construction	14,508	14,664
Paycheck Protection Program (“PPP”)	996	6,299
Other	28	130
Total loans	$ 959,487	$ 960,567

The following table presents the aging of loans past due by category at June 30, 2022 and December 31, 2021:

	Performing			Nonperforming		
(In thousands)	Current	30-59 Days	60-89 Days	90 Days and Over	Non-accrual	Total Loans
June 30, 2022						
Commercial and industrial	$ 464,684	$ —	$ —	$ —	$ —	$ 464,684
Real estate						
Commercial:						
Mortgage	99,081	—	—	—	—	99,081
Construction	25,117	—	—	—	—	25,117
Faith-based:						
Mortgage	355,073	—	—	—	—	355,073
Construction	14,508	—	—	—	—	14,508
PPP	996	—	—	—	—	996
Other	28	—	—	—	—	28
Total	$ 959,487	$ —	$ —	$ —	$ —	$ 959,487
December 31, 2021						
Commercial and industrial	$ 450,336	$ —	$ —	$ —	$ —	$ 450,336
Real estate						
Commercial:						
Mortgage	108,759	—	—	—	—	108,759
Construction	24,797	—	—	—	—	24,797
Faith-based:						
Mortgage	355,582	—	—	—	—	355,582
Construction	14,664	—	—	—	—	14,664
PPP	6,299	—	—	—	—	6,299
Other	130	—	—	—	—	130
Total	$ 960,567	$ —	$ —	$ —	$ —	$ 960,567

The following table presents the credit exposure of the loan portfolio by internally assigned credit grade as of June 30, 2022 and December 31, 2021:

(In thousands)	Loans Subject to Normal Monitoring[1]	Performing Loans Subject to Special Monitoring[2]	Nonperforming Loans Subject to Special Monitoring[2]	Total Loans
June 30, 2022				
Commercial and industrial	$ 461,304	$ 3,380	$ —	$ 464,684
Real estate				
Commercial:				
Mortgage	98,542	539	—	99,081
Construction	25,117	—	—	25,117
Faith-based:				
Mortgage	354,105	968	—	355,073
Construction	14,508	—	—	14,508
PPP	996	—	—	996
Other	28	—	—	28
Total	$ 954,600	$ 4,887	$ —	$ 959,487
December 31, 2021				
Commercial and industrial	$ 440,607	$ 9,729	$ —	$ 450,336
Real estate				
Commercial:				
Mortgage	108,759	—	—	108,759
Construction	24,797	—	—	24,797
Faith-based:				
Mortgage	352,717	2,865	—	355,582
Construction	14,664	—	—	14,664
PPP	6,299	—	—	6,299
Other	130	—	—	130
Total	$ 947,973	$ 12,594	$ —	$ 960,567

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

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

The Company had no loans evaluated for expected credit losses on an individual basis as of June 30, 2022 or December 31, 2021. There were no foreclosed loans recorded as other real estate owned as of June 30, 2022 or December 31, 2021. There were no loans considered troubled debt restructurings as of June 30, 2022 or December 31, 2021.

A summary of the activity in allowance for credit losses ("ACL") by category for the periods ended June 30, 2022 and December 31, 2021 is as follows:

(In thousands)	C&I	CRE	Faith-based CRE	Construction	Total
Balance at December 31, 2020	$ 4,635	$ 1,175	$ 5,717	$ 417	$ 11,944
Provision for (release of) credit losses	387	(144)	(48)	(125)	70
Recoveries	12	—	15	—	27
Balance at December 31, 2021	$ 5,034	$ 1,031	$ 5,684	$ 292	$ 12,041
Provision for credit losses	385	42	88	5	520
Recoveries	12	—	—	—	12
Balance at June 30, 2022	$ 5,431	$ 1,073	$ 5,772	$ 297	$ 12,573

The provision for credit losses during the period ended June 30, 2022 was primarily driven by external economic factors, including the reduction in the forecast of Gross Domestic Product.

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. A release of provision for credit losses of $220,000 was recorded during the six months ended June 30, 2022 primarily due to a decrease in unfunded commitments. An allowance for unfunded commitments of $147,000 and $367,000 had been recorded at June 30, 2022 and December 31, 2021, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commercial and standby letters of credit are conditional commitments issued by the Company or its subsidiaries to guarantee the performance of a customer to a third party. These off-balance sheet financial instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At June 30, 2022, the balances of unused loan commitments, standby and commercial letters of credit were $188,187,000, $12,000,000, and $1,189,000, respectively. Since some of the financial instruments may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. Commitments to extend credit and letters of credit are subject to the same underwriting standards as those financial instruments included on the consolidated balance sheets. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held varies, but is generally accounts receivable, inventory, residential or income-producing commercial property or equipment. In the event of nonperformance, the Company or its subsidiaries may obtain and liquidate the collateral to recover amounts paid under guarantees on these financial instruments.

Note 8 – Stock-Based Compensation

The Amended and Restated Omnibus Stock and Performance Compensation Plan (the "Omnibus Plan") permits the issuance of up to 1,500,000 shares of the Company's common stock in the form of stock options, SARs, restricted stock, restricted stock units and performance awards. The Company may issue shares out of treasury stock for these awards. During the six months ended June 30, 2022, 58,888 restricted shares, 57,542 performance-based restricted shares, and no SARs were granted under the Omnibus Plan. Stock-based compensation expense for the three months ended June 30, 2022 and 2021 was $2,082,000 and $826,000, respectively, and $3,172,000 and $1,519,000 for the six months ended June 30, 2022 and 2021, respectively.

Restricted Stock

Restricted shares granted to Company employees are amortized to expense over a three-year cliff vesting period. Restricted shares granted to members of the Board of Directors are amortized to expense over a one-year service period, with the exception of those shares granted in lieu of cash payments for retainer fees which are expensed in the period earned.

As of June 30, 2022, the total unrecognized compensation expense related to non-vested restricted shares was $2,658,000, and the related weighted-average period over which it is expected to be recognized is approximately 0.86 years.

Following is a summary of the activity of the Company's restricted stock for the six months ended June 30, 2022, with total shares and weighted-average fair value:

	Six Months Ended June 30, 2022	
	Shares	Fair Value
Balance at December 31, 2021	165,553	$ 44.81
Granted	58,888	39.43
Vested	(23,316)	48.85
Balance at June 30, 2022	201,125	$ 42.77

Performance-Based Restricted Stock

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

Following is a summary of the activity of the PBRS for the six months ended June 30, 2022, based on 100% of target value:

	Six Months Ended June 30, 2022	
	Shares	Fair Value
Balance at December 31, 2021	116,543	$ 46.79
Granted	57,542	39.58
Vested	(34,066)	49.05
Balance at June 30, 2022	140,019	$ 43.19

The PBRS that vested during the six months ended June 30, 2022 were based on the Company's achievement of 52.9% of target financial goals, resulting in the issuance of 18,021 shares of common stock. The outstanding PBRS at June 30, 2022 will vest at scheduled vesting dates and the actual number of shares of common stock issued will range from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the respective three-year performance period.

SARs

There were no SARs granted and no expense recognized during the six months ended June 30, 2022. Following is a summary of the activity of the Company's SARs program for the six months ended June 30, 2022:

	Shares	Weighted-Average Exercise Price	Average Remaining Contractual Term Years	Aggregate Intrinsic Value *(In thousands)*
Balance at December 31, 2021	117,089	$ 34.91	1.21	$ 741
Exercised	(23,976)	27.78	—	—
Exercisable at June 30, 2022	93,113	$ 36.75	0.91	$ 118

There were no non-vested SARs at June 30, 2022.

Note 9 – Defined Pension Plans

The Company has a noncontributory defined-benefit pension plan (the "Plan"), which covers eligible employees. Effective December 31, 2016, the Plan was closed to all new participants. Additionally, the Plan's benefits were frozen for all remaining participants as of February 28, 2021. As such, subsequent to February 28, 2021, there is no service cost associated with the Plan. The 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 2022**	**Actual 2021**
Service cost – benefits earned during the year	$ —	$ 1,002
Interest cost on projected benefit obligations	3,290	3,076
Expected return on plan assets	(5,860)	(6,310)
Net amortization	—	393
Net periodic pension benefit	$ (2,570)	$ (1,839)

The Company recorded a net periodic benefit of $613,000 and $1,231,000 for the three and six-month periods ended June 30, 2022, respectively, and $691,000 and $418,000 for the three and six-month period ended June 30, 2021, respectively. Pension costs decreased during the six-month period ended June 30, 2022 due to the Plan being frozen as of February 28, 2021. The Company made no contributions to the Plan during the six-month period ended June 30, 2022 and is evaluating the amount of contributions, if any, for the remainder of 2022.

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 2021 and an estimate for 2022:

(In thousands)	**Estimated 2022**	**Actual 2021**
Service cost – benefits earned during the year	$ —	$ 147
Interest cost on projected benefit obligation	318	291
Net amortization	108	203
Net periodic pension cost	$ 426	$ 641

Supplemental executive retirement plan costs recorded to expense were $106,000 and $213,000 for the three and six-month periods ended June 30, 2022, respectively, and $161,000 and $321,000 for the three and six-month periods ended June 30, 2021, respectively.

Note 10 – Income Taxes

The effective tax rate was 19.1% and 19.4% for the three and six-month periods ended June 30, 2022, respectively, and 18.4% and 18.0% for the three and six-month periods ended June 30, 2021, respectively. The effective tax rate for all periods differs from the statutory rate of 21% primarily due to the tax-exempt interest received from municipal bonds and bank-owned life insurance, among other factors. The increase in the effective tax rate for the six-month period ended June 30, 2022 as compared to the same period of 2021 is primarily a result of taxable income being higher in the current period, which reduces the relative impact of the tax-exempt income.

Note 11 – Investment in Securities

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

	June 30, 2022			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 338,618	$ 1,125	$ 18,358	$ 321,385
Mortgage-backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	205,229	4	21,725	183,508
Corporate bonds	96,460	—	9,686	86,774
U.S. treasury bonds	99,516	—	954	98,562
Asset backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	52,104	—	2,259	49,845
Total	$ 791,927	$ 1,129	$ 52,982	$ 740,074

	December 31, 2021			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
State and political subdivisions	$ 359,187	$ 12,931	$ 990	$ 371,128
Mortgage-backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	170,711	135	2,200	168,646
Corporate bonds	84,538	72	272	84,338
Asset backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	49,835	—	494	49,341
Total	$ 664,271	$ 13,138	$ 3,956	$ 673,453

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

	June 30, 2022					
	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	$ 177,339	$ 18,358	$ —	$ —	$ 177,339	$ 18,358
Mortgage-backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	163,657	19,123	15,095	2,602	178,752	21,725
Corporate bonds	81,774	9,686	—	—	81,774	9,686
U.S. treasury bonds	98,562	954	—	—	98,562	954
Asset backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	49,845	2,259	—	—	49,845	2,259
Total	$ 571,177	$ 50,380	$ 15,095	$ 2,602	$ 586,272	$ 52,982

(In thousands)	December 31, 2021					
	Less than 12 months		12 months or more		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
State and political subdivisions	$ 60,083	$ 990	$ —	$ —	$ 60,083	$ 990
Mortgage-backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	163,652	2,200	—	—	163,652	2,200
Corporate bonds	55,120	272	—	—	55,120	272
Asset backed securities issued or guaranteed by U.S. government agencies or sponsored enterprises	49,341	494	—	—	49,341	494
Total	$ 328,196	$ 3,956	$ —	$ —	$ 328,196	$ 3,956

There were 226 securities, or 63% (4 greater than 12 months), in an unrealized loss position as of June 30, 2022. The unrealized losses at June 30, 2022 were primarily attributable to changes in market interest rates after the securities were purchased. There were 101 securities, or 28% (0 greater than 12 months), in an unrealized loss position as of December 31, 2021. At June 30, 2022 and December 31, 2021, the Company had not recorded an allowance for credit losses on securities.

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

(In thousands)	June 30, 2022	
	Amortized Cost	Fair Value
Due in 1 year or less	$ 17,426	$ 17,524
Due after 1 year through 5 years	242,236	240,649
Due after 5 years through 10 years	233,362	218,004
Due after 10 years	298,903	263,897
Total	$ 791,927	$ 740,074

Proceeds from sales of investment securities classified as available-for-sale were $1,521,000 for both the three and six months ended June 30, 2022 and $10,125,000 and $13,116,000 for the three and six months ended June 30, 2021, respectively. Gross realized gains were $2,000 for both the three and six months ended June 30, 2022. Gross realized losses were $3,000 for the three months ended June 30, 2021 while for the six months ended June 30, 2021, there were gross realized gains of $45,000. There were no securities pledged to secure public deposits and for other purposes at June 30, 2022.

Note 12 – Fair Value of Financial Instruments

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

	June 30, 2022		December 31, 2021	
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Balance sheet assets:				
Cash and cash equivalents	$ 261,234	$ 261,234	$ 514,928	$ 514,928
Investment securities	740,074	740,074	673,453	673,453
Loans, net	946,914	928,347	948,526	948,701
Accrued interest receivable	7,251	7,251	6,799	6,799
Total	$ 1,955,473	$ 1,936,906	$ 2,143,706	$ 2,143,881
Balance sheet liabilities:				
Deposits	$ 1,189,575	$ 1,189,575	$ 1,221,503	$ 1,221,503
Accounts and drafts payable	998,870	998,870	1,050,396	1,050,396
Accrued interest payable	29	29	16	16
Total	$ 2,188,474	$ 2,188,474	$ 2,271,915	$ 2,271,915

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

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

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

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

Accrued Interest Receivable - The carrying amount approximates fair value.

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

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

Accrued Interest Payable - The carrying amount approximates fair value.

Note 13 – Revenue from Contracts with Customers

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

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

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

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

(In thousands)	For the Three Months Ended June 30, 2022	For the Three Months Ended June 30, 2021	For the Six Months Ended June 30, 2022	For the Six Months Ended June 30, 2021
Fee revenue and other income				
In-scope of FASB ASC 606				
Processing fees	$ 19,326	$ 19,048	$ 38,362	$ 37,423
Financial fees	10,623	7,500	21,155	14,497
Information services payment and processing revenue	29,949	26,548	59,517	51,920
Bank service fees	424	330	853	668
Fee revenue (in-scope of FASB ASC 606)	30,373	26,878	60,370	52,588
Other income (out-of-scope of FASB ASC 606)	278	109	711	574
Total fee revenue and other income	$ 30,651	$ 26,987	$ 61,081	$ 53,162

Note 14 – Leases

The Company leases certain premises under operating leases. As of June 30, 2022, the Company had lease liabilities of $9,665,000 and right-of-use assets of $9,308,000. Lease liabilities and right-of-use assets are reflected in other liabilities and other assets, respectively. Presented within occupancy expense on the Consolidated Statements of Income for the three and six months ended June 30, 2022, operating lease cost was $399,000 and $798,000, respectively, short-term lease cost was $53,000 and $105,000, respectively, and there was no variable lease cost. At June 30, 2022, the weighted-average remaining lease term for the operating leases was 7.7 years and the weighted-average discount rate used in the measurement of operating lease liabilities was 4.42%. Certain of the Company's leases contain options to renew the lease; however, these renewal options are not included in the calculation of the lease liabilities as they are not reasonably certain to be exercised. See the Company's 2021 Annual Report on Form 10-K for information regarding these commitments.

A maturity analysis of operating lease liabilities and undiscounted cash flows as of June 30, 2022 is as follows:

(In thousands)	June 30, 2022
Lease payments due	
Less than 1 year	$ 1,581
1-2 years	1,218
2-3 years	1,210
3-4 years	1,232
4-5 years	1,212
Over 5 years	4,767
Total undiscounted cash flows	11,220
Discount on cash flows	1,555
Total lease liability	$ 9,665

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the six months ended June 30, 2022.

Note 15 – Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, the Company has evaluated subsequent events after the consolidated balance sheet date of June 30, 2022. There were no events identified that would require additional disclosures to prevent the Company's unaudited consolidated financial statements from being misleading.

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

Impact of COVID-19 on the Company's Business

On March 11, 2020, the World Health Organization ("WHO") declared the outbreak of COVID-19 as a global pandemic. While the impact of COVID-19 is significantly lessened from March 2020, the ongoing impact, including restrictions imposed to combat its spread, could result in additional and prolonged business closures, supply chain disruptions, work restrictions and activity restrictions. The Company continues to closely monitor developments related to COVID-19 and remains subject to heightened business, operational, market, credit and other risks which may have an adverse effect on its 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, Greenville, South Carolina, Wellington, Kansas, Jacksonville, Florida, Breda, Netherlands, Basingstoke, United Kingdom, and Singapore. The Company's services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays energy invoices, which include electricity and gas as well as waste and telecommunications expenses, and is a provider of telecom expense management solutions. Cass solutions include a B2B payment platform for clients that require an agile fintech partner. Additionally, the Company offers an on-line platform to provide generosity services for faith-based and non-profit organizations. The Company's bank subsidiary, the "Bank," supports the Company's payment operations. The Bank also provides banking services to its target markets, which include privately-owned businesses and faith-based ministries in the St. Louis metropolitan area as well as other selected cities in the United States.

The specific payment and information processing services provided to each customer are developed individually to meet each customer's requirements, which can vary greatly. In addition, the degree of automation such as electronic data interchange, imaging, work flow, and web-based solutions varies greatly among customers and industries. These factors combine so that pricing varies greatly among the customer base. In general, however, Cass is compensated for its processing services through service fees and investment of account balances generated during the payment process. The amount, type, and calculation of service fees vary greatly by service offering, but generally follow the volume of transactions processed. The Company also earns financial fees on a transaction level basis for invoice payment services when making customer payments. Financial fees include interchange revenue, foreign exchange fees and fees received through early payment of invoices. Fees are recognized at the point in time when the payment transactions are made, which is when the performance obligation is satisfied. 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, advances to payees, 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 2021 Annual Report on Form 10-K, a decline in the general level of interest rates can have a negative impact on net interest income and conversely, a rise in the general level of interest rates can have a positive impact on net interest income. The cost of fuel is another factor that has a significant impact on the transportation sector. As the price of fuel goes up or down, the Company's earnings increase or decrease with the dollar amount of transportation invoices.

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

Critical Accounting Policies

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

Allowance for Credit Losses. The Company performs periodic and systematic detailed reviews of its loan portfolio to determine management's estimate of the lifetime expected credit losses. Although these estimates are based on established methodologies for determining allowance requirements, actual results can differ significantly from estimated results. These policies affect both segments of the Company. The impact and associated risks related to these policies on the Company's business operations are discussed in the "Provision and Allowance for Credit Losses and Allowance for Unfunded Commitments" section of this report.

Results of Operations

The following paragraphs more fully discuss the results of operations and changes in financial condition for the three-month period ended June 30, 2022 ("Second Quarter of 2022") compared to the three-month period ended June 30, 2021 ("Second Quarter of 2021") and the six-month period ended June 30, 2022 ("First Half of 2022") compared to the six-month period ended June 30, 2021 ("First Half of 2021").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 2021 Annual Report on Form 10-K. Results of operations for the Second Quarter of 2022 are not necessarily indicative of the results to be attained for any other period.

Net Income

The following table summarizes the Company's operating results:

	Second Quarter of			First Half of		
(In thousands except per share data)	**2022**	**2021**	**% Change**	**2022**	**2021**	**% Change**
Net income	$ 8,562	$ 7,026	21.9 %	$ 16,820	$ 14,097	19.3 %
Diluted earnings per share	$ .62	$ .48	29.2 %	1.22	.97	25.8 %
Return on average assets	1.31 %	1.24 %	—	1.32 %	1.27 %	— %
Return on average equity	16.53 %	10.83 %	—	15.30 %	10.96 %	— %

Fee Revenue and Other Income

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

	Second Quarter of			First Half of		
(In thousands)	2022	2021	% Change	2022	2021	% Change
Transportation invoice volume	9,289	9,461	(1.8)%	18,247	18,248	— %
Transportation invoice dollar volume	$ 11,413,414	$ 8,940,889	27.7 %	$ 22,268,594	$ 16,845,528	32.2 %
Facility-related transaction volume*	6,557	6,827	(4.0)%	13,198	13,823	(4.5)%
Facility-related dollar volume*	$ 4,570,178	$ 3,657,965	24.9 %	$ 9,214,120	$ 7,375,393	24.9 %
Average payments in advance of funding	$ 293,150	$ 197,855	48.2 %	$ 286,352	$ 187,632	52.6 %
Processing fees	$ 19,326	$ 19,048	1.5 %	$ 38,362	$ 37,423	2.5 %
Financial fees	$ 10,623	$ 7,500	41.6 %	$ 21,155	$ 14,497	45.9 %

*Includes energy, telecom and environmental

Second Quarter of 2022 compared to Second Quarter of 2021:

Financial fee revenue increased 41.6%, primarily attributable to the 27.7% and 24.9% increases in transportation and facility-related dollar volumes, respectively. The increase in dollar volumes contributed to a 48.2% increase in average payments in advance of funding, which is a significant driver of financial fee revenue. The significant increase in transportation invoice dollar volume was driven by inflationary pressures, supply chain disruptions and fuel surcharges, among other factors. Facility-related invoices decreased 4% while dollar volume increased 24.9%. The increase in facility-related dollar volume is primarily due to rising energy prices.

First Half of 2022 compared to First Half of 2021:

Financial fee revenue increased 45.9%, primarily attributable to the 32.2% and 24.9% increases in transportation and facility-related dollar volumes, respectively. The increase in dollar volumes contributed to a 52.6% increase in average payments in advance of funding.

Net Interest Income

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

	Second Quarter of			First Half of		
(In thousands)	2022	2021	% Change	2022	2021	% Change
Average earnings assets	$ 2,222,653	$ 1,968,646	12.9 %	$ 2,173,060	$ 1,930,234	12.6 %
Average interest-bearing liabilities	605,861	596,744	1.5 %	599,494	574,947	4.3 %
Net interest income*	14,077	11,298	24.6 %	26,426	22,105	19.5 %
Net interest margin*	2.54 %	2.30 %		2.45 %	2.31 %	
Yield on earning assets*	2.60 %	2.36 %		2.50 %	2.37 %	
Rate on interest-bearing liabilities	.22 %	.20 %		.19 %	.22 %	

*Presented on a tax-equivalent basis assuming a tax rate of 21% for both 2022 and 2021.

Second Quarter of 2022 compared to Second Quarter of 2021:

Average earning assets increased $254,007,000, or 12.9%. The overall increase in average interest-earning asset balances was primarily due to increases in average investments and loans, partially offset by a decrease in average short-term investments.

Average investment securities increased $325,412,000, or 68.9%, as cash provided by increases in funding sources was utilized to purchase investment securities. The average yield on taxable investment securities increased 60 basis points to 1.78% as a result of the increase in short and long-term interest rates. The average yield on tax-exempt investment securities declined one basis point to 2.93%. These securities are longer term fixed rate and do not reprice as quickly in a rising interest rate environment.

Average loans increased $72,252,000 as organic growth in franchise, faith-based and other commercial and industrial loans more than offset a $102,175,000 reduction in average PPP loans. The average yield on loans declined 12 basis points to 3.75% primarily due to a $688,000 decrease in PPP loan fees, partially offset by the increase in short-term interest rates beginning in March 2022.

The average balance of short-term investments decreased $143,657,000, or 24.2%, as available funds were deployed into investment securities and loans. The average yield on short-term investments increased 77 basis points to 0.85% primarily due to the increase in short-term interest rates beginning in March 2022.

Average accounts and drafts payable increased $187,517,000, or 19.8%, for the Second Quarter of 2022 compared to the Second Quarter of 2021. The increase in average accounts and drafts payable was primarily driven by inflationary pressures, supply chain disruptions and fuel surcharges, which continue to drive prices higher.

Average demand deposits increased $203,832,000, or 48.5%. The increase was driven by significant liquidity in the economy resulting in higher deposit balances.

Tax-equivalent net interest income increased $2,779,000, or 24.6%, compared to the same period in the prior year driven by the 12.9% increase in average interest-earning assets and 24 basis point increase in the net interest margin from 2.30% to 2.54%. The increase in the net interest margin was driven by the increase in short-term interest rates which positively impacts the Company's net interest margin over time as average interest-earning assets of $2,222,653,000 greatly exceed average interest-bearing liabilities of $605,861,000.

First Half of 2022 compared to First Half of 2021:

Average earning assets increased $242,826,000, or 12.6%. The overall increase in average interest-earning asset balances was primarily due to increases in average investments and loans, partially offset by a decrease in average short-term investments.

Average investment securities increased $322,350,000, or 76.4%. The average yield on taxable investment securities increased 55 basis points to 1.66% as a result of the increase in short and long-term interest rates. The average yield on tax-exempt investment securities declined nine basis points to 2.92%.

Average loans increased $75,423,000, or 8.5%, for the First Half of 2022 compared to the First Half of 2021. The average yield on loans declined 18 basis points to 3.73% primarily due to a $1,343,000 decrease in PPP loan fees, partially offset by the increase in short-term interest rates beginning in March 2022.

Average short-term investments decreased $154,947,000, or 25.1%. The average yield on short-term investments increased 42 basis points to 0.51% primarily due to the increase in short-term interest rates beginning in March 2022.

Average accounts and drafts payable increased $188,615,000, or 20.4%, and average interest-bearing liabilities increased $24,547,000, or 4.3%.

Tax-equivalent net interest income increased $4,321,000, or 19.5%, compared to the same period in the prior year driven by the 12.6% increase in average interest-earning assets and 14 basis point increase in the net interest margin from 2.31% to 2.45%.

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 for each category of interest-earning assets and interest-bearing liabilities, and the average yield on such categories of interest-earning assets and the average rates paid on such categories of interest-bearing liabilities for each of the periods reported.

(In thousands)	Second Quarter of 2022 Average Balance	Second Quarter of 2022 Interest Income/ Expense	Second Quarter of 2022 Yield/ Rate	Second Quarter of 2021 Average Balance	Second Quarter of 2021 Interest Income/ Expense	Second Quarter of 2021 Yield/ Rate
Assets[1]						
Interest-earning assets						
Loans[2]:						
Taxable	$ 973,871	$ 9,107	3.75 %	$ 901,619	$ 8,696	3.87 %
Investment securities[3]:						
Taxable	513,474	2,275	1.78 %	156,057	458	1.18 %
Tax-exempt[4]	284,366	2,075	2.93 %	316,371	2,319	2.94 %
Short-term investments	450,942	959	0.85 %	594,599	122	0.08 %
Total interest-earning assets	2,222,653	14,416	2.60 %	1,968,646	11,595	2.36 %
Non-interest-earning assets						
Cash and due from banks	19,088			20,565		
Premises and equipment, net	19,345			17,848		
Bank-owned life insurance	47,267			17,693		
Goodwill and other intangibles	18,089			17,382		
Other assets	302,195			247,983		
Allowance for credit losses	(12,417)			(11,715)		
Total assets	$ 2,616,220			$ 2,278,402		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand deposits	$ 550,938	$ 266	0.19 %	$ 525,286	$ 136	0.10 %
Savings deposits	12,894	3	0.09 %	17,772	2	0.05 %
Time deposits >= $100	16,926	36	0.85 %	22,841	68	1.19 %
Other time deposits	25,082	34	0.54 %	30,835	91	1.18 %
Total interest-bearing deposits	605,840	339	0.22 %	596,734	297	0.20 %
Short-term borrowings	21	—	— %	10	—	— %
Total interest-bearing liabilities	605,861	339	0.22 %	596,744	297	0.20 %
Non-interest bearing liabilities						
Demand deposits	623,904			420,072		
Accounts and drafts payable	1,135,504			947,987		
Other liabilities	43,123			53,482		
Total liabilities	2,408,392			2,018,285		
Shareholders' equity	207,828			260,117		
Total liabilities and shareholders' equity	$ 2,616,220			$ 2,278,402		
Net interest income		$ 14,077			$ 11,298	
Net interest margin			2.54 %			2.30 %
Interest spread			2.38 %			2.16 %

1. Balances shown are daily averages.
2. Interest income on loans includes net loan fees of $176,000 and $868,000 for the Second Quarter of 2022 and 2021, respectively. The decrease in net loan fees is due to higher PPP fees in 2021.
3. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for both 2022 and 2021. The tax-equivalent adjustment was approximately $436,000 and $487,000 for the Second Quarter of 2022 and 2021, respectively.

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(In thousands)	First Half of 2022 Average Balance	First Half of 2022 Interest Income/ Expense	First Half of 2022 Yield/ Rate	First Half of 2021 Average Balance	First Half of 2021 Interest Income/ Expense	First Half of 2021 Yield/ Rate
Assets[1]						
Interest-earning assets						
Loans[2]:						
Taxable	$ 966,900	$ 17,884	3.73 %	$ 891,477	$ 17,283	3.91 %
Investment securities[3]:						
Taxable	454,681	3,732	1.66 %	119,604	656	1.11 %
Tax-exempt[4]	289,729	4,198	2.92 %	302,456	4,520	3.01 %
Short-term investments	461,750	1,174	0.51 %	616,697	274	0.09 %
Total interest-earning assets	2,173,060	26,988	2.50 %	1,930,234	22,733	2.37 %
Non-interest-earning assets:						
Cash and due from banks	20,924			20,455		
Premises and equipment, net	19,027			17,958		
Bank-owned life insurance	45,228			17,806		
Goodwill and other intangibles	17,434			17,490		
Other assets	309,044			239,636		
Allowance for credit losses	(12,232)			(11,835)		
Total assets	$ 2,572,485			$ 2,231,744		
Liabilities and Shareholders' Equity[1]						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$ 540,771	$ 402	0.15 %	$ 500,388	$ 287	0.12 %
Savings deposits	15,178	5	0.07 %	19,775	5	0.05 %
Time deposits >= $100	17,424	78	0.90 %	23,668	185	1.58 %
Other time deposits	26,111	77	0.59 %	31,106	151	0.98 %
Total interest-bearing deposits	599,484	562	0.19 %	574,937	628	0.22 %
Short-term borrowings	10	—	— %	10	—	— %
Total interest-bearing liabilities	599,494	562	0.19 %	574,947	628	0.22 %
Non-interest bearing liabilities:						
Demand deposits	599,122			419,013		
Accounts and drafts payable	1,111,935			923,320		
Other liabilities	40,237			55,054		
Total liabilities	2,350,788			1,972,334		
Shareholders' equity	221,697			259,410		
Total liabilities and shareholders' equity	$ 2,572,485			$ 2,231,744		
Net interest income		$ 26,426			$ 22,105	
Net interest margin			2.45 %			2.31 %
Interest spread			2.31 %			2.15 %

1. Balances shown are daily averages.
2. Interest income on loans includes net loan fees of $401,000 and $1,769,000 for the First Half of 2022 and 2021, respectively. The decrease in net loan fees is due to higher PPP fees in 2021.
3. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for both the First Half of 2022 and 2021. The tax-equivalent adjustment was approximately $882,000 and $949,000 for the First Half of 2022 and 2021, respectively.

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Analysis of Net Interest Income Changes

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

	Second Quarter of 2022 Compared to Second Quarter of 2021		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1]:			
Taxable	$ 681	$ (270)	$ 411
Investment securities:			
Taxable	1,486	331	1,817
Tax-exempt[2]	(234)	(10)	(244)
Short-term investments	(36)	873	837
Total interest income	1,897	924	2,821
Interest expense on:			
Interest-bearing demand deposits	7	123	130
Savings deposits	(1)	2	1
Time deposits >=$100	(15)	(17)	(32)
Other time deposits	(15)	(42)	(57)
Total interest expense	(24)	66	42
Net interest income	$ 1,921	$ 858	$ 2,779

1. Interest income includes net loan fees.
2. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for the Second Quarter of 2022 and 2021.

	First Half of 2022 Compared to First Half of 2021		
(In thousands)	**Volume**	**Rate**	**Total**
Increase (decrease) in interest income:			
Loans[1]:			
Taxable	$ 1,419	$ (818)	$ 601
Investment securities:			
Taxable	2,612	465	$ 3,077
Tax-exempt[2]	(187)	(136)	$ (323)
Short-term investments	(85)	985	$ 900
Total interest income	3,759	496	4,255
Interest expense on:			
Interest-bearing demand deposits	25	90	$ 115
Savings deposits	(1)	1	$ —
Time deposits >=$100	(41)	(66)	$ (107)
Other time deposits	(21)	(53)	$ (74)
Total interest expense	(38)	(28)	(66)
Net interest income	$ 3,797	$ 524	$ 4,321

1. Interest income includes net loan fees.
2. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21% for the First Half of 2022 and 2021.

Provision and Allowance for Credit Losses and Allowance for Unfunded Commitments

The Company recorded a provision for credit losses and off-balance sheet credit exposures of $70,000, and release of credit losses of $610,000 in the Second Quarter of 2022 and 2021, respectively. The Company recorded a provision for credit losses and off-balance sheet credit exposures of $300,000, and release of credit losses of $1,210,000 in the First Half of 2022 and 2021, respectively. The amount of the provision for (release of) credit losses is derived from the Company's quarterly Current Expected Credit Loss ("CECL") model. The amount of the provision for (release of) credit losses will fluctuate as determined by these quarterly analyses. The provision for credit losses in the Second Quarter of 2022 and the First Half of 2022 was primarily driven by external economic factors, including the reduction in the forecast of Gross Domestic Product..

The Company experienced net loan recoveries of $12,000 in the Second Quarter of 2022 and none in the Second Quarter of 2021. Net loan recoveries were $12,000 and $17,000 in the First Half of 2022 and 2021, respectively.

The ACL was $12,573,000 at June 30, 2022 compared to $12,041,000 at December 31, 2021. The ACL represented 1.31% of outstanding loans at June 30, 2022 and 1.25% of outstanding loans at December 31, 2021. The allowance for unfunded commitments was $147,000 at June 30, 2022 and $367,000 at December 31, 2021. There were no nonperforming loans outstanding at June 30, 2022 or December 31, 2021.

The ACL has been established and is maintained to estimate the lifetime expected credit losses in the loan portfolio. An ongoing assessment is performed to determine if the balance is adequate. Charges or credits are made to expense based on changes in the economic forecast, qualitative risk factors, loan volume, and individual loans. For loans that are individually evaluated, the Company uses two impairment measurement methods: 1) the present value of expected future cash flows and 2) collateral value.

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

Summary of Credit Loss Experience

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

	Second Quarter of		First Half of	
(In thousands)	2022	2021	2022	2021
Allowance for credit losses at beginning of period	$ 12,406	$ 11,721	$ 12,041	$ 11,944
Provision for (release of) credit losses	155	(550)	520	(790)
Loans charged off	—	—	—	—
Recoveries on loans previously charged off	12	—	12	17
Net recoveries	12	—	12	17
Allowance for credit losses at end of period	$ 12,573	$ 11,171	$ 12,573	$ 11,171
Allowance for unfunded commitments at beginning of Period	$ 232	$ 207	$ 367	$ 567
Release of credit losses	(85)	(60)	(220)	(420)
Allowance for unfunded commitments at end of period	$ 147	$ 147	147	147
Loans outstanding:				
Average	$ 973,871	$ 901,619	$ 966,900	$ 891,477
June 30	959,487	871,020	959,487	871,020
Ratio of ACL to loans outstanding:				
Average	1.29 %	1.24 %	1.30 %	1.25 %
June 30	1.31 %	1.28 %	1.31 %	1.28 %

Operating Expenses

Total operating expenses for the Second Quarter of 2022 increased $3,836,000, or 12.9%, compared to the Second Quarter of 2021. Total operating expenses for the First Half of 2022 increased $7,139,000, or 12.2%, compared to the First Half of 2021. The following table details the components of operating expenses:

	Second Quarter of		First Half of	
(In thousands)	**2022**	**2021**	**2022**	**2021**
Personnel	$ 26,033	$ 22,880	$ 50,751	$ 45,406
Occupancy	916	959	1,831	1,906
Equipment	1,660	1,653	3,371	3,328
Amortization of intangible assets	155	214	290	429
Other operating	4,875	4,097	9,224	7,259
Total operating expense	$ 33,639	$ 29,803	$ 65,467	$ 58,328

Personnel costs increased 13.8% and 11.8% for the three and six months ended June 30, 2022, respectively. The increase for the Second Quarter of 2022 of $3,153,000 was due to an increase in base salaries and an increase in stock compensation and profit sharing of $1,007,000 and $346,000, respectively, due to improved Company earnings. In addition, the Company continues to make a strategic investment in various technology initiatives, including rating engine capabilities and investment in optical character recognition, artificial intelligence, machine learning and other processes to read images and produce data. The increase for the First Half of 2022 of $5,345,000 was driven by the same factors as the increase in the Second Quarter of 2022, including an increase in stock compensation and profit sharing of $1,652,000 and $611,000, respectively.

Other operating expenses increased during the Second Quarter of 2022 and First Half of 2022 primarily due to higher levels of data processing, legal, employee procurement, business development and travel expenses.

Financial Condition

Total assets at June 30, 2022 were $2,443,988,000, a decrease of $110,913,000, or 4.3%, from December 31, 2021. The Company experienced a decrease in cash and cash equivalents of $253,694,000, or 49.3%. The change in cash and cash equivalents reflects the Company's daily liquidity position and is primarily affected by changes in funding sources, mainly accounts and drafts payable and deposits, cash flows in and out of loans, investments securities and payments in advance of funding. The investment securities portfolio increased $66,621,000, or 9.9%, during the First Half of 2022 due to the deployment of funds in various investment securities. Payments in advance of funding increased $21,745,000, or 7.5%, due to an increase in transportation dollars processed.

Total liabilities at June 30, 2022 were $2,238,374,000, a decrease of $70,729,000, or 3.1%, from December 31, 2021. Total deposits at June 30, 2022 were $1,189,575,000, a decrease of $31,928,000, or 2.6%, from December 31, 2021. Accounts and drafts payable at June 30, 2022 were $998,870,000, a decrease of $51,526,000, or 4.9%, from December 31, 2021. 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).

Total shareholders' equity at June 30, 2022 was $205,614,000, a $40,184,000, or 16.3%, decrease from December 31, 2021. Total shareholders' equity decreased due to a change in accumulated other comprehensive loss of $46,265,000 as a result of rising interest rates and the negative impact on the fair value of existing investment securities, share repurchases of $5,299,000, and dividends paid of $7,654,000. These decreases were partially offset by net income of $16,820,000.

Liquidity and Capital Resources

The discipline of liquidity management as practiced by the Company seeks to ensure that funds are available to fulfill all payment obligations relating to invoices processed as they become due and meet depositor withdrawal requests and borrower credit demands while at the same time maximizing profitability. This is accomplished by balancing changes in demand for funds with changes in supply of funds. Primary liquidity to meet demand is provided by short-term liquid assets that can be converted to cash, maturing securities and the ability to obtain funds from external sources.

The balance of liquid assets consists of cash and cash equivalents, which include cash and due from banks, interest-bearing deposits in other financial institutions, federal funds sold and money market funds. Cash and cash equivalents totaled $261,234,000 at June 30, 2022, a decrease of $253,694,000, or 49.3%, from December 31, 2021. At June 30, 2022, these assets represented 10.7% of total assets. These funds are the Company’s and its subsidiaries’ primary source of liquidity to meet future expected and unexpected loan demand, depositor withdrawals or reductions in accounts and drafts payable.

Secondary sources of liquidity include the investment portfolio and borrowing lines. Total investment in securities was $740,074,000 at June 30, 2022, an increase of $66,621,000 from December 31, 2021. These assets represented 30.3% of total assets at June 30, 2022. Of the total portfolio, 2.4% mature in one year, 32.5% mature in one to five years, and 65.1% mature in five or more years.

The Bank has unsecured lines of credit at six correspondent banks to purchase federal funds up to a maximum of $83,000,000 in aggregate. As of June 30, 2022, the Bank also has secured lines of credit with the Federal Home Loan Bank of $236,073,000 collateralized by commercial mortgage loans. The Company also has secured lines of credit from two banks up to a maximum of $150,000,000 collateralized by state and political subdivision securities. There were no amounts outstanding under any line of credit as of June 30, 2022 or December 31, 2021.

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 $25,705,000 of CDARS deposits and interest-bearing demand deposits include $125,819,000 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 $31,062,000 for the First Half of 2022, compared to $21,759,000 for the First Half of 2021, an increase of $9,303,000. 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 2022, which are estimated to range from $4 million to $6 million.

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

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

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

The overall level of economic activity can have a significant impact on the Company's ability to generate revenues and income, as the volume and size of customer invoices processed may increase or decrease. Higher levels of economic activity increase both fee income (as more invoices are processed) and balances of accounts and drafts payable. Lower levels of economic activity, such as those previously experienced by the Company as a result of COVID-19 and governmental actions related thereto, decrease both fee income and balances of accounts and drafts payable.

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

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.

As a bank holding company, the Company and the Bank are subject to capital requirements pursuant to the FRB's capital guidelines which include (i) risk-based capital guidelines, which are designed to make capital requirements more sensitive to various risk profiles and account for off-balance sheet exposure; (ii) guidelines that consider market risk, which is the risk of loss due to change in value of assets and liabilities due to changes in interest rates; and (iii) guidelines that use a leverage ratio which places a constraint on the maximum degree of risk to which a financial holding company may leverage its equity capital base.

The Basel III Capital Rules require banking organizations, like Cass, to maintain:

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

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

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 credit losses limited to a maximum of 1.25% of risk-weighted assets and, for non-advanced approaches institutions like Cass that have exercised a one-time opt-out election regarding the treatment of Accumulated Other Comprehensive Income ("AOCI"), 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.

The calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. For instance, the Basel III Capital Rules and the Capital Simplification Rules provide for a number of deductions from and adjustments to common equity Tier 1 capital. These include, for example, the requirement that certain deferred tax assets and significant investments in non-consolidated financial entities be deducted from Tier 1 capital to the extent that any one such category exceeds 25% of common equity Tier 1 capital.

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

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

	June 30, 2022		December 31, 2021	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 242,123	14.21 %	$ 240,265	14.86 %
Cass Commercial Bank	180,360	17.29 %	174,614	17.21 %
Common equity tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 229,549	13.47 %	$ 228,224	14.11 %
Cass Commercial Bank	168,243	16.13 %	163,030	16.07 %
Tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 229,549	13.47 %	$ 228,224	14.11 %
Cass Commercial Bank	168,243	16.13 %	163,030	16.07 %
Tier I capital (to leverage assets)				
Cass Information Systems, Inc.	$ 229,549	8.85 %	$ 228,224	9.21 %
Cass Commercial Bank	168,243	10.47 %	163,030	11.05 %

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

There are no new accounting pronouncements that are applicable to the company and/or do not materially impact the Company.

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, 2021, 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.

	% change in projected net interest income	
	June 30, 2022	December 31, 2021
+200 basis points	11.6 %	20.6 %
+100 basis points	5.4 %	10.2 %
Flat rates	— %	— %
-100 basis points	(5.2)%	(2.5)%

ITEM 4. CONTROLS AND PROCEDURES

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

There were no changes in the Second Quarter of 2022 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, 2021, 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 2021 Annual Report on Form 10-K.

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

During the three months ended June 30, 2022, the Company repurchased a total of 5,500 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
April 1, 2022–April 30, 2022	5,500	$ 38.75	5,500	340,707
May 1, 2022–May 31, 2022	—	—	—	340,707
June 1, 2022–June 30, 2022	—	—	—	340,707
Total	5,500	$ 38.75	5,500	340,707

(1) All repurchases made during the quarter ended June 30, 2022 were made pursuant to the treasury stock buyback program, authorized by the Board of Directors on October 19, 2021 and announced by the Company on October 21, 2021. The program provides that the Company may repurchase up to an aggregate of 750,000 shares of common stock and has no expiration date.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) None.
(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors implemented in the Second Quarter of 2022.

ITEM 6. EXHIBITS

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

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

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

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

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

Exhibit 101.SCH Inline XBRL Taxonomy Extension Schema Document.

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

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

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

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

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

SIGNATURES

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

CASS INFORMATION SYSTEMS, INC.

DATE: August 5, 2022	By	/s/ Eric H. Brunngraber
		Eric H. Brunngraber Chairman and Chief Executive Officer (Principal Executive Officer)
DATE: August 5, 2022	By	/s/ Michael J. Normile
		Michael J. Normile Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, Eric H. Brunngraber, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 5, 2022

/s/ Eric H. Brunngraber

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

Exhibit 31.2

CERTIFICATIONS

I, Michael J. Normile, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 5, 2022

/s/ Michael J. Normile

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

Exhibit 32.1

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

In connection with the Quarterly Report of Cass Information Systems, Inc. ("the Company") on Form 10-Q for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric H. Brunngraber, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Eric H. Brunngraber

Eric H. Brunngraber
Chairman and Chief Executive Officer
(Principal Executive Officer)
August 5, 2022

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

Exhibit 32.2

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

In connection with the Quarterly Report of Cass Information Systems, Inc. (“the Company”) on Form 10-Q for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Michael J. Normile, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Michael J. Normile

Michael J. Normile
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
August 5, 2022

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.