UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2021

OR

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

For the transition period from __________ to __________

Commission File No. 000-20827

CASS INFORMATION SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

Yes ☒ No ☐

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

Yes ☒ No ☐

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

Large Accelerated Filer ☐ Accelerated Filer ☒

Non-Accelerated Filer ☐ Smaller Reporting Company ☐ Emerging Growth Company ☐

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

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

Yes ☐ No ☒

The number of shares outstanding of the registrant's only class of common stock as of April 22, 2021: Common stock, par value $.50 per share – 14,400,909 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 2020 Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC"), which may be updated from time to time in our future filings with the SEC. We undertake no obligation to publicly update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, or changes to future results over time.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2021 (Unaudited)	December 31, 2020
Assets		
Cash and due from banks	$ 25,291	$ 30,985
Interest-bearing deposits in other financial institutions	444,624	393,810
Federal funds sold and other short-term investments	129,744	245,733
Cash and cash equivalents	599,659	670,528
Securities available-for-sale, at fair value	427,244	357,726
Loans	888,575	891,676
Less: Allowance for credit losses	11,721	11,944
Loans, net	876,854	879,732
Payments in excess of funding	216,475	194,563
Premises and equipment, net	17,825	18,057
Investment in bank-owned life insurance	17,646	18,058
Goodwill	14,262	14,262
Other intangible assets, net	3,208	3,423
Other assets	43,400	46,886
Total assets	$ 2,216,573	$ 2,203,235
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$ 424,859	$ 493,504
Interest-bearing	578,276	557,352
Total deposits	1,003,135	1,050,856
Accounts and drafts payable	897,508	835,386
Other liabilities	56,443	55,833
Total liabilities	1,957,086	1,942,075
Shareholders' Equity:		
Preferred stock, par value $.50 per share; 2,000,000 shares authorized and no shares issued	—	—
Common stock, par value $.50 per share; 40,000,000 shares authorized and 15,505,772 shares issued at March 31, 2021 and December 31, 2020	7,753	7,753
Additional paid-in capital	202,828	204,875
Retained earnings	102,247	99,062
Common shares in treasury, at cost (1,106,941 shares at March 31, 2021 and 1,113,103 shares at December 31, 2020)	(49,949)	(50,515)
Accumulated other comprehensive loss	(3,392)	(15)
Total shareholders' equity	259,487	261,160
Total liabilities and shareholders' equity	$ 2,216,573	$ 2,203,235

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Fee Revenue and Other Income:		
Information services payment and processing revenue	$ 25,216	$ 25,503
Bank service fees	494	410
Gains on sales of securities	48	1,069
Other	417	113
Total fee revenue and other income	26,175	27,095
Interest Income:		
Interest and fees on loans	8,587	9,001
Interest and dividends on securities:		
Taxable	198	560
Exempt from federal income taxes	1,739	1,819
Interest on federal funds sold and other short-term investments	152	958
Total interest income	10,676	12,338
Interest Expense:		
Interest on deposits	331	963
Interest on short-term borrowings	—	2
Total interest expense	331	965
Net interest income	10,345	11,373
(Release of) provision for credit losses	(600)	325
Net interest income after provision for credit losses	10,945	11,048
Total net revenue	37,120	38,143
Operating Expense:		
Personnel	22,526	22,427
Occupancy	947	941
Equipment	1,675	1,635
Amortization of intangible assets	215	215
Other operating expense	3,162	3,711
Total operating expense	28,525	28,929
Income before income tax expense	8,595	9,214
Income tax expense	1,524	1,669
Net income	$ 7,071	$ 7,545
Basic earnings per share	$ .49	$ .52
Diluted earnings per share	.49	.52

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31,	
	2021	**2020**
Comprehensive Income:		
Net income	$ 7,071	$ 7,545
Other comprehensive (loss) income:		
Net unrealized (loss) gain on securities available-for-sale	(4,214)	578
Tax effect	1,003	(138)
Reclassification adjustments for gains included in net income	(48)	(1,069)
Tax effect	11	254
Foreign currency translation adjustments	(129)	(144)
Total comprehensive income	$ 3,694	$ 7,026

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Cash Flows From Operating Activities:		
Net income	$ 7,071	$ 7,545
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,978	2,790
Gains on sales of securities	(48)	(1,069)
Stock-based compensation expense	693	722
(Release of) provision for credit losses	(600)	325
Increase in income tax liability	1,355	1,512
Increase in pension liability	336	1,079
Increase in accounts receivable	(237)	(105)
Other operating activities, net	5,156	5,361
Net cash provided by operating activities	16,704	18,160
Cash Flows From Investing Activities:		
Proceeds from sales of securities available-for-sale	2,991	19,629
Proceeds from maturities of securities available-for-sale	47,113	14,148
Purchase of securities available-for-sale	(125,467)	—
Net decrease (increase) in loans	3,478	(82,134
Increase in payments in excess of funding	(21,912)	(2,687)
Purchases of premises and equipment, net	(900)	(331)
Net cash used in investing activities	(94,697)	(51,375)
Cash Flows From Financing Activities:		
Net decrease in noninterest-bearing demand deposits	(68,645)	(62,865)
Net increase in interest-bearing demand and savings deposits	21,373	31,761
Net (decrease) increase in time deposits	(449)	575
Net increase in accounts and drafts payable	60,905	51,639
Net decrease in short-term borrowings	—	(18,000)
Cash dividends paid	(3,886)	(3,918)
Purchase of common shares for treasury	(1,228)	(5,508)
Other financing activities, net	(946)	(1,229)
Net cash provided by (used) in financing activities	7,124	(7,545)
Net decrease in cash and cash equivalents	(70,869)	(40,760)
Cash and cash equivalents at beginning of period	670,528	203,954
Cash and cash equivalents at end of period	$ 599,659	$ 163,194
Supplemental information:		
Cash paid for interest	$ 311	$ 964
Cash paid for income taxes	134	142

See accompanying notes to unaudited consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2020 AND 2021
(Unaudited)
(Dollars in Thousands)

(In thousands except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2019	$ 7,753	$ 205,397	$ 90,341	$ (45,381)	$ (13,920)	$ 244,190
Net income			7,545			7,545
Cash dividends ($.27 per share)			(3,918)			(3,918)
Issuance of 57,333 common shares pursuant to stock-based compensation plan, net		(2,075)		948		(1,127)
Exercise of SARs		(243)		141		(102)
Stock-based compensation expense		722				722
Purchase of 128,779 common shares				(5,508)		(5,508)
Other comprehensive loss					(519)	(519)
Balance, March 31, 2020	$ 7,753	$ 203,801	$ 93,968	$ (49,800)	$ (14,439)	$ 241,283
Balance, December 31, 2020	$ 7,753	$ 204,875	$ 99,062	$ (50,515)	$ (15)	$ 261,160
Net income			7,071			7,071
Cash dividends ($.27 per share)			(3,886)			(3,886)
Issuance of 69,374 common shares pursuant to stock-based compensation plan, net		(2,426)		1,596		(830)
Exercise of SARs		(314)		198		(116)
Stock-based compensation expense		693				693
Purchase of 31,256 common shares				(1,228)		(1,228)
Other comprehensive loss					(3,377)	(3,377)
Balance, March 31, 2021	$ 7,753	$ 202,828	$ 102,247	$ (49,949)	$ (3,392)	$ 259,487

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 footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Certain amounts in prior-period financial statements have been reclassified to conform to the current period's presentation. Such reclassifications have no effect on previously reported net income or shareholders' equity. Results for quarterly reporting periods beginning after December 31, 2020 in the Company's Form 10-Q will be presented under ASU 2016-13 while prior quarterly period amounts continue to be reported in accordance with previously applicable GAAP. 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, 2020.

Risks and Uncertainties

On March 11, 2020, the World Health Organization ("WHO") declared the outbreak of COVID-19 as a global pandemic, which continues to spread throughout the United States and around the world. The declaration of a global pandemic indicates that almost all public commerce and related business activities must be, to varying degrees, curtailed with the goal of decreasing the rate of new infections. This response to the COVID-19 pandemic has resulted in an unprecedented slow-down in economic activity and a related increase in unemployment.

In late fiscal 2020, vaccines for combatting COVID-19 were approved by health agencies and began to be administered. However, initial quantities of vaccines are limited and vaccine distributions, controlled by local authorities, are being allocated, generally first to front-line health care workers and other essential workers and next to those members of individual populations believed most susceptible to severe effects from COVID-19. The timeline of full administration of the COVID-19 vaccines is uncertain and fluctuating. The impact of COVID-19, including the impact of restrictions imposed to combat its spread, could result in additional and prolonged business closures, work restrictions and activity restrictions.

The Company is closely monitoring developments related to COVID-19 checking regularly for updated information and recommendations from the WHO and the CDC, from national, state, and local governments, and evaluating courses of action being taken by peers. The duration and severity of the effect of COVID-19 on economic, market and business conditions and the timeline and shape of recovery from the pandemic remain uncertain. At this time, the Company remains subject to heightened business, operational, market, credit and other risks related to the COVID-19 pandemic, including, but not limited to, those discussed below, which may have an adverse effect on business, financial condition and results of operations.

Financial position and results of operations - The global health crisis caused by COVID-19 has and will continue to negatively impact business activity throughout the world. The COVID-19 outbreak and associated counter-acting measures implemented by governments around the world, as well as increased business uncertainty, have had, and continue to have, an adverse impact on the Company's financial results and are discussed in more detail below. Although in various locations certain activity restrictions have been relaxed with some success, many states and localities are still experiencing high levels of COVID-19 cases, prompting continued restrictions in some locations and the need for additional aid and other forms of relief for affected individuals, businesses and other entities. When and if COVID-19 is demonstrably contained, the Company anticipates a rebound in economic activity; however, any such rebound is contingent upon the rate and effectiveness of the containment efforts deployed by federal, state, and local governments. In light of the evolving health, social, economic and business environment, governmental regulations or mandates, and business disruptions that have occurred and could continue to occur, the aggregate impact that COVID-19 could have on the Company's financial condition and operating results remains highly uncertain.

In response to COVID-19, the Federal Reserve has taken action to lower the Federal Funds rate, which has adversely affected interest income and therefore, the Company's results of operations and financial condition. The Federal Reserve has continued its commitment to this approach, indicating that the target Federal Funds rate would remain at current levels until the economy is in a more stable employment and price-stability position.

To the extent the business disruption continues for an extended period, additional cost control actions will be considered. Future asset impairment charges, increases in allowance for credit losses, or restructuring charges could be more likely and will be dependent on the severity and duration of this crisis and its effect on the Company's borrowers.

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

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

The Company maintains access to multiple sources of liquidity. If funding costs are elevated for an extended period of time, it could have an adverse effect on the Company's net interest margin. If an extended recession caused large numbers of the Bank's customers to draw down deposits, the Company might become more reliant on more expensive sources of funding.

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

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

Processes, controls and business continuity - In accord with its federally mandated Pandemic Plan and Business Continuity Plan, many Cass employees around the globe continue to work and conduct business remotely. Employees necessary to oversee certain business coordination activities or to conduct essential physical activities such as mail handling and scanning operations, remain in offices. In addition, employees are now being permitted to return to the offices on a voluntary basis. Employees are required to report any exposure or diagnosis and must adhere to the defined safety protocol to enter the offices.

In the past several years, Cass has invested in sophisticated technology initiatives that enable employees to operate remotely with full system(s) access along with unified and transparent voice and electronic communications capabilities, ensuring seamless service delivery. The Company cannot predict when or how it will fully lift the actions put in place as part of the Business Continuity Plan, including work from home requirements and travel restrictions. Cass does not believe the work from home protocol has materially adversely impacted internal controls, financial reporting systems, or operations.

Note 2 – Intangible Assets

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

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

	March 31, 2021		December 31, 2020	
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Assets eligible for amortization:				
Customer lists	$ 4,778	$ (4,012)	$ 4,778	$ (3,902)
Patents	72	(25)	72	(24)
Non-compete agreements	332	(332)	332	(332)
Software	2,844	(824)	2,844	(731)
Trade Name	190	(15)	190	(13)
Other	500	(300)	500	(291)
Unamortized intangible assets:				
Goodwill[1]	14,489	(227)	14,489	(227)
Total intangible assets	$ 23,205	$ (5,735)	$ 23,205	$ (5,520)

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

The customer lists are amortized over 7 and 10 years; the patents over 18 years; the non-compete agreements over 2 and 5 years; software over 3 years and 7 years, the trade name over 20 years and other intangible assets over 15 years. Amortization of intangible assets amounted to $215,000 for both the three-month periods ended March 31, 2021 and 2020. Estimated future amortization of intangibles is $859,000 in 2021, $540,000 in both 2022 and 2023, $498,000 in 2024, and $490,000 in 2025.

Note 3 – Earnings Per Share

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

	Three Months Ended March 31,	
(In thousands except share and per share data)	2021	2020
Basic		
Net income	$ 7,071	$ 7,545
Weighted-average common shares outstanding	14,312,260	14,422,813
Basic earnings per share	$ .49	$ .52
Diluted		
Net income	$ 7,071	$ 7,545
Weighted-average common shares outstanding	14,312,260	14,422,813
Effect of dilutive restricted stock and stock appreciation rights	220,809	207,700
Weighted-average common shares outstanding assuming dilution	14,533,069	14,630,513
Diluted earnings per share	$ .49	$ .52

Note 4 – Stock Repurchases

The Company maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to 500,000 shares of the Company's common stock. As restored by the Board of Directors in October 2020, the program provides that the Company may repurchase up to an aggregate of 500,000 shares of common stock and has no expiration date. As of March 31, 2021, 434,622 shares remained available for repurchase under the program. The Company repurchased 31,256 shares during the three-month period ended March 31, 2021 and 128,779 shares during the three-month period ended March 31, 2020. 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. The Banking Services segment provides banking services primarily to privately held businesses and faith-based ministries, including on-line generosity services, as well as supporting the banking needs of the Information Services segment.

The Company’s accounting policies for segments are the same as those described in the summary of significant accounting policies in the Company’s Annual Report on Form 10-K for the year ended December 31, 2020. Management evaluates segment performance based on tax-equivalized (as defined in the footnote to the chart on the following table) pre-tax income after allocations for corporate expenses. Transactions between segments are accounted for at what management believes to be fair value.

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

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

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

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

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

(In thousands)	Information Services	Banking Services	Corporate, Eliminations and Other	Total
Three Months Ended March 31, 2021				
Fee income	$ 24,977	$ 638	$ 560	$ 26,175
Interest income*	5,509	5,751	(122)	11,138
Interest expense	—	331	—	331
Intersegment income (expense)	—	623	(623)	—
Tax-equivalized pre-tax income*	6,013	2,762	282	9,057
Goodwill	12,433	1,829	—	14,262
Other intangible assets, net	634	2,574	—	3,208
Total Assets	1,023,196	1,263,669	(70,292)	2,216,573
Funding Sources	837,852	849,177	—	1,687,029
Three Months Ended March 31, 2020				
Fee income	$ 25,440	$ 615	$ 1,040	$ 27,095
Interest income*	4,707	7,284	831	12,822
Interest expense	—	965	—	965
Intersegment income (expense)	—	525	(525)	—
Tax-equivalized pre-tax income*	5,123	2,703	1,872	9,698
Goodwill	12,433	1,829	—	14,262
Other intangible assets, net	1,040	3,026	—	4,066
Total Assets	833,774	926,445	(28,237)	1,731,982
Funding Sources	677,829	611,135	—	1,288,964

* Presented on a tax-equivalent basis assuming a tax rate of 21%. The tax-equivalent adjustment was approximately $462,000 and $484,000 for the three months ended March 31, 2021 and 2020, respectively.

Note 6 – Loans by Type

A summary of loan categories is as follows:

(In thousands)	March 31, 2021	December 31, 2020
Commercial and industrial	$ 302,747	$ 298,984
Real estate:		
Commercial:		
Mortgage	96,630	100,419
Construction	23,766	25,090
Faith-based:		
Mortgage	331,153	333,661
Construction	20,800	23,818
Paycheck Protection Program ("PPP")	113,474	109,704
Other	5	—
Total loans	$ 888,575	$ 891,676

In support of the Coronavirus, Aid, Relief, and Economic Security Act (the "CARES Act"), the Bank had processed nearly 450 applications for PPP loans of approximately $210,000,000 to provide much-needed cash to small business and self-employed taxpayers during the COVID-19 crisis. The loans were primarily made to existing bank customers and are 100% guaranteed by the Small Business Administration and no allowance for credit loss was recorded for these loans.

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The following table presents the aging of loans by loan categories at March 31, 2021 and December 31, 2020:

(In thousands)	Performing			Nonperforming		
	Current	30-59 Days	60-89 Days	90 Days and Over	Non-accrual	Total Loans
March 31, 2021						
Commercial and industrial	$ 302,747	$ —	$ —	$ —	$ —	$ 302,747
Real estate						
Commercial:						
Mortgage	96,630	—	—	—	—	96,630
Construction	23,766	—	—	—	—	23,766
Faith-based:						
Mortgage	331,153	—	—	—	—	331,153
Construction	20,800	—	—	—	—	20,800
PPP	113,474	—	—	—	—	113,474
Other	5	—	—	—	—	5
Total	$ 888,575	$ —	$ —	$ —	$ —	$ 888,575
December 31, 2020						
Commercial and industrial	$ 298,984	$ —	$ —	$ —	$ —	$ 298,984
Real estate						
Commercial:						
Mortgage	100,419	—	—	—	—	100,419
Construction	25,090	—	—	—	—	25,090
Faith-based:						
Mortgage	333,661	—	—	—	—	333,661
Construction	23,818	—	—	—	—	23,818
PPP	109,704	—	—	—	—	109,704
Total	$ 891,676	$ —	$ —	$ —	$ —	$ 891,676

The following table presents the credit exposure of the loan portfolio by internally assigned credit grade as of March 31, 2021 and December 31, 2020:

(In thousands)	Loans Subject to Normal Monitoring[1]	Performing Loans Subject to Special Monitoring[2]	Nonperforming Loans Subject to Special Monitoring[2]	Total Loans
March 31, 2021				
Commercial and industrial	$ 289,698	$ 13,049	$ —	$ 302,747
Real estate				
Commercial:				
Mortgage	95,305	1,325	—	96,630
Construction	23,766	—	—	23,766
Faith-based:				
Mortgage	328,105	3,048	—	331,153
Construction	20,800	—	—	20,800
PPP	113,474	—	—	113,474
Other	5	—	—	5
Total	$ 871,153	$ 17,422	$ —	$ 888,575
December 31, 2020				
Commercial and industrial	$ 284,882	$ 14,102	$ —	$ 298,984
Real estate				
Commercial:				
Mortgage	99,044	1,375	—	100,419
Construction	25,090	—	—	25,090
Faith-based:				
Mortgage	330,554	3,107	—	333,661
Construction	23,818	—	—	23,818
PPP	109,704	—	—	109,704
Total	$ 873,092	$ 18,584	$ —	$ 891,676

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 two loans that were considered impaired in the amount of $2,912,000 at March 31, 2021. These loans were individually evaluated for impairment, resulting in a specific allowance for credit loss of $750,000. The Company had one loan that was considered impaired in the amount of $2,500,000 at December 31, 2020. This loan was individually evaluated for impairment, resulting in a specific allowance for credit loss of $500,000.

There were no foreclosed loans recorded as other real estate owned (included in other assets) as of March 31, 2021 or December 31, 2020.

There were no loans considered troubled debt restructurings as of March 31, 2021. There were two loans that were considered troubled debt restructurings at December 31, 2020 and these loans were removed from troubled debt restructuring status during the first quarter 2021.

The recorded investment by category for loans considered as troubled debt restructuring during the year ended December 31, 2020 is as follows:

(In thousands)	Number of Loans	Pre-Modification Outstanding Balance	Post-Modification Outstanding Balance
Commercial and industrial	1	$ 8,773	$ 8,773
Faith-based real estate	1	1,029	1,029
Total	2	$ 9,802	$ 9,802

During the year ended December 31, 2020, two loans were restructured to change the amortization schedule to reduce payments from the borrowers while the contractual interest rate remained unchanged. These loans did not have a specific allowance for credit loss allocated to them at December 31, 2020. There were no loans restructured that subsequently defaulted during the year ended December 31, 2020.

A summary of the activity in allowance for credit losses (“ACL”) by category for the period ended March 31, 2021 and December 31, 2020 is as follows:

(In thousands)	C&I	CRE	Faith-based CRE	Construction	Total
Allowance for credit losses on loans:					
Balance at December 31, 2020	$ 4,635	$ 1,175	$ 5,717	$ 417	$ 11,944
Charge Offs	—	—	—	—	—
(Release of) provision for credit losses	54	(65)	(200)	(29)	(240)
Recoveries	2	—	15	—	17
Balance at March 31, 2021	$ 4,691	$ 1,110	$ 5,532	$ 388	$ 11,721

The decrease in the provision for credit losses on loans during the quarter ended March 31, 2021 is due to the Company’s forecast of macroeconomic factors, which improved during the first quarter 2021.

(In thousands)	C&I	CRE	Faith-based CRE	Construction	Total
Allowance for credit losses on loans:					
Balance at December 31, 2019	$ 4,874	$ 1,528	$ 3,842	$ 312	$ 10,556
Cumulative effect of accounting change (ASU 2016-13)	(526)	(401)	1,636	14	723
Balance at January 1, 2020	4,348	1,127	5,478	326	11,279
Provision for credit losses	268	48	238	91	645
Recoveries	19	—	1	—	20
Balance at December 31, 2020	$ 4,635	$ 1,175	$ 5,717	$ 417	$ 11,944

The increase in the provision for credit losses on loans during the year ended December 31, 2020 is due to the Company’s forecast of macroeconomic factors, which decreased during 2020, primarily due to the COVID-19 pandemic.

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

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

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 credit losses of $360,000 was recorded during the quarter ended March 31, 2021 due to lower line of credit usage. An allowance for unfunded commitments of $207,000 and $567,000 had been recorded at March 31, 2021 and December 31, 2020, 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 March 31, 2021, the balance of unused loan commitments, standby and commercial letters of credit were $194,737,000, $11,619,000, and $816,000, respectively. Since some of the financial instruments may expire without being drawn upon, the total amounts do not necessarily represent future cash requirements. Commitments to extend credit and letters of credit are subject to the same underwriting standards as those financial instruments included on the consolidated balance sheets. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of the credit, is based on management's credit evaluation of the borrower. Collateral held varies, but is generally accounts receivable, inventory, residential or income-producing commercial property or equipment. In the event of nonperformance, the Company or its subsidiaries may obtain and liquidate the collateral to recover amounts paid under guarantees on these financial instruments.

The following table summarizes contractual cash obligations of the Company related to time deposits at March 31, 2021:

	Amount of Commitment Expiration per Period				
(In thousands)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Time deposits	$ 55,536	$ 41,390	$ 14,098	$ 48	$ —

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

Note 8 – Stock-Based Compensation

The Amended and Restated Omnibus Stock and Performance Compensation Plan (the "Omnibus Plan") permits the issuance of up to 1,500,000 shares of the Company's common stock in the form of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units and performance awards. The Company may issue shares out of treasury stock for these awards. During the three months ended March 31, 2021, 39,686 restricted shares, 52,240 performance-based restricted shares, and no SARs were granted under the Omnibus Plan. Stock-based compensation expense for the three months ended March 31, 2021 and 2020 was $693,000 and $722,000, respectively.

Restricted Stock

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

As of March 31, 2021, the total unrecognized compensation expense related to non-vested restricted shares was $2,642,000, and the related weighted-average period over which it is expected to be recognized is approximately 0.98 years.

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

	Three Months Ended March 31, 2021		
	Shares		**Fair Value**
Balance at December 31, 2020	136,167	$	46.78
Granted	39,686		40.63
Vested	(21,364)		48.62
Balance at March 31, 2021	154,489	$	44.91

Performance-Based Restricted Stock

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

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

	Three Months Ended March 31, 2021		
	Shares		**Fair Value**
Balance at December 31, 2020	98,410	$	50.64
Granted	52,240		40.74
Vested	(31,451)		48.63
Balance at March 31, 2021	119,199	$	46.79

The PBRS that vested during the three months ended March 31, 2021 achieved financial goals of 94.4%, resulting in the issuance of 29,688 shares of common stock. The outstanding PBRS at March 31, 2021 will vest at scheduled vesting dates and the actual number of shares of common stock issued will range from 0% to 150% of the target opportunity based on the actual achievement of financial goals for the respective three-year performance period.

SARs

There were no SARs granted and no expense recognized during the three months ended March 31, 2021. Following is a summary of the activity of the Company's SARs program for the three-month period ended March 31, 2021:

	Shares		**Weighted-Average Exercise Price**	**Average Remaining Contractual Term Years**		**Aggregate Intrinsic Value *(In thousands)***
Balance at December 31, 2020	144,999	$	32.99	1.95	$	1,095
Exercised	(20,560)		24.12	—		—
Exercisable at March 31, 2021	124,439	$	34.46	1.92	$	1,483

There were no non-vested SARs at March 31, 2021.

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. 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 2021**	**Actual 2020**
Service cost – benefits earned during the year	$ 963	$ 4,329
Interest cost on projected benefit obligations	3,069	3,908
Expected return on plan assets	(6,299)	(6,049)
Net amortization	360	1,946
Net periodic pension (benefit) cost	$ (1,907)	$ 4,134

Pension costs recorded to expense were $273,000 and $1,029,000 for the three-month periods ended March 31, 2021 and 2020, respectively. Pension costs decreased in 2021 primarily due to the Plan being frozen as of February 28, 2021. The Company made no contribution to the plan during the three-month period ended March 31, 2021 and is evaluating the amount of additional contributions, if any, in the remainder of 2021.

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 2020 and an estimate for 2021:

(In thousands)	**Estimated 2021**	**Actual 2020**
Service cost – benefits earned during the year	$ 147	$ 121
Interest cost on projected benefit obligation	291	347
Net amortization	203	112
Net periodic pension cost	$ 641	$ 580

Supplemental executive retirement plan costs recorded to expense were $160,000 and $145,000 for the three-month periods ended March 31, 2021 and 2020, respectively.

Note 10 – Income Taxes

The effective tax rate was 17.7% and 18.1% for the three-month periods ended March 31, 2021 and 2020, respectively. The 2021 and 2020 effective tax rate for the three-month period differs from the statutory rate of 21% primarily due to the tax-exempt interest received from municipal bonds.

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Note 11 – Investment in Securities

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

	March 31, 2021			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 312,479	$ 15,678	$ 174	$ 327,983
U.S. government agencies	99,349	623	711	99,261
Total	$ 411,828	$ 16,301	$ 885	$ 427,244

	December 31, 2020			
(In thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 287,059	$ 18,915	$ —	$ 305,974
U.S. government agencies	50,988	764	—	51,752
Total	$ 338,047	$ 19,679	$ —	$ 357,726

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

	March 31, 2021					
	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	$ 36,423	$ 174	$ —	$ —	$ 36,423	$ 174
U.S. government agencies	60,491	711	—	—	60,491	711
Total	$ 96,914	$ 885	$ —	$ —	$ 96,914	$ 885

There were 33 securities, or 12%, (0 greater than 12 months) in an unrealized loss position as of March 31, 2021. There were no securities in an unrealized loss position as of December 31, 2020.

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

	March 31, 2021	
(In thousands)	**Amortized Cost**	**Fair Value**
Due in 1 year or less	$ 70,415	$ 70,697
Due after 1 year through 5 years	89,351	93,669
Due after 5 years through 10 years	161,771	173,009
Due after 10 years	90,291	89,869
Total	$ 411,828	$ 427,244

Proceeds from sales of investment securities classified as available for sale were $2,991,000 and $19,629,000 for the three months ended March 31, 2021 and 2020, respectively. Gross realized gains were $48,000 and $1,069,000 for the three months ended March 31, 2021 and 2020, respectively. There were no securities pledged to secure public deposits or for other purposes at March 31, 2021.

Note 12 – Fair Value of Financial Instruments

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

	March 31, 2021		December 31, 2020	
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Balance sheet assets:				
Cash and cash equivalents	$ 599,659	$ 599,659	$ 670,528	$ 670,528
Investment securities	427,244	427,244	357,726	357,726
Loans, net	876,854	880,231	879,732	883,461
Accrued interest receivable	6,458	6,458	6,850	6,850
Total	$ 1,910,215	$ 1,913,592	$ 1,914,836	$ 1,918,565
Balance sheet liabilities:				
Deposits	$ 1,003,135	$ 1,003,135	$ 1,050,856	$ 1,050,856
Accounts and drafts payable	897,508	897,508	835,386	835,386
Accrued interest payable	58	58	38	38
Total	$ 1,900,701	$ 1,900,701	$ 1,886,280	$ 1,886,280

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 – The carrying amount approximates fair value.

No financial instruments are measured using Level 3 inputs for the three months ended March 31, 2021 and 2020.

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.

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

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

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

(In thousands)	For the Three Months Ended March 31, 2021	2020
Fee revenue and other income		
In-scope of FASB ASC 606		
Invoice processing fees	$ 19,064	$ 19,124
Invoice payment fees	6,152	6,379
Information services payment and processing revenue	25,216	25,503
Bank service fees	494	410
Fee revenue (in-scope of FASB ASC 606)	25,710	25,913
Other income (out-of-scope of FASB ASC 606)	465	1,182
Total fee revenue and other income	26,175	27,095

Note 14 – Leases

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-02 – *Leases (ASC Topic 842)*. The Company leases certain premises under operating leases. As of March 31, 2021, the Company had lease liabilities of $5,799,000 and right-of-use assets of $5,255,000. As of March 31, 2020, the Company had lease liabilities of $7,146,000 and right-of-use assets of $6,367,000. Lease liabilities and right-of-use assets are reflected in other liabilities and other assets, respectively. Presented within occupancy expense on the Consolidated Statements of Income for the three months ended March 31, 2021, operating lease cost was $420,000, short-term lease cost was $30,000, and there was no variable lease cost. For the three months ended March 31, 2021, the weighted average remaining lease term for the operating leases was 6.2 years and the weighted average discount rate used in the measurement of operating lease liabilities was 5.5%. Certain of the Company's leases contain options to renew the lease; however, these renewal options are not included in the calculation of the lease liabilities as they are not reasonably certain to be exercised. There has been no significant change in the Company's expected future minimum lease payments since December 31, 2020. See the Company's 2020 Annual Report on Form 10-K for information regarding these commitments.

A maturity analysis of operating lease liabilities and undiscounted cash flows for the three months ended March 31, 2021 is as follows:

(In thousands)	March 31, 2021
Lease payments due	
Less than 1 year	$ 1,711
1-2 years	1,558
2-3 years	628
3-4 years	507
4-5 years	517
Over 5 years	1,891
Total undiscounted cash flows	6,812
Discount on cash flows	1,013
Total lease liability	$ 5,799

There were no sale and leaseback transactions, leveraged leases, or lease transactions with related parties during the three months ended March 31, 2021. At March 31, 2021, the Company did not have any leases that had not yet commenced.

Note 15 – Subsequent Events

In accordance with FASB ASC 855, *Subsequent Events*, the Company has evaluated subsequent events after the consolidated balance sheet date of March 31, 2021. 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

During the year ended December 31, 2020 and three months ended March 31, 2021, the effects of COVID-19 and related actions to attempt to control its spread significantly impacted the global economy and adversely affected the Company's operating results in both the Information Services and Banking Services segments.

With the spread of COVID-19 to the U.S. in the first quarter of 2020, many state and local governments recommended or mandated limitations on crowd size, closures of businesses and shelter-in-place orders in order to slow the transmission. The extent and nature of government actions varied during fiscal year 2020 and the first quarter of 2021 based upon the then-current extent and severity of the COVID-19 pandemic within the respective localities. Severe business disruptions, resulting constrictions in the manufacturing sector for most of the year, decreased oil demand and prices and general economic uncertainty, significantly and adversely impacted the Company's customers' business operations and had a corresponding negative affect on the Company's revenue generation in each sector of the Company's Information Services segment.

The Federal Reserve also took action to lower the Federal Funds rate in connection with COVID-19 relief, adversely affecting the Company's net interest income and operating results tied to Banking Services. The Federal Reserve has indicated that it will retain the current low level interest rates until the economy has stabilized.

Bank regulatory agencies and various governmental authorities are urging financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19. Accordingly, and in coordination with its primary regulators, the Company deferred borrower principal payments on loans during 2020, on an as needed basis, for periods of up to six months. There were no borrowers remaining on deferred terms at March 31, 2021.

In response to COVID-19, the CARES Act was adopted on March 27, 2020. The CARES Act provides for an estimated $2.2 trillion to fight the COVID-19 pandemic and stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief. Among other things, the CARES Act established the Paycheck Protection Program ("PPP"), which allows entities to apply for low-interest private loans to fund payroll and other costs which, subject to certain conditions and qualifications, are partially or fully forgivable. In support of the CARES Act, the Bank processed nearly 350 applications for PPP loans of approximately $170,000,000 during the year ended December 31, 2020 and an additional 100 applications for approximately $37,000,000 during the three months ended March 31, 2021 to provide much-needed cash to small business and self-employed taxpayers during the COVID-19 crisis. The loans were primarily made to existing bank customers and are 100% guaranteed by the Small Business Administration.

Cass remains committed to creating a safe and healthy environment for employees while offering assurance that it remains a financially strong service provider possessing the resources necessary to weather this pandemic in support of its valued customers.

In late fiscal 2020, vaccines for combatting COVID-19 were approved by health agencies and began to be administered. However, initial quantities of vaccines are limited and vaccine distributions, controlled by local authorities, are being allocated, generally first to front-line health care workers and other essential workers and next to those members of individual populations believed most susceptible to severe effects from COVID-19. The timeline of full administration of the COVID-19 vaccines is uncertain and fluctuating. The impact of COVID-19, including the impact of restrictions imposed to combat its spread, could result in additional and prolonged business closures, work restrictions and activity restrictions. Given these and other uncertainties discussed throughout this report, the Company remains subject to heightened risk, and the aggregate impact that COVID-19 could have on the Company's financial condition and operating results is presently unknown.

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

Overview

Cass provides payment and information processing services to large manufacturing, distribution and retail enterprises from its offices/locations in St. Louis, Missouri, Columbus, Ohio, Greenville, South Carolina, Wellington, Kansas, Jacksonville, Florida, Breda, Netherlands, Basingstoke, United Kingdom, and Singapore. The Company's services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays energy invoices, which include electricity and gas as well as waste and telecommunications expenses, and is a provider of telecom expense management solutions. Cass solutions include a B2B payment platform for clients that require an agile fintech partner. Additionally, the Company offers an on-line platform to provide generosity services for faith-based and non-profit organizations. The Company's bank subsidiary, the "Bank," supports the Company's payment operations. The Bank also provides banking services to its target markets, which include privately-owned businesses and faith-based ministries in the St. Louis metropolitan area as well as other selected cities in the United States.

The specific payment and information processing services provided to each customer are developed individually to meet each customer's requirements, which can vary greatly. In addition, the degree of automation such as electronic data interchange, imaging, work flow, and web-based solutions varies greatly among customers and industries. These factors combine so that pricing varies greatly among the customer base. In general, however, Cass is compensated for its processing services through service fees and investment of account balances generated during the payment process. The amount, type, and calculation of service fees vary greatly by service offering, but generally follow the volume of transactions processed. Interest income from the balances generated during the payment processing cycle is affected by the amount of time Cass holds the funds prior to payment and the dollar volume processed. Both the number of transactions processed and the dollar volume processed are therefore key metrics followed by management. Other factors will also influence revenue and profitability, such as changes in the general level of interest rates, which have a significant effect on net interest income. The funds generated by these processing activities are invested in overnight investments, investment grade securities, 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 2020 Annual Report on Form 10-K, a decline in the general level of interest rates can have a negative impact on net interest income and conversely, a rise in the general level of interest rates can have a positive impact on net interest income. The cost of fuel is another factor that has a significant impact on the transportation sector. As the price of fuel goes up or down, the Company's earnings increase or decrease with the dollar amount of transportation invoices.

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

Critical Accounting Policies

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

Allowance for 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 March 31, 2021 ("First Quarter of 2021") compared to the three-month period ended March 31, 2020 ("First Quarter of 2020"). 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 2020 Annual Report on Form 10-K. Results of operations for the First Quarter of 2021 are not necessarily indicative of the results to be attained for any other period.

Net Income

The following table summarizes the Company's operating results:

	First Quarter of		
(Dollars in thousands except per share data)	**2021**	**2020**	**% Change**
Net income	$ 7,071	$ 7,545	(6.3)%
Diluted earnings per share	$ .49	$ .52	(5.8)%
Return on average assets	1.31%	1.70%	—
Return on average equity	11.09%	12.50%	—

Fee Revenue and Other Income

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

	First Quarter of		
(In thousands)	**2021**	**2020**	**% Change**
Transportation invoice volume	8,787	8,280	6.1%
Transportation invoice dollar volume	$ 7,904,639	$ 6,467,051	22.2%
Facility expense transaction volume*	6,996	6,509	7.5%
Facility expense dollar volume	$ 3,717,428	$ 3,458,646	7.5%
Payment and processing revenue	$ 25,216	$ 25,503	(1.1)%

* Includes energy, telecom and environmental

First Quarter of 2021 compared to First Quarter of 2020:

Transportation invoice and dollar volumes improved 6.1% and 22.2%, respectively. Fueling the increases were the stronger performance of the manufacturing sector quarter over quarter and new customer wins over the past 12 months. Further improvement in dollar volume resulted from scarcity in carrier supply, which drove prices higher. Facility-related invoice and dollar volumes both increased 7.5% with the increases attributable, in part, to new business wins. Payment and processing fee revenue decreased 1% due to changes in client mix and the decline in certain revenue sources not directly tied to transaction volumes such as late fees. In light of the COVID-19 pandemic and the impact on certain of its customers, the Company made a risk management decision not to advance payments to customer vendors until payment is received from the customer, thereby reducing the level of late fee revenue.

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Net Interest Income

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

	First Quarter of		
(In thousands)	2021	2020	% Change
Average earnings assets	$ 1,891,395	$ 1,487,873	27.12%
Average interest-bearing liabilities	552,906	409,376	35.06%
Net interest income*	10,807	11,857	(8.86)%
Net interest margin*	2.32%	3.21%	—
Yield on earning assets*	2.39%	3.47%	—
Rate on interest-bearing liabilities	0.24%	0.95%	—

* Presented on a tax-equivalent basis assuming a tax rate of 21% for both 2021 and 2020.

First Quarter of 2021 average earning assets increased $403,522,000, or 27.1%, compared to the same period in the prior year. Interest-bearing deposits in other financial institutions increased $451,493,000, or 345.7%. This increase was primarily driven by a significant increase in deposits and accounts and drafts payable driven by government stimulus programs and organic growth. Average loans increased $81,720,000, or 10.2%, primarily driven by the origination of PPP loans beginning in the second quarter of 2020, continuing through the first quarter of 2021. Federal funds sold and other short-term investments decreased $107,588,000, or 65.4% and average investment securities decreased $21,603,000, or 16.4% in the First Quarter of 2021 compared to the first quarter of 2020. The decrease in federal funds sold and other short-term investments was driven by funds migration into interest-bearing deposits in other financial institutions. The decrease in investment securities was driven by maturities.

Total average interest-bearing liabilities for the First Quarter of 2021 increased $143,530,000, or 35.1%, compared to the First Quarter of 2020. Average accounts and drafts payable increased $130,380,000, or 17.0%, in the First Quarter of 2021 compared to the First Quarter of 2020.

First Quarter of 2021 tax-equivalized net interest income decreased $1,050,000, or 8.9%, compared to the same period in the prior year. While average interest-earning assets were up 27.1% quarter over quarter, the Company's net interest margin declined 89 basis points from 3.21% to 2.32% quarter over quarter, reflecting the negative impact of the historically low short-term interest rate environment. Specifically, the average balance of interest-bearing deposits in other financial institutions was $582,104,000 during the First Quarter of 2021 earning a yield of 0.10% compared to an average balance of $130,611,000 during the First Quarter of 2020 earning a yield of 1.18%.

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

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

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

	First Quarter of 2021			First Quarter of 2020		
(In thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets[1]						
Earning assets						
Loans[2]:						
Taxable	$ 881,222	$ 8,587	3.95%	$ 799,502	$ 9,001	4.53%
Investment securities[4]:						
Taxable	82,746	198	0.97	95,691	557	2.34
Tax-exempt[3]	288,386	2,201	3.10	297,044	2,303	3.12
Certificates of deposit	—	—	—	500	3	2.41
Interest-bearing deposits in other financial institutions	582,104	139	0.10	130,611	382	1.18
Federal funds sold and other short-term investments	56,937	13	0.09	164,525	576	1.41
Total earning assets	1,891,395	11,138	2.39	1,487,873	12,822	3.47
Non-earning assets						
Cash and due from banks	20,344			17,351		
Premises and equipment, net	18,070			20,295		
Bank-owned life insurance	17,920			17,646		
Goodwill and other intangibles	17,598			18,456		
Other assets	231,196			226,568		
Allowance for credit losses	(11,956)			(10,562)		
Total assets	$ 2,184,567			$ 1,777,627		
Liabilities and Shareholders’ Equity[1]						
Interest-bearing liabilities						
Interest-bearing demand Deposits	$ 475,212	$ 151	0.13%	$ 326,852	$ 633	0.78%
Savings deposits	21,800	3	0.06	8,403	13	0.62
Time deposits >= $100	24,505	83	1.37	29,820	142	1.92
Other time deposits	31,379	94	1.21	44,092	175	1.60
Total interest-bearing deposits	552,896	331	0.24	409,167	963	0.95
Short-term borrowings	10	—	—	209	2	3.85
Total interest-bearing liabilities	552,906	331	0.24	409,376	965	0.95
Non-interest bearing liabilities						
Demand deposits	417,942			295,165		
Accounts and drafts payable	898,378			767,998		
Other liabilities	56,646			62,228		
Total liabilities	1,925,872			1,534,767		
Shareholders’ equity	258,695			242,860		
Total liabilities and shareholders’ equity	$ 2,184,567			$ 1,777,627		
Net interest income		$ 10,807			$ 11,857	
Net interest margin			2.32%			3.21%
Interest spread			2.15			2.52

1. Balances shown are daily averages.
2. Interest income on loans includes net loan fees of $901,000 and $156,000 for the First Quarter of 2021 and 2020, respectively due to higher PPP fees.
3. Interest income is presented on a tax-equivalent basis assuming a tax rate of 21%. The tax-equivalent adjustment was approximately $462,000 and $484,000 for the First Quarter of 2021 and 2020, respectively.
4. For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

Analysis of Net Interest Income Changes

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

	First Quarter of 2021 Over First Quarter of 2020		
(In thousands)	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans[1]:			
Taxable	$ 825	$ (1,239)	$ (414)
Investment securities:			
Taxable	(67)	(292)	(359)
Tax-exempt[2]	(81)	(21)	(102)
Certificates of deposit	(3)	—	(3)
Interest-bearing deposits in other financial institutions	356	(599)	(243)
Federal funds sold and other short-term investments	(232)	(331)	(563)
Total interest income	798	(2,482)	(1,684)
Interest expense on:			
Interest-bearing demand deposits	198	(680)	(482)
Savings deposits	9	(19)	(10)
Time deposits of >=$100	(23)	(36)	(59)
Other time deposits	(44)	(37)	(81)
Short-term borrowings	(1)	(1)	(2)
Total interest expense	139	(773)	(634)
Net interest income	$ 659	$ (1,709)	$ (1,050)

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

Provision and Allowance for Credit Losses and Allowance for Unfunded Commitments

The Company recorded a release of credit losses and off-balance sheet credit exposures of $600,000 in the First Quarter of 2021 and a provision for credit losses of $325,000 in the First Quarter of 2020. The amount of the (release of) provision for credit losses was derived from the Company's quarterly Current Expected Credit Loss ("CECL") model. The amount of the (release of) provision for credit losses will fluctuate as determined by these quarterly analyses. The Company had net loan recoveries of $17,000 and $8,000 in the First Quarter of 2021 and First Quarter of 2020, respectively.

The ACL was $11,721,000 at March 31, 2021 compared to $11,944,000 at December 31, 2020. The ACL represented 1.32% of outstanding loans at March 31, 2021 and 1.34% of outstanding loans at year-end 2020. Excluding PPP loans, the ACL represented 1.51% of total loans at March 31, 2021 and 1.53% of total loans at December 31, 2020. The allowance for unfunded commitments was $207,000 at March 31, 2021 and $567,000 at December 31, 2020. There were no nonperforming loans outstanding at March 31, 2021 or December 31, 2020.

The ACL has been established and is maintained to estimate the lifetime credit losses inherent 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 analysis 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.

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Summary of Credit Loss Experience

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

	First Quarter of	
(In thousands)	**2021**	**2020**
Allowance for credit losses at beginning of period	$ 11,944	$ 10,556
(Release of) provision for credit losses	(240)	325
Loans charged off	—	—
Recoveries on loans previously charged off	17	8
Net recoveries	17	8
Allowance for credit losses at end of period	$ 11,721	$ 10,889
Allowance for unfunded commitments at beginning of Period	$ 567	$ —
(Release of) provision for credit losses	(360)	—
Allowance for unfunded commitments at end of period	207	—
Loans outstanding:		
Average	$ 881,222	$ 799,502
March 31	888,575	854,780
Ratio of ACL to loans outstanding:		
Average	1.33%	1.36%
March 31	1.32%	1.27%

The Bank had no property carried as other real estate owned as of March 31, 2021 and March 31, 2020.

Operating Expenses

Total operating expenses for the First Quarter of 2021 were down 1.4%, or $404,000, as compared to the First Quarter of 2020, primarily as a result of the pandemic-related decline in travel and other business development activities.

Financial Condition

Total assets at March 31, 2021 were $2,216,573,000, an increase of $13,338,000, or 0.6%, from December 31, 2020. The most significant changes in asset balances during this period were increases in securities of $69,518,000 and payments in excess of funding of $21,912,000. The increase in securities was driven by purchases in an effort to obtain a higher yield on our interest-earning assets. The increase in payments in excess of funding was driven by an increase in transportation dollar volumes and strategic efforts to increase these balances. These increases were partially offset by a decrease in cash and cash equivalents of $70,869,000. Changes in cash and cash equivalents reflect the Company’s daily liquidity position and are influenced by funding inflows and outflows.

Total liabilities at March 31, 2021 were $1,957,086,000, an increase of $15,011,000, or 0.8%, from December 31, 2020. Total deposits at March 31, 2021 were $1,003,135,000, a decrease of $47,721,000, or 4.5%, from December 31, 2020. Accounts and drafts payable at March 31, 2021 were $897,508,000, an increase of $62,122,000, or 7.4%, from December 31, 2020, reflecting an increase in transportation dollar volumes.

Total shareholders’ equity at March 31, 2020 was $259,487,000, a $1,673,000, or 0.6%, decrease from December 31, 2020. Total shareholders’ equity decreased as a result of share repurchases of $1,228,000, dividends paid of $3,886,000 and an increase in accumulated other comprehensive loss of $3,377,000. These were partially offset by net income of $7,071,000.

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

Liquidity and Capital Resources

The balance of 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 was $599,659,000 at March 31, 2021, a decrease of $70,869,000, or 10.6%, from December 31, 2020. At March 31, 2021, these assets represented 27.1% 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 $427,244,000 at March 31, 2021, an increase of $69,518,000 from December 31, 2020. These assets represented 19.3% of total assets at March 31, 2021. Of this total, 77% were state and political subdivision securities. Of the total portfolio, 16.5% mature in one year, 21.9% mature in one to five years, and 61.6% mature in five or more years.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $83,000,000 at the following banks: US Bank, $20,000,000; UMB Bank, $20,000,000; Wells Fargo Bank, $15,000,000; PNC Bank, $12,000,000; Frost National Bank, $10,000,000; and JPM Chase Bank, $6,000,000. The Bank also has secured lines of credit with the Federal Home Loan Bank of $197,258,000 collateralized by commercial mortgage loans. The Company also has secured lines of credit with UMB Bank of $75,000,000 and First Horizon Bank of $75,000,000 collateralized by state and political subdivision securities. There were no amounts outstanding under any line of credit as of March 31, 2021 or December 21, 2020.

In addition to the lines of credit discussed above, as of April 21, 2020 the Bank was approved for the Federal Reserve’s Paycheck Protection Program Lending Facility. The Bank can receive non-recourse loans with the previously mentioned PPP loans pledged as collateral. The Bank can borrow an amount up to 100% of the amount of the PPP loans, which was approximately $113,000,000 as of March 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 $32,160,000 of CDARS deposits and interest-bearing demand deposits include $157,841,000 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 $16,704,000 for the three months ended March 31, 2021, compared to $18,160,000 for the three months ended March 31, 2020, a decrease of $1,456,000. 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 2021, which are estimated to range from $4 million to $6 million.

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

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

As a financial institution, a significant source of the Company's earnings is generated from net interest income. Therefore, the prevailing interest rate environment is important to the Company's performance. A major portion of the Company's funding sources are the non-interest bearing accounts and drafts payable generated from its payment and information processing services. Accordingly, higher levels of interest rates will generally allow the Company to earn more net interest income. Conversely, a lower interest rate environment will generally tend to depress net interest income. The Company actively manages its balance sheet in an effort to maximize net interest income as the interest rate environment changes. This balance sheet management impacts the mix of earning assets maintained by the Company at any point in time. For example, in a low interest rate environment, short-term relatively lower rate liquid investments may be reduced in favor of longer term relatively higher yielding investments and loans. If the primary source of liquidity is reduced in a low interest rate environment, a greater reliance would be placed on secondary sources of liquidity including borrowing lines, the ability of the Bank to generate deposits, and the investment portfolio to ensure overall liquidity remains at acceptable levels. For further discussion on COVID-19, refer to Note 1 "Basis of Presentation."

The overall level of economic activity can have a significant impact on the Company's ability to generate revenues and income, as the volume and size of customer invoices processed may increase or decrease. Higher levels of economic activity increase both fee income (as more invoices are processed) and balances of accounts and drafts payable. For further discussion on COVID-19, refer to Note 1 "Basis of Presentation." Lower levels of economic activity, such as those experienced by the Company as a result of COVID-19 and governmental actions related thereto, decrease both fee income and balances of accounts and drafts payable.

The relative level of energy costs can impact the Company's earnings and available liquidity. Lower levels of energy costs will tend to decrease transportation and energy invoice amounts resulting in a corresponding decrease in accounts and drafts payable. Decreases in accounts and drafts payable generate lower interest income. For further discussion on COVID-19, refer to Note 1 "Basis of Presentation."

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

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

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

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

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

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

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

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

	March 31, 2021		December 31, 2020	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 256,899	21.13%	$ 255,332	21.41%
Cass Commercial Bank	175,574	22.48%	171,298	21.46%
Common equity tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 245,178	20.17%	$ 243,388	20.41%
Cass Commercial Bank	165,791	21.22%	161,300	20.21%
Tier I capital (to risk-weighted assets)				
Cass Information Systems, Inc.	$ 245,178	20.17%	$ 243,388	20.41%
Cass Commercial Bank	165,791	21.22%	161,300	20.21%
Tier I capital (to leverage assets)				
Cass Information Systems, Inc.	$ 245,178	11.31%	$ 243,388	11.52%
Cass Commercial Bank	165,791	11.81%	161,300	14.48%

Inflation

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

Impact of New and Not Yet Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). The standard is effective for fiscal periods beginning after December 15, 2019. The CARES Act was signed into law on March 27, 2020 and included provisions that temporarily delayed the required implementation date of ASU 2016-13 to the earlier of the end of the national pandemic or December 31, 2020. The Consolidated Appropriations Act was signed into law on December 27, 2020 and extended the deferral of required implementation of ASU 2016-13 to the earlier of the first day of a company's fiscal year that begins after the date the COVID-19 national emergency comes to an end or January 1, 2022. The Company elected to defer the adoption of ASU 2016-13 until December 31, 2020 with an effective date of January 1, 2020.

The ASU required measurement and recognition of expected credit losses for financial instruments held, as applicable, which include allowances for credit losses expected over the life of the portfolio, rather than incurred losses, which include allowances for current probable and estimable losses within the portfolio. Under this standard, the Company is required to hold an allowance equal to the expected life-of-loan losses on the loan portfolio. It also applies to off-balance sheet credit exposures such as loan commitments, standby letters of credit and other similar instruments. In addition, ASU 2016-13 made changes to the accounting for available-for-sale debt securities.

The Company adopted ASU 2016-13 using a modified retrospective approach. Results for annual reporting periods beginning after January 1, 2020 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP. Results for quarterly reporting periods beginning after December 31, 2020 in the Company's Form 10-Q will be presented under ASU 2016-13 while prior quarterly period amounts continue to be reported in accordance with previously applicable GAAP. Upon adoption on January 1, 2020, the Company recognized increases of $723,000 in the allowance for credit losses and $402,000 in the reserve for unfunded commitments, with a corresponding reduction to retained earnings, net of tax, of $856,000. No credit loss allowance was required upon adoption for the investment securities portfolio.

The following table illustrates the impact of the adoption of ASU 2016-13:

(In thousands)	December 31, 2019	Impact of ASU 2016-13 Adoption	As Reported Under ASU 2016-13
Assets:			
Allowance for credit/loan losses on loans	$ 10,556	$ 723	$ 11,279
Deferred tax asset	2,298	269	2,567
Liabilities:			
Reserve for unfunded commitments	—	402	402
Shareholders' equity:			
Retained earnings	90,341	(856)	89,485

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, 2020, the Company manages its interest rate risk through measurement techniques that include gap analysis and a simulation model. As part of the risk management process, asset/liability management policies are established and monitored by management. The policy objective is to limit the change in annualized net interest income to 15% from an immediate and sustained parallel change in interest rates of 200 basis points. The economic impact of the COVID-19 pandemic has introduced significant uncertainty and market volatility, which may result in the deterioration of the Company's risk position since December 31, 2020.

ITEM 4. CONTROLS AND PROCEDURES

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

There were no changes in the First Quarter of 2021 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, 2020, 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 2020 Annual Report on Form 10-K.

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

During the three months ended March 31, 2021, the Company repurchased a total of 31,256 shares of its common stock pursuant to its treasury stock buyback program, as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
January 1, 2021 – January 31, 2021	31,256	39.29	31,256	434,622
February 1, 2021 – February 29, 2021	—	—	—	434,622
March 1, 2021 – March 31, 2021	—	—	—	434,622
Total	31,256	39.29	31,256	434,622

(1) All repurchases made during the quarter ended March 31, 2021 were made pursuant to the treasury stock buyback program, which was authorized by the Board of Directors on October 17, 2011 and announced by the Company on October 20, 2011. The program, as modified by the Board of Directors on October 20, 2014, provides that the Company may repurchase up to an aggregate of 500,000 shares of common stock and has no expiration date. The program is periodically modified by the Board of Directors and was most recently modified on October 20, 2020 to restore the aggregate number of shares available for repurchase to 500,000.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

(a) None.

(b) There have been no material changes to the procedures by which security holders may recommend nominees to the Company's Board of Directors implemented in the First Quarter of 2021.

ITEM 6. EXHIBITS

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

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

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

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

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

Exhibit 101.SCH Inline XBRL Taxonomy Extension Schema Document.

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

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

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

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

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

SIGNATURES

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

CASS INFORMATION SYSTEMS, INC.

DATE: May 6, 2021	By	/s/ Eric H. Brunngraber Eric H. Brunngraber Chairman, President, and Chief Executive Officer (Principal Executive Officer)
DATE: May 6, 2021	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: May 6, 2021

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

Exhibit 31.2

CERTIFICATIONS

I, Michael J. Normile, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Cass Information Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/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 March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Eric H. Brunngraber, Chairman, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Eric H. Brunngraber
Eric H. Brunngraber
Chairman, President, and Chief Executive Officer
(Principal Executive Officer)
May 6, 2021

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

Exhibit 32.2

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

In connection with the Quarterly Report of Cass Information Systems, Inc. (“the Company”) on Form 10-Q for the period ended March 31, 2021 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)
May 6, 2021

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.