Risk Factors Comparison 2024-02-28 to 2023-02-28 Form: 10-K

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In addition, there are risks and uncertainties associated with the introduction of new products and services, including substantial investments of time and resources. The introduction and development of new products and services may not be achieved along expected timelines, or at all, and may not be successful as a result of factors beyond the Company' s control, including regulatory, competition and external market factors. Failure to successfully manage these risks in the development and implementation of new products or services, and failure to integrate such new products and services into our existing system of internal controls, could have a material adverse effect on our business, financial condition and results of operations. The Company and the Bank are subject to liquidity risk. The Company requires liquidity to meet deposit and accounts and drafts payable obligations as they come due. Access to funding sources in amounts adequate to finance the Company' s commitments and business activities or on terms that are acceptable or favorable to the Company could be impaired by risks and uncertainties that are beyond the Company' s control, including those described in this Item 1A, " Risk Factors " section. The Company' s access to deposits and accounts and drafts payable for liquidity purposes may also be adversely affected by the needs of the Company' s depositors and customers. A failure to maintain adequate liquidity could have a material adverse effect on the Company' s business, financial condition and results of operations **. The Company could experience an unexpected inability to obtain needed liquidity which could adversely affect the Company' s business, profitability, and viability as a going concern. Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities and is essential to a financial institution' s business. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets, and its access to alternative sources of funds. The bank failures in 2023 exemplify the potential serious results of the unexpected inability of insured depository institutions to obtain needed liquidity to satisfy deposit withdrawal requests, including how quickly such requests can accelerate once uninsured depositors lose confidence in an institution' s ability to satisfy its obligations to depositors. The Company seeks to ensure funding needs are met by maintaining a level of liquidity through asset and liability management. If the Company becomes unable to obtain funds when needed, it could have a material adverse effect on its business, financial condition, and results of operations. Rising interest rates have decreased the value of the Company' s available- for- sale securities portfolio, and the Company would realize losses if it were required to sell such securities to meet liquidity needs. As a result of inflationary pressures and the resulting rapid increases in interest rates over the last year, the fair value of previously issued government and other fixed income securities has declined significantly, resulting in unrealized losses. While the Company does not currently intend to sell these securities, if the Company were required to sell such securities to meet liquidity needs, it may incur losses, which could impair the Company' s capital, financial condition, and results of operations and require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs. Furthermore, while the Federal Reserve Board has announced a Bank Term Funding Program available to eligible depository institutions secured by U. S. Treasuries, agency debt, mortgage-backed securities, and other qualifying assets as collateral at par to mitigate the risk of potential losses on the sale of such instruments, there is no guarantee that such programs will be effective in addressing liquidity needs as they arise** . 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. Regulatory, Legal and Accounting Risk The Company and the Bank are subject to extensive government regulation and supervision and possible enforcement or other legal actions that could detrimentally affect Cass' business. The Company and the Bank are subject to extensive federal and state regulation and supervision, the primary focus of which is to protect customers, depositors, the deposit insurance fund and the safety and soundness of the banking system as a whole, and not shareholders. In addition, since the global financial crisis, financial institutions generally have been subject to increased scrutiny from regulatory authorities, with an increased focus on risk management and consumer compliance. This regulatory structure and heightened focus 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 applicable laws, regulations, policies or guidance could result in enforcement and other legal actions by federal and state authorities, including criminal and civil penalties, the loss of FDIC insurance, revocation of a banking charter, and other regulatory sanctions, as well as reputational damage, any of which could have a material adverse effect on the Company' s business, financial condition and results of operations. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. The substance and impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although any change could impact the regulatory structure under which the Company or its competitors operate and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to the Company' s business strategy, and / or limit its ability to pursue business opportunities in an efficient manner. A change in statutes, regulations or regulatory policies applicable to the Company or any of its subsidiaries could have a material, adverse effect on the Company' s business, financial condition and results of operations. See Item 1, " Business — Supervision and Regulation, " and Item 8, Note 2 to the consolidated financial statements included elsewhere in this report for additional information. The Company may need to raise additional capital or sell assets if it fails to meet regulatory capital requirements or meet commitments and liquidity needs. Such capital may not be available on favorable terms, or at all. Fully phased in, the Basel III Capital rules implemented stricter capital requirements and leverage limits and methods for calculating risk- weighted assets, meaning the Company is required to hold more capital against such assets. Complying with these more stringent capital requirements could result in management modifying its business strategy and could limit the Company' s ability to make distributions, including paying dividends, or buying back shares. The Company may also need to raise additional capital in the future to provide it with sufficient capital resources and liquidity to meet commitments and business needs. The ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time and the Company' s financial condition, as well as the need for other financial institutions to raise capital at the same time. Economic conditions and the loss of confidence in financial institutions may increase the cost of funding and limit access to certain customary sources of capital, including inter- bank borrowings, repurchase agreements and borrowings from the discount window of the Federal Reserve. An inability to raise additional capital on acceptable terms when needed could have a materially adverse effect on the Company' s business, financial condition and results of 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. " 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 one accounting policy as being " critical " to the presentation of its financial condition and results of operations because it requires 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. General Risk Factors 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. Certain events beyond the Company' s control, such as severe weather, natural disasters, terrorist activities or other hostilities, may adversely affect the general economy, financial and capital markets, specific industries, and the Company. Severe weather, natural disasters, acts of terrorism or other hostilities, and other adverse external events beyond the Company' s control, could have a significant impact on the Company' s ability to conduct business. Such events could disrupt Cass' operations or those of its customers, affect the stability of the Bank' s deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and / or cause the Company to incur additional expenses. The occurrence of any such event in the future could have a material adverse effect on the Company' s business, which, in turn, could have a material adverse effect on the Company' s financial condition and results of operations. Climate change could have a material negative impact on the Company and its clients **.** The Company' s business, as well as the operations and activities of it clients, could be negatively impacted by climate change. Climate change presents both immediate and long- term risks to Cass and its clients and these risks are expected to increase over time. Climate changes presents multi- faceted risks, including (i) operational risk from the physical effects of climate events on facilities and other assets as well as those of clients; (ii) credit risk from borrowers with significant exposure to climate risk; and (iii) reputational risk from stakeholder concerns about practices related to climate change, carbon footprint and business relationships with clients who operate in carbon- intensive industries. The Company' s business, reputation and ability to attract and retain employees may also be harmed if the response to climate change is perceived to be ineffective or insufficient. Climate change exposes Cass to physical risk as its effects may lead to more frequent and more extreme weather events, such as prolonged droughts or flooding, tornados, hurricanes, wildfires and extreme seasonal weather; and longer- term shifts, such as increasing average temperatures, ozone depletion and rising sea levels. Such events and long- term shifts may damage, destroy or otherwise impact the value or productivity of the Company' s properties and other assets; reduce the availability of insurance; and / or disrupt operations and other activities through prolonged outages. Such events and long- term shifts may also have a significant impact on Cass customers, which could amplify credit risk by diminishing borrowers' repayment capacity or collateral values, and other businesses and counterparties with whom we transact, which could have a broader impact on the economy, supply chains and distribution networks. Climate change also exposes Cass to transition risks associated with the transition to a less carbon- dependent economy. Transition risks may result from changes in policies; laws and regulations; technologies; and / or market preferences to address climate change. Such changes could materially, negatively impact our business, results of operations, financial condition and / or our reputation, in addition to having a similar impact on our clients. Cass has clients who operate in carbon- intensive industries that are exposed to climate risks, such as those risks related to the transition to a less carbon- dependent economy, as well as clients who operate in low- carbon industries that may be subject to risks associated with new technologies. Federal and state banking regulators and supervisory authorities, investors and other stakeholders have increasingly viewed financial institutions as important in helping to address the risks related to climate change both directly and with respect to their clients, which may result in financial institutions coming under increased pressure regarding the disclosure and management of their climate risks and related lending and investment activities. **The OCC, FRB and the U. S. Treasury Department have emphasized that climate- related risks are faced by banking organizations of all types and sizes, specifically including physical and transition risks, and is in the process of enhancing supervisory expectations regarding banks' risk management practices. These agencies have indicated increased expectations for larger financial institutions to measure, monitor and manage climate- related risk as part of their enterprise risk management processes. Although any initial policies may not apply to financial institutions of the Bank' s size, it is likely that regulators will expect all banks to enhance internal control and risk management programs and processes relating to climate change. To the extent that these initiatives lead to the adoption of new regulations or guidance applicable to the Company and the Bank, compliance costs and risks are expected to increase.** Given that climate change could impose systemic risks upon the financial sector, either via disruptions in economic activity resulting from the physical impacts of climate change or changes in policies as the economy transitions to a less carbon- intensive environment, the Company faces ~~regulatory risk of increasing focus on the resilience to climate- related risks, including in the context of stress testing for various climate stress scenarios. Ongoing~~ **ongoing** legislative ~~or~~ **and** regulatory uncertainties and changes regarding climate risk management and practices **that if adopted,** may result in higher regulatory, compliance, credit and reputational risks and costs. The Company is subject to ~~Environmental, Social and Governance ("~~ ESG ~~")~~ risks that could adversely affect its reputation and the market price of its securities. The Company is subject to a variety of risks arising from ESG matters. ESG matters include climate risk, hiring practices, the diversity of the work force, and racial and social justice issues involving the Company' s personnel, customers and third parties with whom it otherwise does business. Risks arising from ESG matters may adversely affect, among other things, reputation and the market price of the Company' s securities. Further, the Company may be exposed to negative publicity based on the identity and activities of those to whom it lends and with which it otherwise does business and the public' s view of the approach and performance of its customers and business partners with respect to ESG matters. Any such negative publicity could arise from adverse news coverage in traditional media and could also spread through the use of social media platforms. The Company' s relationships and reputation with its existing and prospective customers and third parties with which it does business could be damaged if it were to become the subject of any such negative publicity. This, in turn, could have an adverse effect on the Company' s ability to attract and retain customers and employees and could have a negative impact on the market price for securities. Investors have begun to consider the steps taken and resources allocated by financial institutions and other commercial organizations to address ESG matters when making investment and operational decisions. Certain investors are beginning to incorporate the business risks of climate change and the adequacy of companies' responses to the risks posed by climate change and other ESG matters into their investment theses. These shifts in investing priorities may result in adverse effects on the market price of the Company' s securities to the extent that investors determine that the Company has not made sufficient progress on ESG matters.