CASS INFORMATION SYSTEMS INC
Form 10-K
March 09, 2015

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________
Commission file number 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	(314) 506-5500
(Address of principal executive offices)	(Zip Code)	(Telephone Number, incl. area code)

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

Title of each Class	Name of each exchange on which registered
Common Stock, par value $.50	The Nasdaq Global Select Market

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

Title of each Class
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $540,000,000 based on the closing price of the common stock of $49.48 on June 30, 2014, as reported by The Nasdaq Global Select Market. As of March 2, 2015, the Registrant had 11,488,014 shares outstanding of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this report is incorporated by reference to the Registrant s Proxy Statement for the 2015 Annual Meeting of Shareholders.

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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 the section Part I, Item 1A, Risk Factors. 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.

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PART I.

ITEM 1. BUSINESS

Description of Business

Cass Information Systems, Inc. (Cass or the Company) is a leading provider of payment and information processing services to large manufacturing, distribution and retail enterprises across the United States. The Company provides transportation invoice rating, payment processing, auditing, accounting and transportation information to many of the nation s largest companies. It is also a processor and payer of energy invoices, including electricity, gas, waste, and other facility related expenses. Additionally, Cass competes in the telecommunications expense management market which includes bill processing, audit and payment services for telephone, data line, cellular and communication equipment expense. The Company, through its wholly owned bank subsidiary, Cass Commercial Bank (the Bank), also provides commercial banking services. The Bank s primary focus is to support the Company s payment operations and provide banking services to its target markets, which include privately-owned businesses and churches and church-related ministries. Services include commercial and commercial real estate loans, checking, savings and time deposit accounts and other cash management services. Other operating locations are in Bridgeton, Missouri, Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina, Wellington, Kansas, Jacksonville, Florida, and Breda, Netherlands. The Bank operates four branches in the St. Louis metropolitan area and loan production offices in southern California and Colorado Springs, Colorado. The Company s headquarters and the Bank s headquarters are located in St. Louis County, Missouri.

Company Strategy and Core Competencies

Cass is an information services company with a primary focus on processing payables and payables-related transactions for large corporations located in the United States. Cass possesses four core competencies that encompass most of its processing services.

Data acquisition This refers to the gathering of data elements from diverse, heterogeneous sources and the building of complete databases for our customers. Data is the raw material of the information economy. Cass gathers vital data from complex and diverse input documents, electronic media, proprietary databases and data feeds, including data acquired from vendor invoices as well as customer procurement and sales systems. Through its numerous methods of obtaining streams and pieces of raw data, Cass is able to assemble vital data into centralized data management systems and warehouses, thus producing an engine to create the power of information for managing critical corporate functions and processing systems.

Data management Once data is assembled, Cass is able to utilize the power from derived information to produce significant savings and benefits for its clients. This information is integrated into customers unique financial and accounting systems, eliminating the need for internal accounting processing and providing internal and external support for these critical systems. Information is also used to produce management and exception reporting for operational control, feedback, planning assistance and performance measurement.

Business Intelligence Receiving information in the right place at the right time and in the required format is paramount for business survival. Cass information delivery solutions provide reports, digital images, data files and retrieval capabilities through the Internet or directly into customer internal systems. Cass proprietary Internet management delivery system is the foundation for driving these critical functions. Transaction, operational, control, status and processing exception information are all delivered through this system creating an efficient, accessible and highly reliable asset for Cass customers.

Financial exchange Since Cass is unique among its competition in that it owns a commercial bank, it is also able to manage the movement of funds from its customers to their suppliers. This is a distinguishing factor, which clearly requires the processing capability, operating systems and financial integrity of a banking organization. Cass provides immediate, accurate, controlled and protected funds management and transfer system capabilities for all of its customers. Old and costly check processing and delivery mechanisms are replaced with more efficient electronic cash management and funds transfer systems.

Cass core competencies allow it to perform the highest volumes of transaction processing in an integrated, efficient and systematic approach. Not only is Cass able to process the transaction, it is also able to collect the data defining the transaction and effect the financial payment governing its terms.

Cass shared business processes accounting, human resources and technology support its core competencies. Cass accounting function provides the internal control systems to ensure the highest levels of accountability and protection for customers. Cass human resources department provides experienced people dedicated to streamlining business procedures and reducing expenses. Cass technology is proven and reliable. The need to safeguard data and secure the efficiency, speed and timeliness that govern its business is a priority within the organization. The ability to leverage technology over its strategic units allows Cass the advantage of deploying technology in a proven and reliable manner without hindering clients strategic business and system requirements.

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These core competencies, enhanced through shared business processes, drive Cass strategic business units. Building upon these foundations, Cass continues to explore new business opportunities that leverage these competencies and processes.

Marketing, Customers and Competition

The Company, through its Transportation Information Services business unit, is one of the largest firms in the transportation bill processing and payment industry in the United States based on the total dollars of transportation bills paid and items processed. Competition consists of a few primary competitors and numerous small transportation bill audit firms located throughout the United States. While offering transportation payment services, few of these audit firms compete on a national basis. These competitors compete mainly on price, functionality and service levels. The Company, through its Expense Management business unit, also competes with other companies, located throughout the United States, that pay energy and waste bills and provide management reporting. Available data indicates that the Company is one of the largest providers of energy information processing and payment services. Cass is unique among these competitors in that it is not exclusively affiliated with any one energy service provider (ESP). The ESPs market the Company s services adding value with their unique auditing, consulting and technological capabilities. Many of Cass services are customized for the ESPs, providing a full-featured solution without any development costs to the ESP. Also the Company, through its Telecom Information Services business unit, is a leader in the growing telecom expense management market, and competes with other companies located throughout the United States in this market.

The Bank is organized as a Missouri trust company with banking powers and was founded in 1906. The Company is classified as a bank holding corporation due to its ownership of a federally-insured commercial bank and was originally organized in 1982 as Cass Commercial Corporation under the laws of Missouri. Approval by the Board of Governors of the Federal Reserve System was received in February 1983. The Company changed its name to Cass Information Systems, Inc. in January 2001. In December 2011, the Federal Reserve Bank (FRB) of St. Louis approved the election of Cass Information Systems, Inc. to become a financial holding company. As a financial holding company, Cass may engage in activities that are financial in nature or incidental to a financial activity. The Bank encounters competition from numerous banks and financial institutions located throughout the St. Louis, Missouri metropolitan area and other areas in which the Bank competes. The Bank s principal competitors, however, are large bank holding companies that are able to offer a wide range of banking and related services through extensive branch networks. The Bank targets its services to privately held businesses located in the St. Louis, Missouri area and church and church-related institutions located in St. Louis, Missouri, Orange County, California, Colorado Springs, Colorado, and other selected cities located throughout the United States.

The Company holds several trademarks for the payment and rating services it provides. These include: FreightPay®, Transdata®, TransInq®, Ratemaker®, Rate Advice®, First Rate®, Best Rate®, Rate Exchange®, CassPort® and Expense$mart®. The Company and its subsidiaries are not dependent on any one customer for a significant portion of their businesses. The Company and its subsidiaries have a varied client base with no individual client exceeding 10% of total revenue.

Employees

The Company and its subsidiaries had 788 full-time and 289 part-time employees as of March 2, 2015. Of these employees, the Bank had 55 full-time and no part-time employees.

Supervision and Regulation

The Company and its bank subsidiary are extensively regulated under federal and state law. These laws and regulations are intended to primarily protect depositors, not shareholders. The Bank is subject to regulation and supervision by the Missouri Division of Finance, the FRB and the Federal Deposit Insurance Corporation (the FDIC). The Company is a financial holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the BHC Act), and as such, it is subject to regulation, supervision and examination by the FRB. Significant elements of the laws and regulations applicable to the Company and the Bank are described below. The description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Also, such statutes, regulations and policies are continually under review by Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to the Company and its subsidiaries could have a material effect on the business, financial condition and results of operations of the Company.

Bank Holding Company Activities In general, the BHC Act limits the business of bank holding companies to banking, managing or controlling banks and other related activities. In addition, bank holding companies that qualify and elect to be financial holding companies such as the Company, may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Such permitted activities include securities underwriting and dealing, insurance underwriting and making merchant banking investments.

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To maintain financial holding company status, a financial holding company and all of its depository institution subsidiaries must be well capitalized and well managed. A depository institution subsidiary is considered to be well capitalized if it satisfies the requirements for this status discussed in the section Prompt Corrective Action below. A depository institution subsidiary is considered well managed if it received a composite rating and management rating of at least satisfactory in its most recent examination. A financial holding company s status will also depend upon it maintaining its status as well capitalized and well managed under applicable FRB regulations. If a financial holding company ceases to meet these capital and management requirements, the FRB may impose limitations or conditions on the conduct of its activities during the non-compliance period, and the company may not commence any of the broader financial activities permissible for financial holding companies or acquire a company engaged in such financial activities without prior approval of the FRB. If the company does not return to compliance within 180 days, the FRB may require divestiture of the holding company s depository institutions.

In order for a financial holding company to commence any new activity permitted by the BHC Act or to acquire a company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the Community Reinvestment Act. See Community Reinvestment Act below.

The FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the FRB has reasonable grounds to believe that continuation of such activity or such ownership or control constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The BHC Act, the Bank Merger Act, and other federal and state statutes regulate acquisitions of banks and banking companies. The BHC Act requires the prior approval of the FRB for the direct or indirect acquisition by the Company of more than 5% of the voting shares or substantially all of the assets of a bank or bank holding company. Under the Bank Merger Act, the prior approval of the FRB or other appropriate bank regulatory authority is required for the Bank to merge with another bank or purchase the assets or assume the deposits of another bank. In reviewing acquisition applications, the bank regulatory authorities will consider, among other things, the competitive effect and public benefits of the transactions, the capital position of the combined organization, the risks to the stability of the U.S. banking or financial system, the applicant s performance record under the Community Reinvestment Act and fair housing laws.

The Dodd-Frank Act The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), enacted in July 2010, significantly restructured the financial regulatory environment in the United States, affecting all bank holding companies and banks, including the Company and the Bank, some of which are described in more detail below. The scope and impact of many of the Dodd-Frank Act s provisions will be determined over time as regulations are issued and become effective. As a result, we cannot predict the ultimate impact of the Dodd-Frank Act on the Company or the Bank at this time, including the extent to which it could increase costs or restrict their ability to pursue business opportunities, or otherwise adversely affect the Company s business, financial condition and results of operations. However, at a minimum, the Company expects that the regulations enacted under the Dodd-Frank Act will increase operating and compliance costs.

Dividends Both the Company and the Bank are subject to various regulations that restrict their ability to pay dividends and the amount of dividends that they may pay. Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), a depository institution, such as the Bank, may not pay dividends if payment would cause it to become undercapitalized or if it is already undercapitalized. The payment of dividends by the Company and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital and, under certain circumstances, the ability of federal regulators to prohibit dividend payments as an unsound or unsafe practice.

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

Under the requirements, banking organizations are required to maintain minimum ratios for Tier 1 capital and total capital to risk-weighted assets (including certain off-balance sheet items, such as letters of credit). For purposes of calculating the ratios, a banking organization s assets and some of its specified off-balance sheet commitments and obligations are assigned to various risk categories. A banking organization s capital, in turn, is classified in tiers, depending on type:

Tier 1 Currently, Tier 1 capital includes common equity, retained earnings, qualifying noncumulative perpetual preferred stock, minority interests in equity accounts of consolidated subsidiaries, and, under existing standards, a limited amount of qualifying trust preferred securities, and qualifying cumulative perpetual preferred stock at the holding company level, less goodwill, most intangible assets and certain other assets.

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Tier 2 Currently, Tier 2 capital includes, among other things, perpetual preferred stock not meeting the Tier 1 definition, qualifying mandatory convertible debt securities, qualifying subordinated debt, and allowances for loan and lease losses, subject to limitations.

Under the existing risk-based capital rules, the Company and the Bank are currently required to maintain Tier 1 capital and total capital (the sum of Tier 1 and Tier 2 capital) equal to at least 4% and 8%, respectively, of its total risk-weighted assets (including various off-balance-sheet items). For a depository institution to be considered well capitalized, its Tier 1 and total capital ratios must be at least 6.0% and 10.0% on a risk-adjusted basis, respectively.

Bank holding companies and banks are also required to comply with minimum leverage ratio requirements. The leverage ratio is the ratio of a banking organization s Tier 1 capital to its total adjusted quarterly average assets (as defined for regulatory purposes). The requirements necessitate a minimum leverage ratio of 3% for financial holding companies and banking organizations that have the highest supervisory rating. All other banking organizations are required to maintain a minimum leverage ratio of 4%, unless a different minimum is specified by an appropriate regulatory authority. For a depository institution to be considered well-capitalized, its leverage ratio must be at least 5%. As of December 31, 2014 and 2013, the Company and the Bank exceeded all applicable capital requirements and each met the requirements to be considered well-capitalized.

Basel III Capital Rules Effective July 2, 2013, the FRB approved final rules known as the Basel III Capital Rules that substantially revise the risk-based capital and leverage capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank. The Basel III Capital Rules implement aspects of the Basel III capital framework agreed upon by the Basel Committee and incorporates changes required by the Dodd-Frank Act. The Basel III Capital Rules will come into effect for the Company and the Bank on January 1, 2015 (subject to a phase-in period).

Among other things, the Basel III Capital Rules (i) introduce Common Equity Tier 1 (CET1) as a new capital measure (which is subject to a number of phased-in deductions and adjustments); (ii) specify that Tier 1 capital consists of CET1 and Additional Tier 1 capital instruments meeting certain requirements; (iii) define CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the adjustments as compared to existing regulations. CET1 capital consists of common stock instruments that meet criteria set forth in the final rules, retained earnings, accumulated other comprehensive income and common equity Tier 1 minority interests.

When fully phased-in on January 1, 2019, the Basel III Capital Rules require banking organizations to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer; (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6%, plus the 2.5% capital conservation buffer; (iii) a minimum ratio of total capital (Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8%, plus the 2.5% capital conservation buffer; and (iv) as a newly adopted international standard, a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to adjusted average consolidated assets. The Basel III Capital Rules also incorporate a countercyclical buffer of 0% to 2.5% of common equity or other fully loss-absorbing capital that may be implemented according to national circumstances as an extension of the conservation buffer.

The capital conservation buffer is designed to absorb losses during periods of economic hardship. Institutions with a ratio of CET1 to risk-weighted assets above the minimum but below the conservation buffer will be subject to limitations on the payment of dividends, common stock repurchases and discretionary cash payments to executive officers based on the amount of the shortfall. Implementation of the capital conservation buffer will begin on January 1, 2016 at 0.625% and be phased-in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019).

With respect to the Bank, the Basel III Capital Rules also revised the prompt corrective action regulations by (i) introducing a CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum Tier 1 risk-based capital ratio for well-capitalized status being 8% (as compared to the current 6%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3% leverage ratio and still be well-capitalized.

Management believes that, as of December 31, 2014, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis if such requirements were currently effective. Requirements to maintain higher levels of capital or to maintain higher levels of liquid assets could adversely impact the Company s net income.

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Source of Strength Doctrine FRB and other regulations require bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. Under this requirement, the Company is expected to commit resources to support the Bank. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Deposit Insurance Substantially all of the deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund (DIF) of the FDIC, and the Bank is subject to deposit insurance assessments to maintain the DIF. Deposit insurance assessments are based on average consolidated total assets minus average tangible equity. Under the FDIC s risk-based assessment system, insured institutions with less than $10 billion in assets, such as the Bank, are assigned to one of four risk categories based on supervisory evaluations, regulatory capital level, and certain other factors, with less risky institutions paying lower assessments. An institution s assessment rate depends upon the category to which it is assigned and certain other factors.

In October 2010, the FDIC adopted a new DIF restoration plan to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act. At least semi-annually, the FDIC will update its loss and income projections for the fund and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking if required. FDIC insurance expense totaled approximately $332,600, $320,700 and $214,400 for the years ended December 31, 2014, 2013 and 2012, respectively.

The FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

Prompt Corrective Action The Basel III Capital Rules incorporate new requirements into the prompt correction action framework, described above. The Federal Deposit Insurance Act (FDIA) requires that federal banking agencies take prompt corrective action against depository institutions that do not meet minimum capital requirements and includes the following five capital tiers: well-capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. A depository institution s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio and the leverage ratio.

A depository institution will be (i) well-capitalized if the institution has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage ratio of 5% or greater, and is not subject to any regulatory order agreement or written directive to meet and maintain a specific capital level for any capital measure; (ii) adequately capitalized if the institution has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater, and a leverage ratio of 4% or greater and is not well capitalized ; (iii) undercapitalized if the institution has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio of less than 4% or a leverage ratio of less than 4%; (iv) significantly undercapitalized if the institution has a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 3% or a leverage ratio of less than 3%; and (v) critically undercapitalized if the institution s tangible equity is equal to or less than 2% of total assets. An institution may be deemed to be in a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank s capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes.

The FDIA generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be undercapitalized. Undercapitalized institutions are subject to growth limitations and are required to submit a capital restoration plan, which must be guaranteed by parent holding companies. Bank holding companies must also provide appropriate assurances of performance, and are, to a certain extent, liable for the performance of their subsidiary banks. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. Critically undercapitalized institutions are subject to the appointment of a receiver or conservator.

As of December 31, 2014 and 2013, the most recent notification from the regulatory agencies categorized the Company and the Bank as well-capitalized. For further information regarding the capital ratios and leverage ratio of the Company and the Bank, see Item 8, Note 2 of this report.

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Safety and Soundness Regulations In accordance with the FDIA, the federal banking agencies adopted guidelines establishing general standards relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, asset quality, earnings, compensation, fees and benefits. In general, the guidelines require that institutions maintain appropriate systems and practices to identify and manage the risks and exposures specified in the guidelines. The guidelines prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal shareholder. In addition, regulations adopted by the federal banking agencies authorize the agencies to require that an institution that has been given notice that it is not satisfying any of such safety and soundness standards to submit a compliance plan. If the institution fails to submit an acceptable compliance plan or fails in any material respect to implement an accepted compliance plan, the agency must issue an order directing corrective actions and may issue an order directing other actions of the types to which an undercapitalized institution is subject under the prompt corrective action provisions of FDIA. If the institution fails to comply with such an order, the agency may seek to enforce such order in judicial proceedings and to impose civil money penalties.

Loans to One Borrower The Bank generally may not make loans or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be loaned, up to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2014, the Bank was in compliance with the loans-to-one-borrower limitations.

Depositor Preference The FDIA provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including depositors whose deposits are payable only outside of the United States and the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Community Reinvestment Act The Community Reinvestment Act of 1977 (CRA) requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. Depository institutions are periodically examined for compliance with the CRA and are assigned ratings that must be publicly disclosed. In order for a financial holding company to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the financial holding company must have received a rating of at least satisfactory in its most recent examination under the CRA. The Bank received a rating of satisfactory in its most recent CRA exam.

Financial Privacy Banks and other financial institutions are subject to regulations that limit their ability to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

The Bank is also subject to regulatory guidelines establishing standards for safeguarding customer information and maintaining information security programs. The standards set forth in the guidelines are intended to ensure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Transactions with Affiliates Transactions between the Bank and its affiliates are subject to regulations that limit the types and amounts of covered transactions engaged in by the Bank and generally require those transactions to be on an arm slength basis. The term affiliate is defined to mean any company that controls or is under common control with the Bank and includes the Company and its non-bank subsidiaries. Covered transactions include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, certain purchases of assets from the affiliate, certain derivative transactions that create a credit exposure to an affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate. In general, these regulations require that any such transaction by the Bank (or its subsidiaries) with an affiliate must be secured by designated amounts of specified collateral and must be limited to certain thresholds on an individual and aggregate basis.

Federal law also limits the Bank s authority to extend credit to its directors, executive officers and 10% shareholders, as well as to entities controlled by such persons. Among other things, extensions of credit to insiders are required to be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prevailing for comparable transactions with unaffiliated persons. Also, the terms of such extensions of credit may not involve more than the normal risk of repayment or present other unfavorable features and may not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in part, on the amount of the Bank s capital.

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Federal Reserve System FRB regulations require depository institutions to maintain cash reserves against their transaction accounts (primarily NOW and demand deposit accounts). A reserve of 3% is to be maintained against aggregate transaction accounts between $12.4 million and $79.5 million (subject to adjustment by the FRB) plus a reserve of 10% (subject to adjustment by the FRB between 8% and 14%) against that portion of total transaction accounts in excess of $79.5 million. The first $12.4 million of otherwise reservable balances (subject to adjustment by the FRB) is exempt from the reserve requirements. The Bank is in compliance with the foregoing requirements.

Other Regulations The operations of the Company and the Bank are also subject to:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Fair Credit Reporting Act, governing the provision of consumer information to credit reporting agencies and the use of consumer information;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;
- Electronic Funds Transfer Act, governing automatic deposits to and withdrawals from deposit accounts and customers rights and liabilities arising from the use of automated teller machines and other electronic banking services.
- Real Estate Settlement Procedures Act, requiring that borrowers for mortgage loans for one- to four-family residential real estate receive various disclosures, including good faith estimates of settlement costs, lender servicing and escrow account practices, and prohibiting certain practices that increase the cost of settlement services;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Check Clearing for the 21st Century Act (also known as Check 21), which gives substitute checks, such as digital check images and copies made from that image, the same legal standing as the original paper check; and
- The USA PATRIOT Act, which requires banks and savings institutions to establish broadened anti-money laundering compliance programs and due diligence policies and controls to ensure the detection and reporting of money laundering.

Website Availability of SEC Reports

Cass files annual, quarterly and current reports with the Securities and Exchange Commission (the SEC). Cass will, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC, make available free of charge on its website each of its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, all amendments to those reports, and its definitive proxy statements. The address of Cass website is: www.cassinfo.com. All reports filed with the SEC are available for reading and copying at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549-2736 or for more information call the Public Reference Room at 1-800-SEC-0330. The SEC also makes all filed reports, proxy statements and information statements available on its website at www.sec.gov.

The reference to the Company s website address does not constitute incorporation by reference of the information contained on the website and should not be considered part of this report.

Financial Information about Segments

The services provided by the Company are classified in two reportable segments: Information Services and Banking Services. The revenues from external customers, net income and total assets by segment as of and for each of the years in the three-year period ended December 31, 2014, are set forth in Item 8, Note 16 of this report.

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Statistical Disclosure by Bank Holding Companies

For the statistical disclosure by bank holding companies, refer to Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 1A. RISK FACTORS

This section highlights specific risks that could affect the Company s business. Although this section attempts to highlight key factors, please be aware that other risks may prove to be important in the future. New risks may emerge at any time, and Cass cannot predict such risks or estimate the extent to which they may affect the Company s financial performance. In addition to the factors discussed elsewhere or incorporated by reference in this report, the identified risks that could cause actual results to differ materially include the following:

General political, economic or industry conditions may be less favorable than expected.

Local, domestic, and international economic, political and industry-specific conditions and governmental monetary and fiscal policies affect the industries in which the Company competes, directly and indirectly. Conditions such as inflation, recession, unemployment, volatile interest rates, tight money supply, real estate values, international conflicts and other factors outside of Cass control may adversely affect the Company. Economic downturns could result in the delinquency of outstanding loans, which could have a material adverse impact on Cass earnings.

Unfavorable developments concerning customer credit quality could affect Cass financial results.

Although the Company regularly reviews credit exposure related to its customers and various industry sectors in which it has business relationships, default risk may arise from events or circumstances that are difficult to detect or foresee. Under such circumstances, the Company could experience an increase in the level of provision for credit losses, delinquencies, nonperforming assets, net charge-offs and allowance for credit losses.

The Company has lending concentrations, including, but not limited to, churches and church-related entities located in selected cities and privately-held businesses located in or near St. Louis, Missouri, that could suffer a significant decline which could adversely affect the Company.

Cass customer base consists, in part, of lending concentrations in several segments and geographical areas. If any of these segments or areas is significantly affected by weak economic conditions, the Company could experience increased credit losses, and its business could be adversely affected.

Fluctuations in interest rates could affect Cass net interest income and balance sheet.

The operations of financial institutions such as the Company are dependent to a large degree on net interest income, which is the difference between interest income from loans and investments and interest expense on deposits and borrowings. Prevailing economic conditions, the fiscal and monetary policies of the federal government and the policies of various regulatory agencies all affect market rates of interest, which in turn significantly affect financial institutions net interest income. Fluctuations in interest rates affect Cass financial statements, as they do for all financial institutions. Volatility in interest rates can also result in disintermediation, which is the flow of funds away from financial institutions into direct investments, such as federal government and corporate securities and other investment vehicles, which, because of the absence of federal insurance premiums and reserve requirements, generally pay higher rates of return than financial institutions. As discussed in greater detail in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, a continuation of the current low level of interest rates would have a negative impact on the Company s net interest income.

Methods of reducing risk exposures might not be effective.

Instruments, systems and strategies used to hedge or otherwise manage exposure to various types of credit, interest rate, market and liquidity, operational, regulatory/compliance, business risks and enterprise-wide risks could be less effective than anticipated. As a result, the Company may not be able to effectively mitigate its risk exposures in particular market environments or against particular types of risk.

Customer borrowing, repayment, investment, deposit, and payable processing practices may be different than anticipated.

The Company uses a variety of financial tools, models and other methods to anticipate customer behavior as part of its strategic and financial planning and to meet certain regulatory requirements. Individual, economic, political and industry-specific conditions and other factors outside of Cass control could alter predicted customer borrowing, repayment, investment, deposit, and payable processing practices. Such a change in these practices could adversely affect Cass ability to anticipate business needs, including cash flow and its impact on liquidity, and to meet regulatory requirements.

Cass must respond to rapid technological changes and these changes may be more difficult or expensive than anticipated.

If competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, the Company’s existing product and service offerings, technology and systems may become obsolete. Further, if Cass fails to adopt or develop new technologies or to adapt its products and services to emerging industry standards, Cass may lose current and future customers, which could have a material adverse effect on its business, financial condition and results of operations. The payment processing and financial services industries are changing rapidly and in order to remain competitive, Cass must continue to enhance and improve the functionality and features of its products, services and technologies. These changes may be more difficult or expensive than the Company anticipates.

Operational difficulties or cyber-security problems could damage Cass’ reputation and business.

The Company depends on the reliable operation of its computer operations and network connections from its clients to its systems. Any operational problems or outages in these systems would cause Cass to be unable to process transactions for its clients, resulting in decreased revenues. In addition, any system delays, failures or loss of data, whatever the cause, could reduce client satisfaction with the Company’s products and services and harm Cass’ financial results. Cass also depends on the security of its systems. Company networks may be vulnerable to unauthorized access, computer viruses and other disruptive problems. A material security problem affecting Cass could damage its reputation, deter prospects from purchasing its products and services, deter customers from using its products and services or result in liability to Cass.

Cass’ stock price can become volatile and fluctuate widely in response to a variety of factors.

The Company’s stock price can fluctuate based on factors that can include actual or anticipated variations in Cass’ quarterly results; new technology or services by competitors; unanticipated losses or gains due to unexpected events, including losses or gains on securities held for investment purposes; significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors; changes in accounting policies or practices; failure to integrate acquisitions or realize anticipated benefits from acquisitions; or changes in government regulations.

General market fluctuations, industry factors and general economic and political conditions, such as economic slowdowns or recessions, governmental intervention, interest rate changes, credit loss trends, low trading volume or currency fluctuations also could cause Cass’ stock price to decrease regardless of the Company’s operating results.

Competitive product and pricing pressure within Cass’ markets may change.

The Company operates in a very competitive environment, which is characterized by competition from a number of other vendors and financial institutions in each market in which it operates. The Company competes with large payment processors and national and regional financial institutions and also smaller auditing companies and banks in terms of products and pricing. If the Company is unable to compete effectively in products and pricing in its markets, business could decline.

Management’s ability to maintain and expand customer relationships may differ from expectations.

The industries in which the Company operates are very competitive. The Company not only competes for business opportunities with new customers, but also competes to maintain and expand the relationships it has with its existing customers. The Company continues to experience pressures to maintain these relationships as its competitors attempt to capture its customers.

The introduction, withdrawal, success and timing of business initiatives and strategies, including, but not limited to, the expansion of payment and processing activities to new markets, the expansion of products and services to existing markets and opening of new bank branches, may be less successful

or may be different than anticipated. Such a result could adversely affect Cass’ business.

The Company makes certain projections as a basis for developing plans and strategies for its payment processing and banking products. If the Company does not accurately determine demand for its products and services, it could result in the Company incurring significant expenses without the anticipated increases in revenue, which could result in an adverse effect on its earnings.

Management’s ability to retain key officers and employees may change.

Cass’ future operating results depend substantially upon the continued service of Cass’ executive officers and key personnel. Cass’ future operating results also depend in significant part upon Cass’ ability to attract and retain qualified management, financial, technical, marketing, sales, and support personnel. Competition for qualified personnel is intense, and the Company cannot ensure success in attracting or retaining qualified personnel. There may be only a limited number of persons with the requisite skills to serve in these positions, and it may be increasingly difficult for the Company to hire personnel over time. Cass’ business, financial condition and results of operations could be materially adversely affected by the loss of any of its key employees, by the failure of any key employee to perform in his or her current position, or by Cass’ inability to attract and retain skilled employees.

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Recent legislative and regulatory initiatives to support the financial services industry have been coupled with numerous restrictions and requirements that could detrimentally affect the Companys business.

The Dodd-Frank Act is significantly changing the current bank regulatory structure and affecting the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

The Company and the Bank are supervised and regulated primarily by the FRB. In addition, the Company is subject to consolidated capital requirements, made more strict by the recent adoptions of the Basel III Capital Rules, and must serve as a source of strength to the Bank. It is possible such requirements may limit our capacity to pay dividends or repurchase shares.

The Dodd-Frank Act also broadens the base for FDIC insurance assessments. The FDIC insures deposits at FDIC-insured financial institutions, including the Bank. The FDIC charges insured financial institutions premiums to maintain the DIF at a specific level. The Banks FDIC insurance premiums increased substantially beginning in 2009, and they expect to pay high premiums in the future. Economic conditions during the recent recession increased bank failures and decreased the DIF. The FDIC may increase the assessment rates or impose additional special assessments in the future to keep the DIF at the statutory target level. Any increase in our FDIC premiums could have an adverse effect on the Banks profits and financial condition.

The scope and impact of many of the Dodd-Frank Act provisions will be determined over time as regulations are issued and become effective. As a result, the Company cannot predict the ultimate impact of the Dodd-Frank Act at this time, including the extent to which it could increase costs or limit their ability to pursue business opportunities in an efficient manner, or otherwise adversely affect the business, financial condition and results of operations. However, it is expected that at a minimum, they will increase operating and compliance costs.

Cass is subject to extensive regulatory oversight.

The Company is subject to extensive regulation and supervision that is designed primarily for the protection of the DIF and depositors, and not to the benefit of the shareholders. As a result, the Company is limited in the manner in which it conducts business, undertakes new investments and activities and obtains financing. This regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the timing and amount of dividend payments, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Failure to comply with these and other regulatory requirements can lead to, among other remedies, administrative enforcement actions and other legal proceedings, including the imposition of civil money penalties.

Changes in regulation or oversight may have a material adverse impact on Cass operations.

The Company is subject to extensive regulation, supervision and examination by the Missouri Division of Finance, the FDIC, the FRB, the SEC and other regulatory bodies. Such regulation and supervision governs the activities in which the Company may engage. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on Cass operations, investigations and limitations related to Cass securities, the classification of Cass assets and determination of the level of Cass allowance for loan losses. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material adverse impact on Cass operations.

Legal and regulatory proceedings and related matters with respect to the financial services industry, including those directly involving the Company and its subsidiaries, could adversely affect Cass or the financial services industry in general.

The Company is subject to various legal and regulatory proceedings. It is inherently difficult to assess the outcome of these matters, and there can be no assurance that the Company will prevail in any proceeding or litigation. Any such matter could result in substantial cost and diversion of Cass efforts, which by itself could have a material adverse effect on Cass financial condition and operating results. Further, adverse determinations in such matters could result in actions by Cass regulators that could materially adversely affect Cass business, financial condition or results of operations. Please refer to Item 3, Legal Proceedings.

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The Company’s accounting policies and methods are the basis of how Cass reports its financial condition and results of operations, and they require management to make estimates about matters that are inherently uncertain. In addition, changes in accounting policies and practices, as may be adopted by the regulatory agencies, the Financial Accounting Standards Board, or other authoritative bodies, could materially impact Cass’ financial statements.

The Company’s accounting policies and methods are fundamental to how Cass records and reports its financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods in order to ensure that they comply with generally accepted accounting principles and reflect management’s judgment as to the most appropriate manner in which to record and report Cass’ financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances yet might result in the Company reporting materially different amounts than would have been reported under a different alternative.

Cass has identified four accounting policies as being “critical” to the presentation of its financial condition and results of operations because they require management to make particularly subjective and/or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions. More information on Cass’ critical accounting policies is contained in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

From time to time, the regulatory agencies, the Financial Accounting Standards Board (“FASB”), and other authoritative bodies change the financial accounting and reporting standards that govern the preparation of the Company’s financial statements. These changes can be hard to predict and can materially impact how management records and reports the Company’s financial condition and results of operations.

Cass is subject to examinations and challenges by tax authorities, which, if not resolved in the Company’s favor, could adversely affect the Company’s financial condition and results of operations.

In the normal course of business, Cass and its affiliates are routinely subject to examinations and challenges from federal and state tax authorities regarding the amount of taxes due in connection with investments it has made and the businesses in which it is engaged. Recently, federal and state taxing authorities have become increasingly aggressive in challenging tax positions taken by financial institutions. These tax positions may relate to tax compliance, sales and use, franchise, gross receipts, payroll, property and income tax issues, including tax base, apportionment and tax credit planning. The challenges made by tax authorities may result in adjustments to the timing or amount of taxable income or deductions or the allocation of income among tax jurisdictions. If any such challenges are made and are not resolved in the Company’s favor, they could have an adverse effect on Cass’ financial condition and results of operations.

There could be terrorist activities or other hostilities, which may adversely affect the general economy, financial and capital markets, specific industries, and the Company.

The terrorist attacks in September 2001 in the United States and ensuing events, as well as the resulting decline in consumer confidence, had a material adverse effect on the economy. Any similar future events may disrupt Cass’ operations or those of its customers. In addition, these events had and may continue to have an adverse impact on the U.S. and world economy in general and consumer confidence and spending in particular, which could harm Cass’ operations. Any of these events could increase volatility in the U.S. and world financial markets, which could harm Cass’ stock price and may limit the capital resources available to its customers and the Company. This could have a significant impact on Cass’ operating results, revenues and costs and may result in increased volatility in the market price of Cass’ common stock.

There could be natural disasters, including, but not limited to, hurricanes, tornadoes, earthquakes, fires and floods, which may adversely affect the general economy, financial and capital markets, specific industries, and the Company.

The Company has significant operations and customer base in Missouri, California, Ohio, Massachusetts, South Carolina, Kansas, Florida, Colorado and other regions where natural disasters may occur. These regions are known for being vulnerable to natural disasters and other risks, such as tornadoes, hurricanes, earthquakes, fires and floods. These types of natural disasters at times have disrupted the local economy, Cass business and customers and have posed physical risks to Cass property. A significant natural disaster could materially affect Cass operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

In September 2012, the Company entered into a 10-year lease for office space in St. Louis County, Missouri, to house the headquarters of the Company and the Bank. The Company s headquarters occupy 13,991 square feet in an office center at 12444 Powerscourt Drive, and the Bank s headquarters occupy 10,564 square feet in the same center at 12412 Powerscourt Drive.

The Company owns approximately 61,500 square feet of office space at 13001 Hollenberg Drive in Bridgeton, Missouri where the Company s transportation processing activities are performed.

The Company owns a production facility of approximately 45,500 square feet located at 2675 Corporate Exchange Drive, Columbus, Ohio. Additional facilities are located in Lowell, Massachusetts, Greenville, South Carolina, Wellington, Kansas, Jacksonville, Florida and Columbus, Ohio. The Company has an office in Breda, Netherlands to service its multinational customers.

In addition, the Bank owns a banking facility near downtown St. Louis, Missouri, has an operating branch in the Bridgeton, Missouri location, and has additional leased facilities in Fenton, Missouri, Santa Ana, California and Colorado Springs, Colorado.

Management believes that these facilities are suitable and adequate for the Company s operations.

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries are not involved in any pending proceedings other than ordinary routine litigation incidental to their businesses. Management believes none of these proceedings, if determined adversely, would have a material effect on the business or financial conditions of the Company or its subsidiaries.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company s common stock is quoted on The Nasdaq Global Select Market® under the symbol CASS. As of March 2, 2015, there were 155 holders of record of the Company s common stock. High and low sale prices, as reported by The Nasdaq Global Select Market for each quarter of 2014 and 2013, were as follows:

	2014		2013	
	High	Low	High	Low
1st Quarter	$ 67.29	$ 45.74	$ 43.97	$ 38.01
2nd Quarter	54.17	48.55	47.31	39.41
3rd Quarter	51.00	41.19	62.57	46.23
4th Quarter	54.91	39.00	68.81	50.95

The Company has continuously paid regularly scheduled cash dividends since 1934 and expects to continue to pay quarterly cash dividends in the future. Cash dividends paid per share by the Company during the two most recent fiscal years were as follows:

	2014	2013
March	$ .200	$ .180
June	.200	.180
September	.200	.180
December	.210	.200

Subsidiary dividends can be a significant source of funds for payment of dividends by the Company to its shareholders. Both the Company and the Bank are subject to various regulations that restrict their ability to pay dividends and the amount of dividends that they may pay. Under the FDICIA, a depository institution, such as the Bank, may not pay dividends if payment would cause it to become undercapitalized or if it is already undercapitalized. The payment of dividends by the Company and the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital and, under certain circumstances, the ability of federal regulators to prohibit dividend payments as an unsound or unsafe practice. For further information regarding capital ratios and leverage ratio requirements of the Company and the Bank and the effect on payment of dividends, see Item 8, Note 2 of this report.

During the three months ended December 31, 2014, the Company repurchased a total of 19,960 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
October 1, 2014 October 31, 2014	1,000	$43.35	1,000	499,000
November 1, 2014 November 30, 2014				499,000
December 1, 2014 December 31, 2014	18,960	$47.13	18,960	480,040
Total	19,960	$46.94	19,960	480,040

(1) All repurchases made during the quarter ended December 31, 2014 were made pursuant to the treasury stock buyback program which was re-authorized by the Board of Directors on October 17, 2011 and announced by the Company on October 20, 2011. The program provides that the Company may repurchase up to an aggregate of 363,000 shares of common stock (increased to 500,000 shares by the Board of

Directors on October 20, 2014) and has no expiration date.

The Company repurchased a total of 39,502 shares at an aggregate cost of $1,848,000 during the year ended December 31, 2014 and 0 during the year ended December 31, 2013. A portion of the repurchased shares may be used for the Company s employee benefit plans, and the balance will be available for other general corporate purposes. The stock repurchase authorization does not have an expiration date and the pace of repurchase activity will depend on factors such as levels of cash generation from operations, cash requirements for investments, repayment of debt, current stock price, and other factors. The Company may repurchase shares from time to time on the open market or in private transactions, including structured transactions. The stock repurchase program may be modified or discontinued at any time.

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Performance Quoted on The Nasdaq Stock Market for the Last Five Fiscal Years

The following graph compares the cumulative total returns over the last five fiscal years of a hypothetical investment of $100 in shares of common stock of the Company with a hypothetical investment of $100 in The Nasdaq Stock Market (Nasdaq) and in the index of Nasdaq computer and data processing stocks. The graph assumes $100 was invested on December 31, 2009, with dividends reinvested. Returns are based on period end prices.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents selected financial information for each of the five years ended December 31. The selected financial data should be read in conjunction with the Company's consolidated financial statements and accompanying notes included in Item 8 of this report.

(Dollars in thousands except per share data)	2014	2013	2012	2011	2010
Fee revenue and other income	$ 79,907	$ 76,572	$ 71,138	$ 62,824	$ 56,146
Interest income on loans	29,726	32,110	35,525	39,515	39,785
Interest income on equity securities	9,441	8,915	9,938	10,034	8,747
Other interest income	592	552	470	686	514
Total interest income	39,759	41,577	45,933	50,235	49,046
Interest expense on deposits	2,460	2,832	3,148	4,374	4,875
Provision for loan losses		500	2,400	2,150	4,100
Net interest income after provision	37,299	38,245	40,385	43,711	40,071
Operating expense	85,414	84,086	80,333	75,029	68,284
Income before income tax expense	31,792	30,731	31,190	31,506	27,933
Income tax expense	7,759	7,234	7,887	8,497	7,623
Net income	$ 24,033	$ 23,497	$ 23,303	$ 23,009	$ 20,310
Diluted earnings per share	$ 2.06	$ 2.02	$ 2.02	$ 2.01	$ 1.78
Dividends per share	.81	.74	.64	.55	.48
Dividend payout ratio	38.85%	36.21%	31.59%	27.29%	26.82%
Average total assets	$ 1,424,967	$ 1,351,782	$ 1,344,492	$ 1,301,635	$ 1,157,257
Average net loans	651,984	647,827	671,900	683,215	666,202
Average investment securities	321,836	294,846	313,184	263,264	222,249
Average total deposits	571,039	550,110	541,046	541,337	470,096
Average total shareholders equity	200,149	175,441	167,867	151,669	137,748
Return on average total assets	1.69%	1.74%	1.73%	1.77%	1.76%
Return on average equity	12.01	13.39	13.88	15.17	14.74
Average equity to assets ratio	14.05	12.98	12.49	11.65	11.90
Equity to assets ratio at year-end	13.36	14.36	13.80	12.17	11.96
Tangible common equity to tangible assets	12.52	13.39	12.47	11.66	11.38
Tangible common equity to risk-weighted assets	19.65	20.37	17.98	17.47	15.20
Net interest margin	3.43	3.63	4.00	4.31	4.61
Allowance for loan losses to loans at year-end	1.78	1.79	1.80	1.93	1.68
Nonperforming assets to loans and foreclosed assets	.07	.27	1.15*	.51	.35
Net loan (recoveries) charge-offs to average loans outstanding	(.03)	.18	.44	.16	.07

* In February 2013, a payment of $4,115,000 was received for one nonaccrual loan with a balance of $4,198,000. $83,000 was charged off. The percentage, as adjusted, would have been .54%.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information about the financial condition and results of operations of the Company for the years ended December 31, 2014, 2013 and 2012. This discussion and analysis should be read in conjunction with the Company s consolidated financial statements and accompanying notes and other selected financial data presented elsewhere in this report.

Executive Overview

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

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

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

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On January 6, 2012, the Company acquired the assets of Waste Reduction Consultants, Inc., a provider of environmental expense management services. This acquisition positions the Company to expand its portfolio of services for controlling facility-related expenses and accelerates Cass leadership position as a back-office business processor. The results of operations for this new service are included in the Information Services business segment.

In 2014, total fee revenue and other income increased $3,335,000, or 4%, net interest income after provision for loan losses decreased $946,000, or 2%, and total operating expenses increased $1,328,000, or 2%. These results were driven by a 3,344,000, or 7%, increase in items processed and $3,382,792,000, or 10%, increase in dollars processed in 2014. This positive performance in 2014 was mainly attributed to a large number of new customers in the transportation expense management operation, driven by both successful marketing efforts and the solid market leadership position held by Cass. Conversely, performance in the facility expense management operation was hampered, despite a high number of new customer wins, as competitor consolidation in the energy sector continued to impair customer retention. Gains on sales of investments securities were down significantly, by $4,001,000, or 99%. The asset quality of the Company s loans and investments as of December 31, 2014 remained strong.

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.

Impact of New and Not Yet Adopted Accounting Pronouncements

The new accounting pronouncements are not applicable to the Company and/or do not materially impact the Company.

Critical Accounting Policies

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

Investment in Debt Securities. The Company classifies its debt marketable securities as available-for-sale. Securities classified as available-for-sale are carried at fair value. Unrealized gains and losses, net of the related tax effect, are excluded from earnings and reported in accumulated other comprehensive income, a component of shareholders equity. A decline in the fair value of any available-for-sale security below cost that is deemed other than temporary results in a charge to earnings and the establishment of a new cost basis for the security. To determine whether impairment is other than temporary, the Company considers guidance provided in FASB ASC Topic 320, *Investments Debt and Equity Securities.* When determining whether a debt security is other-than-temporarily impaired, the Company assesses whether it has the intent to sell the security and whether it is more likely than not that the Company will be required to sell prior to recovery of the amortized cost basis. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in value subsequent to year-end and forecasted performance of the investee.

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

Income Taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in the Company s financial statements or tax returns such as the realization of deferred tax assets or changes in tax laws or interpretations thereof. In addition, the Company is subject to the continuous examination of its income tax returns by the Internal Revenue Service and other taxing authorities. In accordance with FASB ASC 740, Income Taxes, the Company has unrecognized tax benefits related to tax positions taken or expected to be taken. See Item 8, Note 13 to the consolidated financial statements contained herein.

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Pension Plans. The amounts recognized in the consolidated financial statements related to pension plans are determined from actuarial valuations. Inherent in these valuations are assumptions, including expected return on plan assets, discount rates at which the liabilities could be settled at December 31, 2014, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Item 8, Note 10 to the consolidated financial statements. Pursuant to FASB ASC 715, Compensation Retirement Benefits (ASC 715), the Company has recognized the funded status of its defined benefit postretirement plan in its balance sheet and has recognized changes in that funded status through comprehensive income. The funded status is measured as the difference between the fair value of the plan assets and the projected benefit obligation as of the date of its fiscal year-end.

Summary of Results

	For the Years Ended December 31,			% Change	
(In thousands except per share data)	**2014**	**2013**	**2012**	**2014 v. 2013**	**2013 v. 2012**
Total processing volume	54,741	51,397	47,067	6.5%	9.2%
Total processing dollars	$38,472,500	$35,089,708	$33,162,412	9.6	5.8
Payment and processing fees	$ 77,427	$ 70,805	$ 66,695	9.4	6.2
Net interest income after provision for loan losses	$ 37,299	$ 38,245	$ 40,385	(2.5)	(5.3)
Total net revenue	$ 117,206	$ 114,817	$ 111,523	2.1	3.0
Average earning assets	$ 1,242,549	$ 1,198,710	$ 1,201,846	3.7	(.3)
Net interest margin*	3.43%	3.63%	4.00%		
Net income	$ 24,033	$ 23,497	$ 23,303	2.3	.8
Diluted earnings per share	$ 2.06	$ 2.02	$ 2.02	2.0	
Return on average assets	1.69%	1.74%	1.73%		
Return on average equity	12.01%	13.39%	13.88%		

*Presented on a tax-equivalent basis

The results of 2014 compared to 2013 include the following significant items:

Payment and processing fee revenue increased as the number of transactions processed increased. This positive performance in 2014 was mainly attributed to a large number of new customers in the transportation expense management operation, driven by both successful marketing efforts and the solid market leadership position held by Cass. Conversely, performance in the facility expense management operation was hampered, despite a high number of new customer wins, as competitor consolidation in the energy sector continued to impair customer retention.

Net interest income after provision for loan losses decreased $946,000, or 2%, due to the decrease in the net interest margin on a tax equivalent basis from 3.63% in 2013 to 3.43% in 2014. The increase in average earning assets was the result of increases in accounts and drafts payable and deposits.

Gains from the sale of securities were $23,000 in 2014 and $4,024,000 in 2013. Bank service fees were down $83,000, or 7%, and other income was up $797,000. Operating expenses increased $1,328,000, or 2%, primarily due to salary and technology expense increases.

The results of 2013 compared to 2012 include the following significant items:

Payment and processing fee revenue increased as the number of transactions processed increased. This increase was due to increased activity from new customers.

Net interest income after provision for loan losses decreased $2,140,000, or 5%, due to the decrease in the net interest margin on a tax equivalent basis from 4.00% in 2012 to 3.63% in 2013. The decrease in average earning assets was the result of a decrease in accounts and drafts payable, partially offset by an increase in deposits.

Gains from the sale of securities were $4,024,000 in 2013 and $2,635,000 in 2012. Bank service fees were down $57,000, or 4%, and other income was approximately the same as last year. Operating expenses increased $3,753,000, or 5%, primarily in the area of salaries and benefits resulting from the increase in business volume.

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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:

	December 31,			% Change	
(In thousands)	**2014**	**2013**	**2012**	**2014 v. 2013**	**2013 v. 2012**
Transportation invoice transaction volume	34,141	31,895	28,790	7.0%	10.8%
Transportation invoice dollar volume	$ 25,993,966	$ 23,506,097	$ 22,263,118	10.6	5.6
Expense management transaction volume*	20,600	19,502	18,277	5.6	6.7
Expense management dollar volume*	$ 12,478,534	$ 11,583,611	$ 10,899,294	7.7	6.3
Payment and processing revenue	$ 77,427	$ 70,805	$ 66,695	9.4	6.2
Bank service fees	$ 1,132	$ 1,215	$ 1,272	(6.8)	(4.5)
Gains on sales of investment securities	$ 23	$ 4,024	$ 2,635	(99.4)	52.7
Other	$ 1,325	$ 528	$ 536	150.9	(.1)

* Includes energy, telecom and environmental

Fee revenue and other income in 2014 compared to 2013 include the following significant pre-tax components:

Transportation transaction volume increased 7% during the year, primarily due to increased activity from new customers. Expense management transaction volume increased 6%. Overall, revenues for the year were up primarily due to new business in the transportation sector. Gains on sales of investment securities were down significantly because the Company held on to its investments.

Fee revenue and other income in 2013 compared to 2012 include the following significant pre-tax components:

Transportation transaction volume increased 11% during the past year, primarily due to increased activity from new customers. Expense management transaction volume increased 7%. Overall, revenues for the year were up primarily due to new business in the transportation sector. Gains on sales of investment securities were up significantly as the Company took advantage of market gains.

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:

	December 31,			% Change	
(In thousands)	**2014**	**2013**	**2012**	**2014 v. 2013**	**2013 v. 2012**
Average earning assets	$ 1,242,549	$ 1,198,710	$ 1,201,846	3.7%	(.3%)
Net interest income*	$ 42,587	$ 43,468	$ 48,086	(2.0)	(9.6)
Net interest margin*	3.43%	3.63%	4.00%		
Yield on earning assets*	3.63%	3.86%	4.26%		
Rate on interest bearing liabilities	.58%	.69%	.78%		

* Presented on a tax-equivalent basis using a tax rate of 35% in all years.

Net interest income in 2014 compared to 2013:

The decrease in net interest income was caused by a decrease in net interest margin. The decrease in net interest margin was due to the lack of satisfactory investment alternatives in this historically low interest rate environment. More information is contained in the tables below and in Item 7A of this report.

Total average loans increased $4,402,000, or less than 1%, to $663,824,000. Loans have a positive effect on interest income and the net interest margin due to the fact that loans are one of the Company's highest yielding earning assets for any given maturity.

Total average investment in securities increased $26,990,000, or 9%. The investment portfolio will expand and contract over time as the Company manages its liquidity and interest rate position. All purchases were made in accordance with the Company's investment policy. Interest bearing deposits in other financial institutions increased $14,591,000, or 12%. Total average federal funds sold and other short-term investments decreased $2,144,000, or 2%.

The Bank's total average interest-bearing deposits increased $11,019,000, or 3%, compared to the prior year. Average rates paid on interest-bearing liabilities decreased from .69% to .58% as a result of the continued low interest rate environment.

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Net interest income in 2013 compared to 2012:

The decrease in net interest income was caused by a decrease in net interest margin. The decrease in net interest margin was due to the lack of satisfactory investment alternatives in this historically low interest rate environment. More information is contained in the tables below and in Item 7A of this report.

Total average loans decreased $25,175,000, or 4%, to $659,422,000. Loans have a positive effect on interest income and the net interest margin due to the fact that loans are one of the Company s highest yielding earning assets for any given maturity.

Total average investment in securities decreased $16,927,000, or 6%. The investment portfolio will expand and contract over time as the Company manages its liquidity and interest rate position. All purchases were made in accordance with the Company s investment policy. Total average federal funds sold and other short-term investments increased $36,051,000, or 41%.

The Bank s total average interest-bearing deposits increased $8,712,000, or 2%, compared to the prior year. Average rates paid on interest-bearing liabilities decreased from .78% to ..69% as a result of the continued low interest rate environment.

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

The following table contains 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:

	2014			2013			2012		
(In thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
Assets[1]									
Earning assets									
Loans[2, 3]:									
Taxable	$ 647,896	$ 29,316	4.52%	$ 657,385	$ 32,078	4.88%	$ 683,921	$ 35,521	5.19%
Tax-exempt[4]	15,928	630	3.96	2,037	49	2.45	676	6	.89
Securities[5]:									
Taxable	1,095	21	1.92	1,068	21	1.97	1,014	25	2.47
Tax-exempt[4]	316,991	14,480	4.57	288,571	13,573	4.70	305,552	15,177	4.97
Certificates of deposit	3,750	8	.21	5,207	27	.52	6,618	35	.53
Interest-bearing deposits in other financial institutions	135,263	424	.31	120,672	398	.33	116,346	362	.31
Federal funds sold and other short-term investments	121,626	168	.14	123,770	154	.12	87,719	108	.12
Total earning assets	1,242,549	45,047	3.63	1,198,710	46,300	3.86	1,201,846	51,234	4.26
Non-earning assets									
Cash and due from banks	12,074			12,476			12,469		
Premise and equipment, net	14,793			12,258			9,649		
Bank owned life insurance	15,295			15,160			14,625		
Goodwill and other intangibles	14,593			15,078			14,970		
Other assets	137,503			109,695			103,630		
Allowance for loan losses	(11,840)			(11,595)			(12,697)		
Total assets	$ 1,424,967			$ 1,351,782			$ 1,344,492		
Liabilities and Shareholders Equity[1]									
Interest-bearing liabilities									
Interest-bearing demand deposits	$ 317,120	$ 1,564	.49%	$ 283,728	$ 1,737	.61%	$ 256,332	$ 1,739	.68%
Savings deposits	17,073	87	.51	20,840	138	.66	24,261	169	.70

Time deposits >=$100	29,643	337	1.14	33,703	357	1.06	39,638	456	1.15
Other time deposits	59,628	472	.79	74,174	600	.81	83,502	784	.94
Total interest-bearing deposits	423,464	2,460	.58	412,445	2,832	.69	403,733	3,148	.78
Short-term borrowings	6			3			5		
Total interest bearing liabilities	423,470	2,460	.58	412,448	2,832	.69	403,738	3,148	.78
Non-interest bearing liabilities									
Demand deposits	147,575			137,665			137,313		
Accounts and drafts payable	643,077			600,611			616,573		
Other liabilities	10,696			25,617			19,001		
Total liabilities	1,224,818			1,176,341			1,176,625		
Shareholders equity	200,149			175,441			167,867		
Total liabilities and shareholders equity	$ 1,424,967			$ 1,351,782			$ 1,344,492		
Net interest income		$ 42,587			$ 43,468			$ 48,086	
Net interest margin		3.43%			3.63%			4.00%	
Interest spread		3.05%			3.17%			3.48%	

[1] Balances shown are daily averages.

[2] For purposes of these computations, nonaccrual loans are included in the average loan amounts outstanding. Interest on nonaccrual loans is recorded when received as discussed further in Item 8, Note 1 of this report.

[3] Interest income on loans includes net loan fees of $325,000, $339,000, and $333,000 for 2014, 2013 and 2012, respectively.

[4] Interest income is presented on a tax-equivalent basis assuming a tax rate 35% in all years. The tax-equivalent adjustment was approximately $5,288,000, $4,723,000 and $5,301,000 for 2014, 2013 and 2012, respectively.

[5] For purposes of these computations, yields on investment securities are computed as interest income divided by the average amortized cost of the investments.

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Analysis of Net Interest Income Changes

The following table presents the changes in interest income and expense between years due to changes in volume and interest rates.

	2014 Over 2013			2013 Over 2012		
(In thousands)	Volume[1]	Rate[1]	Total	Volume[1]	Rate[1]	Total
Increase (decrease) in interest income:						
Loans[2,3] :						
Taxable	$ (457)	$ (2,305)	$ (2,762)	$ (1,346)	$ (2,097)	$ (3,443)
Tax-exempt[4]	533	48	581	23	20	43
Securities:						
Taxable	1	(1)	0	1	(5)	(4)
Tax-exempt[4]	1,307	(400)	907	(821)	(783)	(1,604)
Certificates of deposit	(6)	(13)	(19)	(7)	(1)	(8)
Interest-bearing deposits in other financial institutions	46	(20)	26	14	22	36
Federal funds sold and other short-term investments	(3)	17	14	45	1	46
Total interest income	$ 1,421	$ (2,674)	$ (1,253)	$ (2,091)	$ (2,843)	$ (4,934)
Interest expense on:						
Interest-bearing demand deposits	$ 189	$ (362)	$ (173)	$ 176	$ (178)	$ (2)
Savings deposits	(22)	(29)	(51)	(23)	(8)	(31)
Time deposits >=$100	(45)	25	(20)	(65)	(34)	(99)
Other time deposits	(115)	(13)	(128)	(82)	(102)	(184)
Total interest expense	7	(379)	(372)	6	(322)	(316)
Net interest income	$ 1,414	$ (2,295)	$ (881)	$ (2,097)	$ (2,521)	$ (4,618)

[1] The change in interest due to the combined rate/volume variance has been allocated in proportion to the absolute dollar amounts of the change in each.

[2] Average balances include nonaccrual loans.

[3] Interest income includes net loan fees.

[4] Interest income is presented on a tax-equivalent basis assuming a tax rate 35% in all years.

Loan Portfolio

Interest earned on the loan portfolio is a primary source of income for the Company. The loan portfolio was $669,346,000 and represented 44.6% of the Company's total assets as of December 31, 2014 and generated $29,726,000 in revenue during the year then ended. The Company had no sub-prime mortgage loans or residential development loans in its portfolio for any of the years presented. The following tables show the composition of the loan portfolio at the end of the periods indicated and remaining maturities for loans as of December 31, 2014.

Loans by Type			December 31,		
(In thousands)	2014	2013	2012	2011	2010
Commercial and industrial	$ 203,350	$ 171,304	$ 160,862	$ 136,916	$ 135,061
Real estate (commercial and church):					
Mortgage	423,641	455,190	502,961	488,574	517,593
Construction	18,612	16,449	23,475	45,564	54,752
Industrial Revenue Bond	23,348	9,167			
Other	395	67	435	511	1,227
Total loans	$ 669,346	$ 652,177	$ 687,733	$ 671,565	$ 708,633

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Loans by Maturity

(At December 31, 2014)	One Year Or Less		Over 1 Year Through 5 Years		Over 5 Years		
(In thousands)	**Fixed Rate**	**Floating Rate[1]**	**Fixed Rate**	**Floating Rate[1]**	**Fixed Rate**	**Floating Rate[1]**	**Total**
Commercial and industrial	$ 7,104	$ 77,726	$ 31,843	$ 48,185	$ 4,754	$ 33,738	$ 203,350
Real Estate:							
Mortgage	50,829	15,560	275,898	16,246	44,674	20,434	423,641
Construction	6,982	2,641	2,823	6,166			18,612
Industrial Revenue Bond			13,107		10,241		23,348
Other		395					395
Total loans	$ 64,915	$ 96,322	$ 323,671	$ 70,597	$ 59,669	$ 54,172	$ 669,346

[1] Loans have been classified as having "floating" interest rates if the rate specified in the loan varies with the prime commercial rate of interest. Note: Due to the historically low interest rates, the Company instituted a 4% floor for its prime lending rate.
The Company has no concentrations of loans exceeding 10% of total loans, which are not otherwise disclosed in the loan portfolio composition table and as are discussed in Item 8, Note 4, of this report. As can be seen in the loan composition table above and as discussed in Item 8, Note 4, the Company's primary market niche for banking services is privately held businesses and churches and church-related ministries.

Loans to commercial entities are generally secured by the business assets of the borrower, including accounts receivable, inventory, machinery and equipment, and the real estate from which the borrower operates. Operating lines of credit to these companies generally are secured by accounts receivable and inventory, with specific percentages of each determined on a customer-by-customer basis based on various factors including the type of business. Intermediate term credit for machinery and equipment is generally provided at some percentage of the value of the equipment purchased, depending on the type of machinery or equipment purchased by the entity. Loans secured exclusively by real estate to businesses and churches are generally made with a maximum 80% loan to value ratio, depending upon the Company's estimate of the resale value and ability of the property to generate cash. The Company's loan policy requires an independent appraisal for all loans over $250,000 secured by real estate. Company management monitors the local economy in an attempt to determine whether it has had a significant deteriorating effect on such real estate loans. When problems are identified, appraised values are updated on a continual basis, either internally or through an updated external appraisal.

Loan portfolio changes from December 31, 2013 to December 31, 2014:

Total loans increased $17,169,000, or 3%, to $669,346,000. Additional details regarding the types and maturities of loans in the loan portfolio are contained in the tables above and in Item 8, Note 4.

Loan portfolio changes from December 31, 2012 to December 31, 2013:

Total loans decreased $35,556,000, or 5%, to $652,177,000. Additional details regarding the types and maturities of loans in the loan portfolio are contained in the tables above and in Item 8, Note 4.

Provision and Allowance for Loan Losses (ALLL)

The Company recorded no provision for loan losses in 2014, $500,000 in 2013 and $2,400,000 in 2012. The amount of the provisions for loan losses was derived from the Company s quarterly analysis of the allowance for loan losses. The amount of the provision will fluctuate as determined by these quarterly analyses. The Company had net loan (recoveries) charge-offs of ($215,000), $1,178,000, and $2,997,000 in 2014, 2013, and 2012, respectively. The ALLL was $11,894,000 at December 31, 2014 compared to $11,679,000 at December 31, 2013 and $12,357,000 at December 31, 2012. The year-end 2014 allowance represented 1.8% of outstanding loans, the same as at year-end 2013 and 2012. From December 31, 2013 to December 31, 2014, the level of nonperforming loans decreased $1,309,000 from $1,797,000 to $488,000, which represents .07% of outstanding loans. Nonperforming loans are more fully explained in the section entitled Nonperforming Assets.

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

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

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

The following schedule summarizes activity in the allowance for loan losses and the allocation of the allowance to the Company s loan categories.

Summary of Loan Loss Experience

	December 31,				
(In thousands)	**2014**	**2013**	**2012**	**2011**	**2010**
Allowance at beginning of year	$ 11,679	$ 12,357	$ 12,954	$ 11,891	$ 8,284
Loans charged-off:					
Commercial and industrial		1,307	1,546	1,118	554
Real estate (commercial and church):					
Mortgage	76	233	1,562	28	
Construction					
Other	3				
Total loans charged-off	79	1,540	3,108	1,146	554
Recoveries of loans previously charged-off:					
Commercial and industrial	41	47	111	58	60
Real estate (commercial and church):					
Mortgage	252	315		1	1
Construction					
Other	1				
Total recoveries of loans previously charged-off	294	362	111	59	61
Net loans (recovered) charged-off	(215)	1,178	2,997	1,087	493
Provision charged to expense		500	2,400	2,150	4,100
Allowance at end of year	$ 11,894	$ 11,679	$ 12,357	$ 12,954	$ 11,891
Loans outstanding:					
Average	$ 663,824	$ 659,422	$ 684,597	$ 695,984	$ 675,901
December 31	669,346	652,177	687,733	671,565	708,633
Ratio of allowance for loan losses to loans outstanding:					
Average	1.79%	1.77%	1.81%	1.86%	1.76%
December 31	1.78%	1.79%	1.80%	1.93%	1.68%
Ratio of net charge-offs to average loans outstanding	(.03)%	.18%	.44%	.16%	.07%
Allocation of allowance for loan losses[1]:					
Commercial and industrial	$ 3,515	$ 3,139	$ 3,192	$ 2,594	$ 2,732
Real estate (commercial and church):					
Mortgage	7,076	7,439	8,687	9,573	8,491
Construction	140	124	470	783	656
Industrial Revenue Bond	394	155			
Other[2]	769	822	8	4	12
Total	$ 11,894	$ 11,679	$ 12,357	$ 12,954	$ 11,891
Percentage of categories to total loans:					
Commercial and industrial	30.4%	26.3%	23.4%	20.4%	19.2%
Real estate (commercial and church):					
Mortgage	63.3%	69.8%	73.1%	72.7%	72.9%
Construction	2.8%	2.5%	3.4%	6.8%	7.7%
Industrial Revenue Bond	3.5%	1.4%			
Other	%	%	0.1 %	0.1 %	0.2 %
Total	100.0%	100.0%	100.0%	100.0%	100.0%

[1] Although specific allocations exist, the entire allowance is available to absorb losses in any particular loan category.

[2] Includes unallocated of $767,000 and $822,000 in 2014 and 2013, respectively.

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Nonperforming Assets

Nonperforming loans are defined as loans on non-accrual status and loans 90 days or more past due but still accruing. Nonperforming assets include nonperforming loans plus foreclosed real estate. Troubled debt restructurings are not included in nonperforming loans unless they are on non-accrual status or past due 90 days or more.

It is the policy of the Company to continually monitor its loan portfolio and to discontinue the accrual of interest on any loan for which collection is not probable. Subsequent payments received on such loans are applied to principal if collection of principal is not probable; otherwise, these receipts are recorded as interest income. Interest on nonaccrual loans, which would have been recorded under the original terms of the loans, was approximately $108,000 and $180,000 for the years ended December 31, 2014 and 2013, respectively. Of this amount, approximately $77,000 and $131,000 was actually recorded as interest income on such loans during the years ended December 31, 2014 and 2013, respectively.

Total nonaccrual loans at December 31, 2014 consists of two loans totaling $488,000 that relate to businesses/churches that have weak financial positions and/or are in liquidation. Allocations of the allowance for loan losses have been established for the estimated loss exposure.

There were no foreclosed assets at December 31, 2014 and December 31, 2013.

The Company does not have any foreign loans. The Company's loan portfolio does not include a significant amount of single family real estate mortgages, as the Company does not market its services to retail customers. Also, the Company had no sub-prime mortgage loans or residential development loans in its portfolio in any of the years presented.

The Company does not have any other interest-earning assets which would have been included in nonaccrual, past due or restructured loans if such assets were loans.

Summary of Nonperforming Assets

	December 31,				
(In thousands)	**2014**	**2013**	**2012**	**2011**	**2010**
Commercial and industrial:					
Nonaccrual	$	$ 11	$ 1,439	$ 56	$ 46
Contractually past due 90 days or more and still accruing					
Real estate mortgage:					
Nonaccrual	488	1,786	5,133*	1,653	519
Contractually past due 90 days or more and still accruing				29	
Total nonperforming loans	$ 488	$ 1,797	$ 6,572	$ 1,738	$ 565
Total foreclosed assets			1,322	1,689	1,910
Total nonperforming assets	$ 488	$ 1,797	$ 7,894	$ 3,427	$ 2,475

*In February 2013, a payment of $4,115,000 was received for one nonaccrual loan with a balance of $4,198,000. $83,000 was charged off.

Operating Expenses

Operating expenses in 2014 compared to 2013 include the following significant pre-tax components:

Salaries and employee benefits expense increased $378,000, or less than 1%, to $66,100,000. Occupancy expense increased $298,000, or 10.4%, due to the rent escalation on two properties and additional depreciation on building improvements. Equipment expense increased $320,000 to $4,130,000 primarily due to depreciation on new furniture and additional systems software. Amortization of intangibles decreased $52,000 to $483,000. Other operating expense increased $384,000, or 3.4%, to $11,529,000 primarily due to an increase in outside service fees.

Operating expenses in 2013 compared to 2012 include the following significant pre-tax components:

Salaries and employee benefits expense increased $3,159,000, or 5%, to $65,722,000. An increase in the number of employees to support the additional volume primarily drove this increase. Occupancy expense increased $717,000, or 33%, due to the new Company headquarters and Bank headquarters. Equipment expense increased $294,000 to $3,810,000 primarily due to depreciation on additional systems software. Amortization of intangibles decreased $46,000 to $535,000. Other operating expense decreased $371,000, or 3%, to $11,145,000 primarily due to a decrease in legal fees.

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Income Tax Expense

Income tax expense in 2014 totaled $7,759,000 compared to $7,234,000 and $7,887,000 in 2013 and 2012, respectively. When measured as a percent of income, the Company s effective tax rate was 24% in 2014, 24% in 2013, and 25% in 2012. The effective tax rate varies from year-to-year primarily due to changes in the Company s pre-tax income and the amount of investment in tax-exempt municipal bonds.

Investment Portfolio

Investment portfolio changes from December 31, 2013 to December 31, 2014:

State and political subdivision securities increased $38,374,000, or 12%, to $352,391,000. The investment portfolio provides the Company with a significant source of earnings, secondary source of liquidity, and mechanisms to manage the effects of changes in loan demand and interest rates. Therefore, the size, asset allocation and maturity distribution of the investment portfolio will vary over time depending on management s assessment of current and future interest rates, changes in loan demand, changes in the Company s sources of funds and the economic outlook. During this period, the Company purchased state and political subdivision securities. These securities all had A or better credit ratings and maturities approaching 15 years. With the additional liquidity provided by the increase in deposits and accounts and drafts payable, the Company made these purchases to continue to reduce the level of short-term rate sensitive assets. All purchases were made in accordance with the Company s investment policy. As of December 31, 2014, the Company had no mortgage-backed securities in its portfolio.

There was no single issuer of securities in the investment portfolio at December 31, 2014 for which the aggregate amortized cost exceeded 10% of total shareholders' equity.

Investments by Type

	December 31,		
(In thousands)	**2014**	**2013**	**2012**
State and political subdivisions	$ 352,391	$ 314,017	$ 335,193
Certificates of deposit	3,750	3,750	6,742
Total investments	$ 356,141	$ 317,767	$ 341,935

Investment Securities by Maturity
(At December 31, 2014)

(In thousands)	**Within 1 Year**	**Over 1 to 5 Years**	**Over 5 to 10 Years**	**Over 10 Years**	**Yield**
State and political subdivisions	$ 24,462	$ 84,500	$ 150,429	$ 93,000	4.09%
Certificates of deposit	3,750				.25%
Total investments	$ 28,212	$ 84,500	$ 150,429	$ 93,000	4.04%
Weighted average yield[1]	3.85%	4.48%	3.82%	4.06%	4.04%

[1] Weighted average yield is presented on a tax-equivalent basis assuming a tax rate of 35%.

Deposits and Accounts and Drafts Payable

Noninterest-bearing demand deposits increased 11% from December 31, 2013 to $158,999,000 at December 31, 2014. The average balances of these deposits increased 7% in 2014 to $147,575,000. These balances are primarily maintained by commercial customers and churches and can fluctuate on a daily basis.

Interest-bearing deposits increased $20,545,000, or 5%, to $459,200,000 at December 31, 2014. The average balances of these deposits increased to $423,464,000 in 2014 from $412,445,000 in 2013.

Accounts and drafts payable generated by the Company in its payment processing operations increased $111,475,000, or 20%, at December 31, 2013 to $655,428,000 at December 31, 2014. The average balance of these funds increased $42,466,000, or 7%, to $643,077,000 in 2014. Due to the Company s payment processing cycle, average balances are much more indicative of the underlying activity than period-end balances since point-in-time comparisons can be misleading if the comparison dates fall on different days of the week.

The composition of average deposits and the average rates paid on those deposits is represented in the table entitled Distribution of Assets, Liabilities and Shareholders' Equity; Interest Rate and Interest Differential which is included earlier in this discussion. The Company does not have any significant deposits from foreign depositors.

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Maturities of Certificates of Deposit of $100,000 or More

(In thousands)	December 31, 2014	
Three months or less	$	37,633
Three to six months		17,929
Six to twelve months		5,802
Over twelve months		11,455
Total	$	72,819

Liquidity

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

The balances of liquid assets consist 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, totaled $294,335,000 at December 31, 2014, an increase of $69,073,000, or 31%, from December 31, 2013. At December 31, 2014, these assets represented 20% of total assets. Cash and cash equivalents 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 debt securities available-for-sale at fair value was $356,141,000 at December 31, 2014, an increase of $38,374,000, or 12%, from December 31, 2013. These assets represented 24% of total assets at December 31, 2014 and were primarily state and political subdivision securities. Of the total portfolio, 8% mature in one year or less, 24% mature after one year through five years and 68% mature after five years. The Company sold $587,000 in securities available-for-sale during 2014.

As of December 31, 2014, the Bank had unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $88,000,000 at the following banks: Bank of America, $20,000,000; US Bank, $20,000,000; Wells Fargo Bank, $15,000,000; PNC Bank, $12,000,000; Frost National Bank, $10,000,000; JPM Chase Bank, $6,000,000; and UMB Bank $5,000,000. As of December 31, 2014, the Bank had secured lines of credit with the Federal Home Loan Bank (FHLB) of $158,247,000 collateralized by commercial mortgage loans. There were no amounts outstanding under any of the lines of credit discussed above at December 31, 2014 or 2013. At Decemember 31, 2014, the Company had a line of credit from UMB Bank of $50,000,000 and First Tennessee Bank of $50,000,000 collateralized by state and political subdivision securities.

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 many other commercial products of the Bank. The accounts and drafts payable generated by the Company have also historically been a stable source of funds.

Net cash flows provided by operating activities for the years 2014, 2013 and 2012 were $34,843,000, $28,886,000 and $35,328,000, respectively. Net income plus depreciation and amortization accounts for most of the operating cash provided. 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. Further analysis of the changes in these account balances is discussed earlier in this report. Due to the daily fluctuations in these account balances, management believes that 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, cash from operations, and borrowing lines will continue to be sufficient to fund the Company s operations and capital expenditures in 2014. The Company anticipates the annual capital expenditures for 2015 should range from $5 million to $7 million. Capital expenditures in 2015 are expected to consist of equipment and software related to the payment and information processing services business.

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.

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The overall level of economic activity can have a significant impact on the Company s ability to generate revenues andncome, 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 generated (as more invoices are processed) from the Company s transportation customers.

The relative level of energy costs can impact the Company s earnings and available liquidity. Higher levels of energy costs will tend to increase transportation and energy invoice amounts resulting in a corresponding increase in accounts and drafts payable. Increases in accounts and drafts payable generate higher interest income and improve liquidity.

New business opportunities are an important component of the Company s strategy to grow earnings and improveperformance. Generating new customers allows the Company to leverage existing systems and facilities and grow revenues faster than expenses. During 2014, new business was added in both the transportation and facility expense management operations, driven by both successful marketing efforts and the solid market leadership position held by Cass.

Capital Resources

One of management s primary objectives is to maintain a strong capital base to warrant the confidence of customers,shareholders, and bank regulatory agencies. A strong capital base is needed to take advantage of profitable growth opportunities that arise and to provide assurance to depositors and creditors. The Company and its banking subsidiary continue to exceed all regulatory capital requirements, as evidenced by the capital ratios at December 31, 2014 as shown in Item 8, Note 2 of this report.

In 2014, cash dividends paid were $.81 per share for a total of $9,337,000, an increase of $827,000, or 9.7%, compared to $.74 per share for a total of $8,510,000 in 2013. The increase is attributable to the per-share amount paid.

Shareholders equity was$200,432,000, or 13.4% of total assets, at December 31, 2014, an increase of $10,005,000 over the balance at December 31, 2013. This increase resulted primarily from net income of $24,033,000, the available-for-sale net unrealized gain of $5,237,000 offset by cash dividends of $9,337,000 and the pension adjustment per FASB ASC 715 of $9,189,000.

Dividends from the Bank are a source of funds for payment of dividends by the Company to its shareholders. The only restrictions on dividends are those dictated by regulatory capital requirements and prudent and sound banking principles. As of December 31, 2014, unappropriated retained earnings of $23,801,000 were available at the Bank for the declaration of dividends to the Company without prior approval from regulatory authorities.

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. The Company repurchased 39,502 shares at anaggregate cost of $1,848,000 during the year ended December 31, 2014 and 0 during the year ended December 31, 2013. As of December 31, 2014, 480,040 shares remained available for repurchase under the program. A portion of the repurchased shares may be used for the Company's employee benefit plans, and the balance will be available for other general corporate purposes. The stock repurchase authorization does not have an expiration date and the pace of repurchase activity will depend on factors such as levels of cash generation from operations, cash requirements for investments, repayment of debt, current stock price, and other factors. The Company may repurchase shares from time to time on the open market or in private transactions, including structured transactions. The stock repurchase program may be modified or discontinued at any time.

Commitments, Contractual Obligations and Off-Balance Sheet Arrangements

In the normal course of business, the Company is party to activities that involve credit, market and operational risk 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 and capital leases. These financial instruments include commitments to extend credit, commercial letters of credit and standby letters of credit. The Company smaximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, commercial letters of credit and standby letters of credit is represented by the contractual amounts of those instruments. At December 31, 2014, no amounts have been accrued for any estimated losses for these instruments.

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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 December 31, 2014, the balance of loan commitments, standby and commercial letters of credit were $19,066,000, $12,693,000 and $2,571,000, 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 its guarantees on these financial instruments.

The following table summarizes contractual cash obligations of the Company related to operating lease commitments and time deposits at December 31, 2014:

		Amount of Commitment Expiration per Period			
(In thousands)	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**Over 5 Years**
Operating lease commitments	$ 6,841	$ 1,213	$ 2,121	$ 1,484	$ 2,023
Time deposits	79,775	66,436	11,907	1,432	
Total	$ 86,616	$ 67,649	$ 14,028	$ 2,916	$ 2,023

During 2014, the Company made no contribution to its noncontributory defined benefit pension plan. In determining pension expense, the Company makes several assumptions, including the discount rate and long-term rate of return on assets. These assumptions are determined at the beginning of the plan year based on interest rate levels and financial market performance. For 2014, these assumptions were as follows:

Assumption	**Rate**
Weighted average discount rate	5.00%
Rate of increase in compensation levels	3.75%
Expected long-term rate of return on assets	6.75%

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Sensitivity

The Company faces market risk to the extent that its net interest income and its fair market value of equity are affected by changes in market interest rates. The asset/liability management discipline as applied by the Company seeks to limit the volatility, to the extent possible, of both net interest income and the fair market value of equity that can result from changes in market interest rates. This is accomplished by limiting the maturities of fixed rate investments, loans, and deposits; matching fixed rate assets and liabilities to the extent possible; and optimizing the mix of fees and net interest income. However, as discussed below, the Company's asset/liability position often differs significantly from most other financial holding companies with significant positive cumulative "gaps" shown for each time horizon presented. This asset sensitive position is caused primarily by the operations of the Company, which generate large balances of accounts and drafts payable. These balances, which are noninterest bearing, contribute to the Company s historical high net interest margin but cause the Company to become susceptible to changes in interest rates, with a decreasing net interest margin and fair market value of equity in periods of declining interest rates and an increasing net interest margin and fair market value of equity in periods of rising interest rates.

The Company s ALCO measures the Company's interest rate risk sensitivity on a quarterly basis to monitor and manage the variability of earnings and fair market value of equity in various interest rate environments. The ALCO evaluates the Company's risk position to determine whether the level of exposure is significant enough to hedge a potential decline in earnings and value or whether the Company can safely increase risk to enhance returns. The ALCO uses gap reports, 12-month net interest income simulations, and fair market value of equity analyses as its main analytical tools to provide management with insight into the Company's exposure to changing interest rates.

Management uses a gap report to review any significant mismatch between the re-pricing points of the Company s rate-sensitive assets and liabilities in certain time horizons. A negative gap indicates that more liabilities re-price in that particular time frame and, if rates rise, these liabilities will re-price faster than the assets. A positive gap would indicate the opposite. Gap reports can be misleading in that they capture only the re-pricing timing within the balance sheet, and fail to capture other significant risks such as basis risk and embedded options risk. Basis risk involves the potential for the spread relationship between rates to change under different rate environments and embedded options risk relates to the potential for the alteration of the level and/or timing of cash flows given changes in rates.

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Another measurement tool used by management is net interest income simulation, which forecasts net interest income during the coming 12 months under different interest rate scenarios in order to quantify potential changes in short-term accounting income. Management has set policy limits specifying acceptable levels of interest rate risk given multiple simulated rate movements. These simulations are more informative than gap reports because they are able to capture more of the dynamics within the balance sheet, such as basis risk and embedded options risk. A table containing simulation results as of December 31, 2014, from an immediate and sustained parallel change in interest rates is shown below.

While net interest income simulations do an adequate job of capturing interest rate risk to short term earnings, they do not capture risk within the current balance sheet beyond 12 months. The Company uses fair market value of equity analyses to help identify longer-term risk that may reside on the current balance sheet. The fair market value of equity is represented by the present value of all future income streams generated by the current balance sheet. The Company measures the fair market value of equity as the net present value of all asset and liability cash flows discounted at forward rates suggested by the current U.S. Treasury curve plus appropriate credit spreads. This representation of the change in the fair market value of equity under different rate scenarios gives insight into the magnitude of risk to future earnings due to rate changes. Management has set policy limits relating to declines in the market value of equity. The table below contains the analysis, which illustrates the effects of an immediate and sustained parallel change in interest rates as of December 31, 2014:

Change in Interest Rates	% Change in Net Interest Income	% Change in Fair Market Value of Equity
+200 basis points	7%	10%
+100 basis points	4%	5%
Stable rates		
-100 basis points	(1%)	(4%)
-200 basis points	(4%)	(7%)

Interest Rate Sensitivity Position

The following table presents the Company s interest rate risk position at December 31, 2014 for the various time periods indicated.

(In thousands)	Variable Rate	0-90 Days	91-180 Days	181-364 Days	1-5 Years	Over 5 Years	Total
Earning assets:							
Loans:							
Taxable	$ 221,091	$ 64,915	$	$	$ 310,564	$ 49,428	$ 645,998
Tax-exempt					13,107	10,241	23,348
Securities[1]:							
Tax-exempt		24,463			84,500	243,428	352,391
Certificates of deposit				3,750			3,750
Investments in the FHLB and FRB	1,098						1,098
Federal funds sold and other short-term investments	283,028						283,028
Total earning assets	$ 505,217	$ 89,378	$	$ 3,750	$ 408,171	$ 303,097	$ 1,309,613
Interest-sensitive liabilities:							
Money market accounts	$ 274,446	$	$	$	$	$	$ 274,446
Now accounts	80,065						80,065
Savings deposits	24,914						24,914
Time deposits:							
$100K and more		37,633	17,929	5,802	11,455		72,819
Less than $100K		2,194	2,228	650	1,884		6,956
Federal funds purchased and other s							