CASS INFORMATION SYSTEMS INC
Form 10-K
March 15, 2007

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

FORM 10-K

(Mark One)

|X| ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006

|_| 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 2-80070

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.)
13001 Hollenberg Drive, Bridgeton, Missouri	63044
(Address of principal executive offices)	(Zip Code)

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

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

Title of each Class	Name of each exchange on which registered
None	None

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

Common Stock par value $.50
(Title of Class)

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes |_| No |X|

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes |_| No |X|

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. |X|

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer: |_| Accelerated filer: |X|
Non-accelerated filer: |_|

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

Yes |_| No |X|

The aggregate market value of the common stock held by non-affiliates of the Registrant was approximately $218,020,000 based on the closing price of the common stock of $32.46 on June 30, 2006, as reported by the Nasdaq Global National Market.

As of March 9, 2007, the Registrant had 8,367,489 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 2007 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. Forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors which may cause future performance to vary from expected performance summarized in the forward-looking statements, including those set forth in this paragraph and in the "Risk Factors" section of this report. Important factors that could cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by those statements include, but are not limited to: the failure to successfully execute our corporate plan, the loss of key personnel or inability to attract additional qualified personnel, the loss of key customers, increased competition, the inability to remain current with rapid technological change, risks related to acquisitions, risks associated with business cycles and fluctuations in interest rates, utility and system interruptions or processing errors, rules and regulations governing financial institutions and changes in such rules and regulations, credit risk related to borrowers' ability to repay loans, concentration of loans to certain segments such as commercial enterprises, churches and borrowers in the St. Louis area which creates risks associated with adverse factors that may affect these groups and volatility of the price of our common stock. We undertake no obligation to publicly update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, or changes to future results over time.

PART I.

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 freight invoice rating, payment, audit, accounting and transportation information to many of the nation's largest companies. It is also a processor and payer of utility invoices, including electricity, gas, and other facility related expenses. Additionally, Cass competes in the telecommunications expense management market which includes bill processing and payment services for telephone, data line, cellular and communication equipment expense. Also the Company, through its wholly owned bank subsidiary, Cass Commercial Bank ("the Bank"), provides commercial banking services. Its 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, real estate and personal loans; checking, savings and time deposit accounts and other cash management services. The principal offices of the Company are at 13001 Hollenberg Drive, Bridgeton, Missouri 63044. Other operating locations are in Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina and Wellington, Kansas. The Bank's headquarters are also located at the Bridgeton location and operates five other branches, four in the St. Louis metropolitan area and one in southern California.

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 to provide 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.

Information delivery - 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 levels 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 endangering clients' strategic business and system requirements.

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 is one of the largest firms in the freight bill processing and payment industry in the United States based on the total dollars of freight bills paid and items processed. Competition consists of a few primary competitors and numerous small freight bill audit firms located throughout the United States. While offering freight payment services, few of these audit firms compete on a national basis. These competitors compete mainly on price, functionality and service levels. The Company also competes with other companies, located throughout the United States, that pay utility bills and provide management reporting. Available data indicates that the Company is one of the largest providers of utility 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. There are also many competitors that process, audit and pay telecommunication invoices located throughout the United States.

The Bank is organized as a Missouri trust company with banking powers and was founded in 1906. Due to its ownership of a federally insured commercial bank, the Company is a bank holding corporation and was originally organized in 1982 as Cass Commercial Corporation under the laws of Missouri. It was approved by the Board of Governors of the Federal Reserve System in February 1983. The Company changed its name to Cass Information Systems, Inc. in January 2001. The Company's bank subsidiary 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 Company holds several trademarks for the payment and rating services it provides. These include: FreightPay(R), Transdata(R), TransInq(R), Ratemaker(R), Rate Advice(R), First Rate(R), Best Rate(R), Rate Exchange(R) and CassPort(R). 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. The Bank does, however, target 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 and other selected cities located throughout the United States.

Employees

The Company and its subsidiaries had 659 full-time and 231 part-time employees as of December 31, 2006. Of these employees, the Bank had 64 full-time and 12 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 protect depositors, not shareholders. The Bank is subject to regulation and supervision by the Missouri Division of Finance, the Federal Reserve Bank (the "FRB") and the Federal Deposit Insurance Corporation (the "FDIC"). The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended, and as such, it is subject to regulation, supervision and examination by the FRB. The Company is required to file quarterly and annual reports with the FRB and to provide to the FRB such additional information as the FRB may require, and it is subject to regular inspections by the FRB. Bank regulatory agencies use Capital Adequacy Guidelines in their examination and regulation of bank holding companies and banks. If the capital falls below the minimum levels established by these guidelines, the agencies may force certain remedial action to be taken. The Capital Adequacy Guidelines are of several types and include risk-based capital guidelines, which are designed to make capital requirements more sensitive to various risk profiles and account for off-balance sheet exposure; guidelines which 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 guidelines that use a leverage ratio which places a constraint on the maximum degree of risk to which a bank holding company may leverage its equity capital base. For further discussion of the capital adequacy guidelines and ratios, please refer to Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, Note 3 of this report.

The FRB also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding

company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law or regulations or for unsafe or unsound practices. Both the FRB and Missouri Division of Finance also have restrictions on the amount of dividends that banks and bank holding companies may pay.

As a bank holding company, the Company must obtain prior approval from the FRB before acquiring ownership or control of more than 5% of the voting shares of another bank or bank holding company or acquiring all or substantially all of the assets of such a company. In many cases, prior approval is also required for the Company to engage in similar acquisitions involving a non-bank company or to engage in new non-bank activities. Any change in applicable laws or regulations may have a material effect on the business and prospects of the Company.

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 of 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 20549-0213 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 our 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 revenues from external customers, net income (loss) and total assets by segment, for the three years ended December 31, 2006, are set forth in Item 8, Note 19 of this report.

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:

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, 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. In the event of a downturn in the economy or general decline in any one of these segments or areas, 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' balance sheet, 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.

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

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

Operational difficulties or 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, deter customers from using its products or result in liability to Cass.

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.

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. While management believes that it can continue to grow many of these relationships, the Company will continue to experience pressures to maintain these relationships as its competitors attempt to capture its customers.

The introductions, 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 and develops 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.

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,

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.

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 Federal Deposit Insurance Corporation, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission 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.

The Company's accounting policies and methods are the basis of how Cass reports its financial condition and results of operations, and they may 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, 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.

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 has been, and may in the future be, 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.

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.

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

These factors 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, 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.

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, has 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 have 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, S. Carolina, 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.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's headquarters are located at 13001 Hollenberg Drive, Bridgeton, Missouri. This location is owned by the Company, and includes a building with approximately 61,500 square feet of office space. The Company also owns a production facility of approximately 45,500 square feet located at 2675 Corporate Exchange Drive, Columbus, Ohio. Additional production facilities are located in Lowell, Massachusetts where approximately 25,800 square feet of office space is leased through March 2009, Greenville, South Carolina where approximately 8,500 square feet of office space is leased through November 2013 and Wellington, Kansas where approximately 2,000 square feet of office space is leased through July 2011.

The Bank's headquarters are also located at 13001 Hollenberg Drive, Bridgeton, Missouri. The Bank occupies approximately 20,500 square feet of the 61,500 square foot building. In addition, the Bank owns a banking facility near downtown St. Louis, Missouri that consists of approximately 1,750 square feet with adjoining drive-up facilities. The Bank has additional leased facilities in Maryland Heights, Missouri (2,500 square feet), Fenton, Missouri (2,000 square feet), Chesterfield, Missouri (2,850 square feet) and Santa Ana, California (3,400 square feet).

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 businesses or financial conditions of the Company or its subsidiaries.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 2006.

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 Market(R) under the symbol "CASS". As of March 2, 2007, there were 236 holders of record of the Company's common stock. High and low sale prices, as reported by Nasdaq and adjusted for the 50% stock dividends issued September 15, 2006 and September 15, 2005, for each quarter of 2006 and 2005 were as follows:

	2006		2005	
	High	Low	High	Low
1st Quarter	$ 23.793	$ 20.667	$ 18.218	$ 15.111
2nd Quarter	35.507	24.233	19.111	16.667
3rd Quarter	36.980	27.387	26.666	17.693
4th Quarter	39.450	31.100	23.400	19.700

Cash dividends paid per share, restated for stock dividends, by the Company during the two most recent fiscal years were as follows:

	2006	2005
March 15	$ .107	$ .093
June 15	.106	.093
September 15	.107	.094
December 15	.120	.107

The Company maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to 150,000 shares of the Company's common stock. The Company repurchased 30,000 shares during 2006 for $870,000 and 63,997 shares for $1,434,000 in 2005. The Company did not repurchase any shares in the three months ended December 31, 2006. As of December 31, 2006, 120,000 shares remained available for repurchase under the program. Repurchases are made in the open market or through negotiated transactions from time to time depending on market conditions.

Securities Authorized for Issuance under Equity Compensation Plans

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of remaining a future iss equity compe (excluding reflected in (
Equity compensation plans approved by security holders(1)	110,286	$16.92	503,
Equity compensation plans not approved by security holders	_	_	_
Total	110,286	$16.92	503,

Note: All share information has been restated to reflect the 50% stock dividend on September 15, 2006.

(1) These plans are the Company's 1995 Performance-Based Stock Option Plan and 1995 Restricted Stock Bonus Plan.

(2) Includes 403,767 shares available for issuance under the 1995 Performance-Based Stock Option Plan and 99,725 shares available for issuance under the 1995 Restricted Stock Bonus Plan.

Refer to Note 14 to the consolidated financial statements for information concerning stock options and bonus plans.

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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 (US) and in the index of NASDAQ computer and data processing stocks. The graph assumes $100 was invested on December 31, 2001, with dividends reinvested. Returns are based on period end prices.

[TABULAR REPRESENTATION OF LINE CHART]

Date		Cass Information Systems, Inc.	Nasdaq Stock Market (US)	Nasdaq Comp and Data Processing St
12/31/2001	12/31/2001	100.000	100.000	100.000
1/31/2002		100.000	99.239	99.475
2/28/2002		102.347	88.920	89.641
3/28/2002		103.253	94.751	92.274
4/30/2002		102.039	86.879	78.120
5/31/2002		103.150	83.047	73.128
6/28/2002		103.271	75.524	73.336
7/31/2002		101.180	68.628	64.407
8/30/2002		95.390	67.899	64.729

9/30/2002		96.848	60.597	56.729
10/31/2002		97.601	68.875	68.573
11/29/2002		101.993	76.553	77.599
12/31/2002	12/31/2002	108.942	69.131	68.957
1/31/2003		112.485	68.383	67.416
2/28/2003		117.445	69.344	67.019
3/31/2003		117.154	69.544	67.179
4/30/2003		144.467	75.865	72.393
5/30/2003		117.823	82.526	76.203
6/30/2003		134.353	83.850	77.940
7/31/2003		131.183	89.627	80.652
8/29/2003		140.537	93.536	84.341
9/30/2003		149.215	92.320	85.085
10/31/2003		140.116	99.753	87.817
11/28/2003		135.656	101.231	87.277
12/31/2003	12/31/2003	150.919	103.365	90.849
1/30/2004		151.785	106.429	93.257
2/27/2004		156.886	104.426	89.483
3/31/2004		172.362	102.648	84.879
4/30/2004		180.286	99.246	83.380
5/28/2004		195.836	102.542	86.922
6/30/2004		201.938	105.693	92.317
7/30/2004		204.222	97.626	85.305
8/31/2004		190.269	95.235	81.812
9/30/2004		188.721	98.077	86.327
10/29/2004		188.721	102.053	90.951
11/30/2004		179.540	108.341	97.042
12/31/2004	12/31/2004	179.284	112.489	100.044
1/31/2005		182.567	106.636	96.195
2/28/2005		188.184	106.030	92.820
3/31/2005		198.591	103.334	90.288
4/29/2005		196.012	99.574	89.698
5/31/2005		206.329	107.273	96.440
6/30/2005		212.623	106.837	94.540
7/29/2005		230.331	113.655	97.727
8/31/2005		286.280	111.852	99.133
9/30/2005		244.379	111.942	98.925
10/31/2005		257.652	110.504	100.803
11/30/2005		249.806	116.531	105.543
12/30/2005	12/30/2005	260.522	114.881	103.436
1/31/2006		260.718	119.953	107.815
2/28/2006		262.484	118.760	102.902
3/31/2006		281.419	121.855	106.272
4/28/2006		353.962	120.896	104.152
5/31/2006		394.255	113.602	96.318
6/30/2006		385.163	113.602	99.569
7/31/2006		395.604	109.271	97.015
8/31/2006		421.214	114.122	102.410
9/29/2006		394.115	118.051	108.526
10/31/2006		445.298	123.832	114.581
11/30/2006		459.939	127.068	118.124
12/29/2006	12/29/2006	432.035	126.216	116.086

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)	2006	2005	2004	2003
Fee revenue and other income	$42,821	$ 38,653	$ 34,047	$ 32,37
Interest income on loans (1)	36,164	32,214	27,055	25,60
Interest income on debt and equity securities	3,627	2,441	2,558	2,03
Other interest income	7,262	3,596	1,120	60
Total interest income	47,053	38,251	30,733	28,24
Interest expense on deposits	6,414	4,486	3,024	1,84
Interest expense on short-term borrowings	7	5	1	1
Interest on subordinated convertible debenture	s 198	196	70	-
Total interest expense	6,619	4,687	3,095	1,86
Net interest income	40,434	33,564	27,638	26,38
Provision for loan losses	1,150	775	550	19
Net interest income after provision	39,284	32,789	27,088	26,19
Operating expense	58,277	55,216	47,045	47,38
Income before income tax expense	23,828	16,226	14,090	11,18
Income tax expense	8,367	4,982	4,209	3,38
Income from continuing operations	$15,461	$ 11,244	$ 9,881	$ 7,79
Net (loss) income from discontinued operations	(395)	(298)	(1,876)	10
Net income	15,066	10,946	8,005	7,90
Diluted earnings per share from continuing operations	1.82	$ 1.33	$ 1.17	$ .9
Diluted earnings per share	1.77	1.29	.95	.9
Dividends per share	.440	.387	.365	.3
Dividend payout ratio	24.31%	29.24%	37.79%	35.6
Average total assets	$839,208	$ 776,899	$ 709,518	$ 626,45
Average net loans	516,164	506,898	471,412	438,07
Average debt and equity securities	91,555	71,037	78,745	57,72
Average total deposits	278,546	290,555	292,379	249,95
Average subordinated convertible debentures	3,700	3,700	1,314	-
Average total shareholders' equity	79,736	71,892	65,804	61,34
Return on average total assets	1.80%	1.41%	1.13%	1.
Return on average equity	18.89%	15.23	12.16	12.8
Average equity to assets ratio	9.50	9.25	9.27	9.7
Equity to assets ratio at year-end	9.78	9.20	9.71	10.0
Net interest margin	5.50	4.95	4.48	4.8
Allowance for loan losses to loans at year-end	1.31	1.19	1.21	1.1
Nonperforming assets to loans and foreclosed assets	.16	.28	.18	1.1
Net loan charge-offs (recoveries) to average loans outstanding	.16	.10	--	(0.0

1. Interest income on loans includes net loan fees.

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, 2006, 2005 and 2004. All share and per share data have been restated to give effect to the 10%, 50% and 50% stock dividends issued on March 15, 2004,

September 15, 2005 and September 15, 2006, respectively. 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 Information Systems, Inc. provides payment and information processing services to large manufacturing, distribution and retail enterprises from its processing centers in St. Louis, Missouri, Columbus, Ohio, Boston, Massachusetts, Greenville, South Carolina and Wellington, Kansas. The Company's services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. Cass also processes and pays utility invoices, which includes electricity, gas and telecommunications expenses and is a provider of telecom expense management solutions. Cass extracts, stores and presents information from freight, utility and telecommunication invoices, assisting its customers' transportation, energy 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 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 ("EDI"), imaging, 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 account balances that are 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. The Bank also assesses fees on other services such as cash management services.

Industry-wide factors that impact the Company include the acceptance by large corporations of the outsourcing of key business functions such as freight, utility and telecommunication 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.

On December 30, 2005, the Company's bank subsidiary sold the operating assets of its wholly owned subsidiary, Government e-Management Solutions, Inc. ("GEMS"). The assets, liabilities and operating results of GEMS have been presented as discontinued operations for all periods.

In the fourth quarter 2005, the Company recognized a $3,100,000 impairment charge on its investment in a private imaging company. As of December 31, 2006, the Company's remaining financial interest in this entity was a $350,000 line of credit.

On July 7, 2006, the Company acquired 100% of the stock of NTransit, Inc., a company whose service provides auditing and expense management of parcel shipments. While this acquisition does not meet the Regulation S-X criteria of a significant business combination, it positions the Company to expand its offerings in the specialized service and expertise in parcel shipping, which is a unique segment of the transportation industry that has experienced tremendous growth in recent years.

The Company had an excellent year in 2006; surpassing management's expectations. Total fee revenue and other income from continuing operations increased $4,168,000 or 11% and net interest income increased $6,495,000 or 20% while increases in total operating expenses were held to $3,061,000 or 6%. These results were driven by a 2,882,000 or 10% increase in items processed, $3,499,184,000 or 21% increase in dollars processed and strong expense control

combined with a rise in the general level of interest rates. The asset quality of the Company's loans and investments remains strong.

Currently, management views Cass' major opportunity and challenge 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 lead in applied technology, which, when combined with the security and processing controls of the Bank, makes Cass unique in the industry.

Critical Accounting Policies

The Company has prepared all of the consolidated financial information in this report in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). In preparing the consolidated financial statements in accordance with U.S. GAAP, 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 our results of operations or financial position have been discussed with the Audit Committee of the Board of Directors and are described below.

Allowance for Loan Losses. The Company performs periodic and systematic detailed reviews of its loan portfolio to assess overall collectability. The level of the

allowance for loan losses reflects management's estimate of the collectability of the loan portfolio. Although these estimates are based on established methodologies for determining allowance requirements, actual results can differ significantly from estimated results. These policies affect both segments of the Company. The impact and associated risks related to these policies on our business operations are discussed in the "Allowance and Provision for Loan Losses" section of this report.

Impairment of Assets. The Company periodically evaluates certain long-term assets such as intangible assets including goodwill, foreclosed assets, internally developed software and investments in private equity securities for impairment. Generally, these assets are initially recorded at cost, and recognition of impairment is required when events and circumstances indicate that the carrying amounts of these assets will not be recoverable in the future. If impairment occurs, various methods of measuring impairment may be called for depending on the circumstances and type of asset, including quoted market prices, estimates based on similar assets, and estimates based on valuation techniques such as discounted projected cash flows. Assets held for sale are carried at the lower of cost or fair value less costs to sell. These policies affect both segments of the Company and require significant management assumptions and estimates that could result in materially different results if conditions or underlying circumstances change.

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, 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. A change in the assessment of the outcomes of such matters could materially impact its consolidated financial statements.

Pension Plans. The amounts recognized in the consolidated financial statements related to pension 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, 2006, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Note 13 to the Consolidated Financial Statements. In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. The funded status is measured as the difference between the fair value of the plan assets and the benefit obligation as of the date of its fiscal year-end. The Company recognized the required changes and disclosures in its consolidated 2006 financial statements.

Summary of Results

	December 31,	

(In thousands, except per share data)	2006	2005	2004	2006 v
Total Processing Volume	30,885	28,003	25,045	10.
Total Processing Dollars	$19,871,281	$16,372,097	$13,452,868	21.
Payment and Processing Fees	$40,343	$35,901	$30,695	12.
Net Investment Income	$39,284	$32,789	$27,088	19.
Total Net Revenues	$82,105	$71,442	$61,135	14.
Average Earning Assets	$762,397	$697,285	$643,847	9.
Net Interest Margin*	5.50%	4.95%	4.48%	11.
Impairment of Equity Investment	--	$3,100	--	N
Net Income from Continuing Operations	$15,461	$11,244	$9,881	37.
Diluted EPS from Continuing Operations	$1.82	$1.33	$1.17	36.
Net Income	$15,066	$10,946	$8,005	37.
Diluted Earnings per Share	$1.77	$1.29	$.95	37.
Return on Average Assets	1.80%	1.41%	1.13%	
Return on Average Equity	18.89%	15.23%	12.16%	

* Presented on a tax-equivalent basis

The results of 2006 compared to 2005 include the following significant items:

Payment and processing fee revenue from continuing operations increased as the number of transactions processed increased. This increase was driven mainly by the expansion of the Company's customer base and number of services offered. It is the Company's strategy to expand processing revenue by 1) actively marketing the Company's existing product lines in freight, utility, and telecom payment and processing, 2) expanding the Company's service offerings to the markets currently served and 3) expanding into new markets by leveraging its payment and processing capabilities. The August 2006 acquisition of NTransit, Inc. was part of this strategy.

Net interest income after provision for loan losses increased $6,495,000 due to an increase in the general level of interest rates and a $65,112,000 increase in average earning assets. The net interest margin on a tax equivalent basis was 5.50% in 2006 compared to 4.95% in 2005. The growth in average earning assets was funded mainly by increases in accounts and drafts payable due to the increase in dollars processed.

There were no gains from the sale of securities in 2006 compared to gains of $547,000 last year. Bank service fees increased $90,000 or 6% to $1,625,000. Other income from continuing operations remained fairly constant, $853,000 in 2006 and $670,000 in 2005. Operating expenses from continuing operations increased $3,061,000 due mainly to expenses relating to the increase in processing activity.

The results of 2005 compared to 2004 include the following significant items:

Payment and processing fee revenue from continuing operations increased as the number of transactions processed increased. This increase was driven mainly by the expansion of the Company's customer base and number of services offered. It is the Company's strategy to expand processing revenue by 1) actively marketing the Company's existing product lines in freight, utility, and telecom payment and processing, 2) expanding the Company's service offerings to the markets currently served and 3) expanding into new markets by leveraging its payment and processing capabilities. The August 2004 acquisition of Cass' telecom group was part of this strategy. This acquisition, although not yet accretive to earnings, significantly increased the Company's audit and telecom expense management capabilities.

Net interest income after provision for loan losses increased $5,701,000

due primarily to an increase in the general level of interest rates. The net interest margin on a tax equivalent basis was 4.95% in 2005 compared to 4.48% in 2004. Another significant contributor to the increase in net interest income was a $53,438,000 increase in average earning assets. The growth in average earning assets was funded mainly by increases in accounts and drafts payable due to the increase in dollars processed.

Gains from the sale of securities decreased $498,000 to $547,000 compared to 2004's $1,045,000. Bank service fees decreased $184,000 or 11% to $1,535,000 due primarily to the fact that as the earnings credit rate granted customers on their account balances increases with the general level of interest rates, the amount of service fees charged decreases. Other income from continuing operations remained fairly constant, $670,000 in 2005 and $588,000 in 2004. Excluding the $3,100,000 impairment charge relating to the Company's investment in a private imaging company, operating expenses from continuing operations increased $5,071,000 due mainly to

expenses relating to the increase in processing activity along with the additional expenses related to the telecom group which was acquired in August 2004.

In addition to the factors above relating to the results of continuing operations for 2005, net income, diluted earnings per share, return on assets and return on equity were also affected by a $298,000 net loss from GEMS' discontinued operations which included a $1,336,000 gain on the sale of its operating assets.

Fee Revenue and Other Income from Continuing Operations

The Company's fee revenue is derived mainly from freight and utility 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 for the years ended December 31, 2006, 2005 and 2004 were as follows:

	December 31,			
(In thousands)	2006	2005	2004	2006 v
Freight Invoice Transaction Volume	24,220	22,348	19,847	8.
Freight Invoice Dollar Volume	$14,199,389	$11,949,052	$9,752,203	18.
Utility Transaction Volume	6,665	5,655	5,198	17.
Utility Transaction Dollar Volume	$5,671,892	$4,423,045	$3,700,665	28.
Payment and processing revenue	$40,343	$35,901	$30,695	12.
Bank service fees	$1,625	$1,535	$1,719	5.
Gains on sales of investment securities	--	$547	$1,045	N
Other	$853	$670	$588	27.

Fee revenue and other income in 2006 compared to 2005 include the following significant pre-tax components:

Freight volume increased by 1,872,000 transactions during the past year. This increase was due mainly to a significant amount of new business in 2006. In addition to these factors, higher dollar volume during the last three years has been affected by higher dollars processed per shipment due to escalating fuel costs and an increase in general economic activity. Utility volume also experienced solid growth, adding more than 1,010,000 transactions in 2006. This growth was due mainly to new business. These transaction volume increases drove most of the $4,442,000 increase in payment and processing revenue.

Fee revenue and other income in 2005 compared to 2004 include the following significant pre-tax components:

Freight volume increased by 2,501,000 transactions during this time period. This increase was due mainly to the assimilation of a significant amount of new business in 2005 and the continuation of a strong business climate for many companies in the customer base. In addition to these factors, higher dollar volume during the last three years has been affected by higher dollars processed per shipment due to escalating fuel costs and an increase in general economic activity. Utility volume also experienced solid growth, adding more than 450,000 transactions in 2005. This growth was due mainly to new business. While new business grew about the same rate as in the past, the Company was negatively impacted by the loss of two high transaction customers, which accounted for a decrease of 175,000 transactions. The loss of these two customers was not material from a profitability standpoint. The higher rate of growth in utility dollars compared to utility volume was due to the conversion of a large customer to payables from data entry only, an increasing market share in the industrial vertical market which generates higher dollars per bill and higher commodity costs that raise the average dollars per bill. These transaction volume increases drove most of the $5,206,000 increase in payment and processing revenue. The telecom group, which was acquired in August 2004, contributed $2,493,000 of payment and processing fees for 2005 and $538,000 in 2004.

Bank service fees decreased $184,000 during this time period. This decrease was due primarily to the fact that service fees decrease as the credit allowance for non-interest bearing deposits increases, due to the general level of interest rate increases. During 2005 the Company recorded net gains of $547,000 on the sales of securities. During 2004, net gains of $1,045,000 were recorded on the sales of securities. These securities sales were made to adjust the portfolio to reflect the changes in the interest rate environment, growth in the loan portfolio during the past two years and to offset the loss of interest income due to the dramatic decline in the general level of interest rates. Other miscellaneous income increased $82,000 from 2004.

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 for the three periods ended December 31, 2006, 2005 and 2004:

(In Thousands)	2006	2005	2004	% Change 2006 v. 2005	% Ch 2005
Average earning assets	$762,397	$697,285	$643,847	9.3%	8

Net interest income	41,950	34,534	28,838	21.4%	19
Net interest margin*	5.50%	4.95%	4.48%	11.1%	10
Yield on earning assets	6.37%	5.62%	4.96%	13.3%	13
Rate on interest bearing liabilities	3.62%	2.45%	1.64%	47.8%	49

*Presented on a tax-equivalent basis

Net interest income in 2006 compared to 2005:

The increase in net interest income was caused by the combination of a significant increase in earning assets combined with a significant increase in net interest margin. The increase in earning assets was funded mainly by the increase in accounts and drafts payable due to the increased dollars processed. The increase in net interest margin was due mainly to the rise in the general level of interest rates and also the increase in the amount of earning assets. The Company is positively affected by increases in the level of interest rates due to the fact that its rate sensitive assets significantly exceed its rate sensitive liabilities. Conversely, the Company is negatively affected by decreases in the level of interest rates. This is primarily due to the non-interest-bearing liabilities generated by the Company in the form of accounts and drafts payable. More information is contained in the tables below and in Item 7A of this report.

Total average loans increased $9,401,000 or 2% to $522,367,000. This increase was attributable to new business relationships. 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 debt and equity securities decreased $20,518,000 or 29% to $91,555,000. The investment portfolio will expand and contract over time as the interest rate environment changes and the Company manages its liquidity and interest rate position. Total average federal funds sold and other short-term investments increased $35,193,000 or 31% to $148,475,000. This increase was funded by the increase in accounts and drafts payable.

The Bank's average interest-bearing deposits remained relatively flat with a $8,027,000 or 4% decrease compared to the prior year due to the Company's increase in liquidity and resulting decreased need for higher-cost funding. Average demand deposits decreased $3,982,000 or 4% due to the fact that balances and service fees associated with these deposits decrease as the credit allowance for non-interest bearing deposits increases due to the general level of interest rate increases. Average rates paid on interest-bearing liabilities increased from 2.45% to 3.61% as the general level of interest rates increased. This represents increased rate competition for savings deposits and certificates of deposit in the markets served by the Company's subsidiary bank.

Net interest income in 2005 compared to 2004:

The increase in net interest income was caused by the combination of a significant increase in earning assets combined with a significant increase in net interest margin. The increase in earning assets was funded mainly by the increase in accounts and drafts payable due to the increased dollars processed. The increase in net interest margin was due mainly to the rise in the general level of interest rates and also the increase in the size of the loan portfolio. Loans are the Company's highest yielding earning asset for any given maturity. The Company is positively affected by increases in the level of interest rates due to the fact that its rate sensitive assets significantly exceed its rate sensitive liabilities. Conversely, the Company is negatively affected by decreases in the level of interest rates.

This is primarily due to the non-interest-bearing liabilities generated by the Company in the form of accounts and drafts payable. More information is contained in the tables below and in Item 7A of this report.

Total average loans increased $35,732,000 or 7% to $512,966,000. This increase was attributable to new business relationships. 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 debt and equity securities decreased $7,708,000 or 10% to $71,037,000. The investment portfolio will expand and contract over time as the interest rate environment changes and the Company manages its liquidity and interest rate position. Total average federal funds sold and other short-term investments increased $25,414,000 or 29% to $113,282,000. This increase was funded by the increase in accounts and drafts payable and provides the Company with additional liquidity to take advantage of higher interest rates.

The Bank's average interest-bearing deposits remained relatively flat with a $554,000 or 0.3% decrease compared to the prior year due to the Company's increase in liquidity and resulting decreased need for higher-cost funding. Average demand deposits decreased $1,270,000 or 1% due to the fact that balances and service fees associated with these deposits decrease as the credit allowance for non-interest bearing deposits increases due to the general level of interest rate increases. Average rates paid on interest-bearing liabilities increased from 1.64% to 2.45% as the general level of interest rates increased.

Distribution of Assets, Liabilities and Stockholders' 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:

	2006			2005		
(Dollars in thousands)	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yiel Ra
Assets(1)						
Earning assets:						
Loans (2,3):						
Taxable	$516,958	$35,923	6.95%	$508,151	$32,012	6.
Tax-exempt (4)	5,409	371	6.86	4,815	310	6.
Securities (5):						
Taxable	24,506	1,052	4.29	28,610	831	2.
Tax-exempt (4)	67,049	3,961	5.91	42,427	2,472	5.

Federal funds sold and other short-term investments	148,475	7,262	4.89	113,282	3,596	3.
Total earning assets	762,397	48,569	6.37	697,285	39,221	5.
Nonearning assets:						
Cash and due from banks	28,645			28,874		
Premises and equipment, net	12,641			11,269		
Bank owned life insurance	11,763			11,298		
Goodwill and other intangibles, net	6,167			5,499		
Other assets	23,531			22,541		
Assets related to discontinued operations	267			6,201		
Allowance for loan losses	(6,203)			(6,068)		
Total assets	839,208			$776,899		
Liabilities And Shareholders' Equity (1)						
Interest-bearing liabilities:						
Interest-bearing demand deposits	$71,043	$1,831	2.58	$80,976	$1,485	1.
Savings deposits	25,113	730	2.91	26,622	458	1.
Time deposits of $100 or more	53,550	2,556	4.77	43,967	1,401	3.
Other time deposits	29,511	1,297	4.40	35,679	1,142	3.
Total interest-bearing deposits	179,217	6,414	3.58	187,244	4,486	2.
Short-term borrowings	161	7	4.46	165	5	3.
Subordinated convertible debentures	3,700	198	5.35	3,700	196	5.
Total interest-bearing liabilities	183,078	6,619	3.62	191,109	4,687	2.
Noninterest-bearing liabilities:						
Demand deposits	99,329			103,311		
Accounts and drafts payable	468,303			401,258		
Other liabilities	8,107			7,472		
Liabilities related to discontinued operations	655			1,857		
Total liabilities	759,472			705,007		
Shareholders' equity	79,736			71,892		
Total liabilities and shareholders' equity	839,208			$776,899		
Net interest income		$41,950			$34,534	
Net interest margin		5.50%			4.95%	
Interest spread		2.75%			3.17%	

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 $213,000, $161,000 and $178,000 for 2006, 2005 and 2004, respectively.
4. Interest income is presented on a tax-equivalent basis assuming a tax rate of 35% for 2006 and 2005 and 34% for 2004. The tax-equivalent adjustment was approximately $1,516,000, $970,000 and $1,200,000 for 2006, 2005 and 2004, respectively.

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

Analysis of Net Interest Income Changes

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

	2006 Over 2005			2005 Over	
(Dollars in thousands)	Volume(1)	Rate(1)	Total	Volume(1)	Rat
Increase (decrease) in interest income:					
Loans (2,3):					
Taxable	$563	$3,348	$3,911	$2,146	$3
Tax-exempt (4)	40	21	61	(29)	
Securities:					
Taxable	(132)	352	220	38	
Tax-exempt (4)	1,454	36	1,490	(570)	
Federal funds sold and other short-term investments	1,338	2,328	3,666	402	2
Total interest income	$3,263	$6,085	$9,348	$1,987	$5
Interest expense on:					
Interest-bearing demand deposits	(199)	545	346	89	
Savings deposits	(27)	299	272	(33)	
Time deposits of $100 or more	352	803	1,155	(141)	
Other time deposits	(220)	375	155	20	
Short-term borrowings	--	2	2	1	
Subordinated convertible debenture	--	2	2	126	
Total interest expense	(94)	2,026	1,932	62	1
Net interest income	$3,357	$4,059	$7,416	$1,925	$3

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 of 35% for 2006 and 2005 and 34% for 2004.

Loan Portfolio

Interest earned on the loan portfolio is a primary source of income for the Company. The loan portfolio was $504,125,000 and represented 59% of the Company's total assets as of December 31, 2006 and generated $36,164,000 in revenue during the year then ended. 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, 2006.

Loans by Type
(At December 31)

(Dollars in thousands)	2006	2005	2004	2003	2002
Commercial and industrial	$113,162	$146,892	$117,777	$103,638	$101,116
Real estate:					
Commercial/church mortgage	352,044	348,554	346,711	330,150	282,125
Construction	29,779	28,170	25,838	19,298	39,175
Industrial revenue bonds	6,293	4,514	4,955	5,373	5,773
Installment	--	107	1,741	1,911	1,918
Other	2,847	1,069	3,426	8,662	4,582
Total loans	$504,125	$529,306	$500,448	$469,032	$434,689

Loans by Maturity
(At December 31, 2006)

	One Year Or Less		Over 1 Year Through 5 Years		Over 5 Years	
(Dollars in thousands)	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate(1)	Fixed Rate	Float Rate
Commercial and industrial	$ 3,507	$ 16,804	$ 24,374	$ 58,536	$ 6,528	$ 3,
Real estate:						
Commercial/church	50,411	16,106	259,565	24,082	605	1,
Construction	9,921	12,373	7,485	--	--	
Industrial revenue bonds	55	--	3,010	--	3,228	
Other	1,147	28	847	638	--	
Total loans	$ 65,041	$ 45,311	$295,281	$ 83,256	$ 10,361	$ 4,

(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.

The Company has no concentrations of loans exceeding 10% of total loans, which are not otherwise disclosed in the loan portfolio composition table and discussed in Item 8, Note 5 of this report. As can be seen in the loan composition table above and discussed in Item 8, Note 5, 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 credits. 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, 2005 to December 31, 2006:

Total loans decreased $25,181,000 or 5% to $504,125,000. This decrease was due mainly to the reduction in commercial and industrial loans as loans were paid down. At year-end, church and church-related real estate and construction credits totaled $226,664,000, which represents a 14% increase over 2005. Additional details regarding the types and maturities of loans in the loan portfolio are contained in the tables above and in Item 8, Note 5.

Loan portfolio changes from December 31, 2004 to December 31, 2005:

Total loans increased $28,858,000 or 6% to $529,306,000. This increase was due to both the expansion of church and church-related loans located throughout the country and commercial and construction loans in the St. Louis metropolitan area. At year-end, church and church-related real estate and construction credits totaled $199,082,000, which represents a 15% increase over 2004. Additional details regarding the types and maturities of loans in the loan portfolio are contained in the tables above and in Item 8, Note 5.

Provision and Allowance for Loan Losses

The Company recorded a provision for loan losses of $1,150,000 in 2006, $775,000 in 2005 and $550,000 in 2004. The amount of the provisions for loan losses was derived from the Company's quarterly analysis of the allowance for loan losses in relation to probable losses in the loan portfolio. The larger provision made in 2006 was primarily the result of reserves made for specific problem loans. The amount of the provision will fluctuate as determined by these quarterly analyses. The Company had net loan charge-offs of $842,000 in 2006, net loan charge-offs of $528,000 in 2005 and net loan charge-offs of $19,000 in 2004. The allowance for loan losses was $6,592,000 at December 31, 2006, compared to $6,284,000 at December 31, 2005 and $6,037,000 at December 31, 2004. The year-end 2006 allowance represented 1.31% of outstanding loans, compared to 1.19% at year-end 2005 and 1.21% at year-end 2004. From December 31, 2005 to December 31, 2006, the level of nonperforming loans decreased $669,000 from $1,464,000 to $795,000, which represents .16% of outstanding loans. Nonperforming loans are more fully explained in the section entitled "Nonperforming Assets".

The allowance for loan losses has been established and is maintained to absorb probable losses in the loan portfolio. An ongoing assessment of risk of loss is performed to determine if the current balance of the allowance is adequate to cover probable losses in the portfolio. Charges or credits are made to expense to cover any deficiency or reduce any excess, as required. The current methodology employed to determine the appropriate allowance consists of two

components, specific and general. The Company develops specific valuation allowances on commercial, commercial real estate, and construction loans based on individual review of these loans and an estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and collection options available. The general component relates to all other loans, which are evaluated based on loan grade. The loan grade assigned to

each loan is typically evaluated on an annual basis, unless circumstances require interim evaluation. The Company assigns a reserve amount consistent with each loan's rating category. The reserve amount is based on derived loss experience over prescribed periods. In addition to the amounts derived from the loan grades, a portion is added to the general reserve to take into account other factors including national and local economic conditions, downturns in specific industries including loss in collateral value, trends in credit quality at the Company and the banking industry, and trends in risk rating changes. As part of their examination process, federal and state agencies review the Company's methodology for maintaining the allowance for loan losses and the balance in the account. These agencies may require the Company to increase the allowance for loan losses based on their judgments and interpretations about information available to them at the time of their examination.

Summary of Loan Loss Experience

			December 31,	
(Dollars in thousands)	2006	2005	2004	
Allowance at beginning of year	$6,284	$6,037	$5,506	
Loans charged-off:				
Commercial and industrial loans and industrial revenue bonds (IRB's)	864	532	--	
Real estate:				
Commercial/church mortgage	--	22	48	
Construction	--	--	--	
Other	--	1	--	
Total loans charged-off	864	555	48	
Recoveries of loans previously charged-off:				
Commercial, industrial and IRB's	22	10	29	
Real estate:				
Commercial/church mortgage	--	13	--	
Construction	--	--	--	
Installment	--	4	--	
Total recoveries of loans previously charged-off	22	27	29	
Net loans charged-off (recovered)	842	528	19	
Provision charged to expense	1,150	775	550	
Allowance at end of year	$6,592	$6,284	$6,037	
Loans outstanding:				
Average	$522,367	$512,966	$477,234	$4
December 31	504,125	529,306	500,448	4
Ratio of allowance for loan losses to loans outstanding:				

Average	1.26%	1.23%	1.26%
December 31	1.31%	1.19%	1.21%
Ratio of net charge-offs (recoveries) to average loans outstanding	.16%	.10%	--
Allocation of allowance for loan losses(1):			
Commercial, industrial and IRB's	$3,507	$3,419	$3,066
Real estate:			
Commercial/church mortgage	2,723	2,645	2,742
Construction	271	200	207
Other loans	91	20	22
Total	$6,592	$6,284	$6,037
Percent of categories to total loans:			
Commercial and industrial and IRB's	22.5%	28.6%	24.5%
Real estate:			
Commercial/church mortgage	69.8	65.9	69.3
Construction	5.9	5.3	5.2
Other	1.8	.2	1.0
Total	100.0%	100.0%	100.0%

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

Nonperforming Assets

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It is the policy of the Company to continually monitor its loan portfolio and to discontinue the accrual of interest on any loan on which payment of principal or interest in a timely manner in the normal course of business, is doubtful. Subsequent payments received on such loans are applied to principal if there is any doubt as to the collectability of such principal; otherwise, these receipts are recorded as interest income. Interest on nonaccrual and renegotiated loans, which would have been recorded under the original terms of the loans, was approximately $152,000 for the year ended December 31, 2006. Of this amount, approximately $25,000 was actually recorded as interest income on such loans.

Total nonaccrual commercial loans consists of three loans totaling $795,000 that relate to businesses that are for sale or are in the process of liquidation. Reserves have been established for the estimated loss exposure.

At December 31, 2006, approximately $7,415,000 of loans not included in the table below were identified by management as having potential credit problems. These loans are excluded from the table due to the fact they are current under the original terms of the loans, however circumstances have raised doubts as to the ability of the borrowers to comply with the current loan repayment terms. Included in this balance is $3,865,000 related to one borrower that was renegotiated in 2003 and, although current under the new terms of the contract, management believes, due to the financial condition of the borrower, there still remains risk as to the collectability of all amounts under the loan agreement. The remaining loans are closely monitored by management and have specific reserves established for the estimated loss exposure.

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.

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

(Dollars in thousands)	December 31, 2006	2005	2004	2003	2002
Commercial, industrial and IRB's:					
Nonaccrual	$ 795	$ 983	$ 297	$ 318	$ 51
Contractually past due 90 days or more and still accruing	--	--	--	--	--
Renegotiated loans	--	--	--	2,240	--
Real estate-construction on nonaccrual	--	--	--	--	--
Real estate-mortgage:					
Nonaccrual	--	--	69	1,207	--
Contractually past due 90 days or more and still accruing	--	481	4	147	3,388
Renegotiated loans	--	--	168	481	4,252
Other loans contractually past due 90 days and still accruing	--	--	--	--	1,503
Total nonperforming loans	795	1,464	538	4,393	9,194
Total foreclosed assets	--	--	375	859	6,241
Total nonperforming assets	$ 795	$ 1,464	$ 913	$5,252	$15,435

Operating Expenses from Continuing Operations

Operating expenses from continuing operations in 2006 compared to 2005 include the following significant pre-tax components:

Salaries and employees benefits expense increased $4,632,000 or 12% to $42,676,000. This is mainly attributable to additional staff related to the increase in processing volume, annual salary increases and the associated increase in benefit expenses.

Occupancy expense increased $38,000 or 2% to $1,979,000.

Equipment expense increased $133,000 or 5% to $2,928,000. This increase is primarily due to depreciation related to capital expenditures in 2005 and 2006.

Amortization of intangibles increased $54,000 or 31% to $226,000 due to the intangible assets acquired in the acquisition of NTransit in July 2006.

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Other operating expense increased $1,304,000 or 14% to $10,468,000. This increase related to several factors including a $443,000 increase in advertising and business development expense as the Company expanded its marketing efforts and a $402,000 increase in outside services, which

reflects higher auditing and legal activities. In addition, promotional expense increased $262,000 because of the Company's 100th year anniversary activities and increases in charitable contributions. Postage, and delivery expense increased $178,000 due to increased processing volume. More details on the components of other operating expenses are contained in Item 8, Note 15 of this report.

Operating expenses from continuing operations in 2005 compared to 2004 include the following significant pre-tax components:

Salaries and employee benefits expense increased $4,486,000 or 13% to $38,044,000. Of this increase, $1,329,000 was related to the acquisition of Cass' telecom group in August 2004. The remaining increase is mainly attributable to additional staff related to the increase in processing volume, annual salary increases and the associated increase in benefit expenses.

Occupancy expense increased $352,000 or 22% to $1,941,000. Of this increase, $56,000 relates to the acquisition of Cass' telecom group in August 2004. The remaining increase is primarily due to an increase in rent expense on leased office space. This includes the relocation of three Bank branches to improved facilities.

Equipment expense decreased $481,000 or 15% to $2,795,000. This decrease is primarily due to software that was capitalized in 2000 and 2001 that is now fully amortized.

Amortization of intangibles increased $115,000 or 202% to $172,000 due to the intangible assets acquired in the acquisition of Cass' telecom group in August 2004.

The impairment of equity investment expense recognized in 2005 relates to the $3,100,000 impairment charge of the Company's minority equity interest in a private imaging company. As of December 31, 2005 the Company's remaining financial interest in this entity was a $1,152,000 interest in a secured line of credit participated with the entity's majority owner for working capital purposes.

Other operating expense increased $599,000 or 7% to $9,164,000. This increase relates to several factors including an $186,000 increase in advertising and business development expense as the Company expanded its marketing efforts and a $235,000 increase in outside services, which reflects higher auditing and legal activities. In addition, postage, printing and supplies expense increased $95,000 due to increased processing volume and a $96,000 increase in telecommunications expense was related to an increase in the Company's business activities. The increase in operating expense that relates to the fact that Cass' telecom group was not held for the entire year during 2004 totaled $546,000. More details on the components of other operating expenses are contained in Item 8, Note 15 of this report.

Income Tax Expense

Income tax expense from continuing operations in 2006 totaled $8,367,000 compared to $4,982,000 in 2005 and $4,209,000 in 2004. When measured as a percent of income before income taxes and discontinued operations, the Company's effective tax rate was 35% in 2006, 31% in 2005 and 30% in 2004. The effective tax rate varies from year-to-year primarily due to changes in the Company's amount of investment in tax-exempt municipal bonds and income recognized on bank owned life insurance. The Company's income tax (benefit) expense from discontinued operations was ($280,000), $557,000 and ($947,000) with effective rates of 41%, 215% and 34% for the years 2006, 2005 and 2004, respectively. The

increase from 2004 to 2005 was primarily the result of differences between book and tax valuations resulting from the foreclosure, consolidation and sale of GEMS.

Investment Portfolio

Investment portfolio changes from December 31, 2005 to December 31, 2006:

U.S. Treasury securities decreased $6,006,000 or 26% to $16,824,000. U.S. government-sponsored corporation and agency securities decreased $1,993,000 or 40% to $2,985,000. State and political subdivision securities increased $15,886,000 or 24% to $82,207,000. 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 size of the investment portfolio increased as the Company employed a portion of the increase in accounts and drafts payable. The changes in asset mix reflect the relative interest rates of the alternative investments and management's liquidity and interest rate forecasts at the time funds became available for investment.

Investment portfolio changes from December 31, 2004 to December 31, 2005:

U.S. Treasury securities increased $931,000 or 4% to $22,830,000. U.S. government corporation and agency securities decreased $1,116,000 or 18% to $4,978,000. State and political subdivision securities increased $17,788,000 or 37% to $66,321,000. 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 size of the investment portfolio increased as the Company employed a portion of the increase in accounts and drafts payable. The changes in asset mix reflect the relative interest rates of the alternative investments and management's liquidity and interest rate forecasts at the time funds became available for investment.

There was no single issuer of securities in the investment portfolio at December 31, 2006, other than U.S. government-sponsored corporations and agencies, for which the aggregate amortized cost exceeded 10% of total shareholders' equity.

Investment by Type

	December 31,		
(Dollars in thousands)	2006	2005	2004
U.S. Treasury securities	$ 16,824	$ 22,830	$ 21,899
U.S. government-sponsored corporations and agencies	2,985	4,978	6,094

State and political subdivisions	82,207	66,321	48,533
Stock of the Federal Home Loan Bank	451	448	403
Stock of the Federal Reserve Bank	282	282	201
Total investments	$ 102,749	$ 94,859	$ 77,130

Investment in Debt Securities by Maturity
(At December 31, 2006)

(Dollars in thousands)	Within 1 Year	Over 1 to 5 Years	Over 5 to 10 Years	Ov 10 Y
U.S. Treasury securities	$ 16,824	$ --	$ --	$
U.S. government-sponsored corporations and agencies	1,515	1,470	--	
State and political subdivisions(1)	--	25,327	54,737	2
Total investment in debt securities	$ 18,339	$ 26,797	$ 54,737	$ 2
Weighted average yield	4.85%	5.10%	6.14%	6

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 decreased $9,809,000 or 8% from December 31, 2005 to $106,587,000 at December 31, 2006. The average balances of these deposits decreased $3,982,000 or 4% from 2005 to $99,329,000 in 2006. The decrease in ending balances relates mainly to normal daily fluctuations in these accounts. These balances are mainly maintained by commercial customers and churches and can fluctuate significantly on a daily basis. Therefore, management believes that average balances are a more meaningful measure of deposit trends.

Interest-bearing deposits increased $12,705,000 or 7% from December 31, 2005 to $183,307,000 at December 31, 2006. The average balances of these deposits declined to $179,217,000 in 2006 from $187,244,000 in 2005, as some customers transferred funds to higher-yielding accounts at other financial institutions.

Accounts and drafts payable generated by the Company in its payment processing operations increased $22,582,000 or 5% from December 31, 2005 to $468,393,000 at December 31, 2006. The average balances of these funds increased $67,045,000 or 17% from 2005 to $468,303,000 in 2006. These increases relate to the increase in dollars processed. 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 Stockholders' Equity; Interest Rate and Interest Differential" which is included

earlier in this discussion. The Company does not have any significant deposits from foreign depositors.

Maturities of Certificates of Deposits of $100,000 or More
(At December 31, 2006)

(Dollars in thousands)	
Three months or less	$ 28,315
Three to six months	24,002
Six to twelve months	6,364
Over twelve months	2,462
Total	$ 61,143

Short-term Borrowings

Short-term borrowings decreased $7,000 or 4% from December 31, 2005 to $181,000 at December 31, 2006. Average balances of these funds decreased $4,000 or 2% from 2005 to $161,000 during 2006. These funds usually are tax deposits of the U.S. Treasury although they can include federal funds purchased at times to meet short term liquidity requirements. For more information on borrowings please refer to Item 8, Note 10 of this report.

Subordinated Convertible Debentures

Total subordinated convertible debentures at December 31, 2006 and 2005 were $3,700,000 and average balances of these funds were $3,700,000 for the year. The debentures were issued on August 24, 2004 as part of the Company's purchase of its telecom group. For more information on these debentures please refer to Item 8, Note 11 of this report.

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, 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, federal funds sold, and money market funds, and were $196,504,000 at December 31, 2006, an increase of $46,812,000 or 31% from December 31, 2005. At December 31, 2006 these assets represented 23% of total assets. These funds are the Company's and its subsidiaries' primary source of liquidity to meet future expected and unexpected loan demand, depositor withdrawals or reductions in accounts and drafts payable.

Secondary sources of liquidity include the investment portfolio and borrowing lines. Total investment in debt securities available-for-sale at fair value was $102,749,000 at December 31, 2006, an increase of $7,890,000 or 8% from December

31, 2005. These assets represented 12% of total assets at December 31, 2006. Of this total, 81% were state and political subdivision securities, 16% were U.S. Treasury securities, and 3% were U.S. government agencies. Of the total portfolio, 18% mature in one year, 24% mature after one year through five years, 55% mature after five years through ten years and 3% after ten years. The Company did not sell any securities available-for-sale during 2006.

The Bank has unsecured lines of credit at correspondent banks to purchase federal funds up to a maximum of $29,000,000. Additionally, the Bank maintains lines of credit at unaffiliated financial institutions in the maximum amount of $63,034,000 collateralized by U.S. Treasury and agency securities and commercial and residential mortgage loans.

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 of continuing operations for the years 2006, 2005 and 2004 were $17,031,000, $13,420,000 and $11,759,000 respectively. Net income plus the adjustment for 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 and cash from operations will continue to be sufficient to fund the Company's operations and capital expenditures in 2007.

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, 2006 as shown in Item 8, Note 3 of this report.

In 2006, cash dividends paid were $.440 per share for a total of $3,666,000, a 15% increase over the prior year, which is attributable to an increase in the per share amount paid and additional shares outstanding. On July 18, 2006, the Company declared a 50% stock dividend payable to holders of record on September 1, 2006. On August 16, 2005, the Company declared a 50% stock dividend payable to holders of record on September 2, 2005.

Shareholders' equity was $83,921,000, or 10% of total assets, at December 31, 2006, an increase of $8,640,000 over the balance at December 31, 2005. This increase resulted from net income of $15,066,000, proceeds from the exercise of stock options of $327,000, an increase in other comprehensive income of $550,000 and other items of $120,000 related to the stock dividend and bonuses and other items of $227,000, which were offset by cash dividends paid of $3,666,000, the pension adjustment per SFAS No. 158 of $3,114,000 and repurchase of shares of $870,000.

Dividends from the bank subsidiary are a significant 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, 2006, unappropriated retained earnings of $3,287,000 were available at the Bank for the declaration of dividends to the Company without prior approval from regulatory authorities.

The Company also maintains a treasury stock buyback program pursuant to which the Board of Directors has authorized the repurchase of up to 150,000 shares of the Company's common stock. The Company repurchased 30,000 shares in 2006 for $870,000 and 63,997 shares during 2005 for $1,434,000. As of December 31, 2006, 120,000 shares remained available for repurchase under the program. Repurchases are made in the open market or through negotiated transactions from time to time depending on market conditions.

Commitments, Contractual Obligations and Off-Balance Sheet Arrangements

In the normal course of business, the Company is party to activities that contain 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's maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, commercial letters of credit and standby letters of credit is represented by the contractual amounts of those instruments. At December 31, 2006, no amounts have been accrued for any estimated losses for these instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commercial and standby letters of credit are conditional commitments issued by the Company or its subsidiaries to guarantee the performance of a customer to a third party. These off-balance sheet financial instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2006, the balance of loan commitments, standby and commercial letters of credit were $22,506,000, $ 6,417,000 and $2,650,000, 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.

On August 24, 2004 the Company issued $3,700,000 in subordinated convertible debentures as part of the Company's acquisition of the Cass telecom group. Interest, at a rate of 5.33%, is payable annually on the anniversary date of the acquisition. The holders of the debentures can convert the principal amount into fully paid and non-assessable shares of the common stock of the Company at a rate per share of $21.42 at various amounts over a 10-year period, at which time

the securities mature. The debentures may be called by the Company without penalty after August 24, 2010. For more information please refer to Item 8, Note 11 of this report.

The following table summarizes contractual cash obligations of the Company related to operating and capital lease commitments, time deposits and convertible subordinated debentures at December 31, 2006:

(Dollars in thousands at December 31, 2006)	Total	Amount of Commitment Expiration per Per			
		1 year	Less than Years	1-3 Years	3-5 Years
Operating lease commitments		$ 4,165	$ 656	$ 1,125	$ 820
Time deposits		88,796	84,928	2,489	1,379
Convertible subordinated debentures*		3,700	-	-	-
Total		$96,661	$85,584	$ 3,614	$ 2,199

* Includes principal payments only.

During 2006, the Company contributed $3,200,000 to its noncontributory defined benefit pension plan. The contribution had no significant effect on the Company's overall liquidity. 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 2006 these assumptions were as follows:

Weighted average discount rate	6.0%
Rate of increase in compensation levels	4.0%
Expected long-term rate of return on assets	7.5%

Impact of New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS No. 123R"). SFAS No. 123R addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services. The Statement eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees", and generally requires instead that such transactions be accounted for using a fair-value based method. For public entities, the cost of employee services received in exchange for an award of equity instruments, such as stock options, will be measured based on the grant-date fair value of those instruments, and that cost will be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). This Statement was adopted by the Company on January 1, 2006. The implementation of SFAS No. 123R did not have a material effect on the Company's financial condition or results of operations. See Note 10 to the consolidated financial statements.

In November 2005, the Financial Accounting Standards Board ("FASB") issued FASB

Staff Position ("FSP") FAS 115-1 and 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The guidance addresses the determination of when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and adds a footnote to APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." The guidance in this FSP nullifies certain requirements of the Emerging Issues Task Force ("EITF"), Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," and supersedes EITF Abstracts, Topic D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value." The Company applied this guidance effective January 1, 2006 and there was no material impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections" as a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement applies to all voluntary changes in accounting principles and changes required by an accounting pronouncement in the unusual instance that the

pronouncement does not include specific transition provisions. This Statement carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This Statement also carries forward the guidance in APB Opinion No. 20 requiring justification of a change in accounting principle on the basis of preferability. This Statement was adopted by the Company on January 1, 2006 and there was no material impact on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes", an Interpretation of SFAS No. 109 "Accounting for Income Taxes". FASB Interpretation No. 48 clarifies the accounting for uncertainty in income taxes in financial statements and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The FASB Interpretation is effective for fiscal years beginning after December 15, 2006. The Company implemented FASB Interpretation No. 48 on January 1, 2007, which did not have a material impact on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur 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. The Company recognized the required changes and disclosures in its consolidated 2006 financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB No. 108"). SAB No. 108 provides interpretive guidance on the consideration of the effects of prior year

misstatements in quantifying current year misstatements for the purpose of a materiality assessment. This statement is effective for fiscal years ending after November 15, 2006. This bulletin did not have an impact on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently assessing the impact of SFAS No. 159 on its financial statements.

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 differs significantly from most other bank 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 Asset/Liability Committee ("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, twelve-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.

Another measurement tool used by management is net interest income simulation, which forecasts net interest income during the coming twelve 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, 2006, 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 twelve 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 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, 2006:

Change in Interest Rates	% Change in Net Interest Income	% Change in Fair Market Value of Equity
+200 basis points	10%	11%
+100 basis points	5%	6%
Stable Rates	----	----
-100 basis points	(5%)	(7%)
-200 basis points	(12%)	(15%)

Interest Rate Sensitivity Position

The following table presents the Company's gap or interest rate risk position at December 31, 2006 for the various time periods indicated.

(Dollars in thousands)	Variable Rate	0-90 days	91-180 days	181-364 days	1-5 years	O
Earning assets:						
Loans:						
Taxable	$133,442	$23,973	$9,999	$31,014	$292,272	
Tax-exempt			55		3,010	
Debt and equity securities(1):						
Taxable	--	16,849	--	1,522	1,500	
Tax-exempt	--	--	--	--	25,488	

Other	733	--	--	--	--	
Federal funds sold and other Short- term investments	169,509	--	--	--	--	
Total earning assets	$303,684	$40,822	$10,054	$32,536	$322,270	$
Interest-sensitive liabilities:						
Money market accounts	$46,454	$ --	$ --	$ --	$ --	
Now accounts	20,134	--	--	--	--	
Savings deposits	27,923	--	--	--	--	
Time deposits:						
$100K and more	--	28,315	24,002	6,364	2,462	
Less than $100K	--	13,969	9,696	2,582	1,406	
Federal funds purchased and Other-short term borrowing	181	--	--	--	--	
Subordinated convertible debentures	--	--	--	--	--	
Total interest-bearing liabilities	$94,692	$42,284	$33,698	$8,946	$3,868	
Interest sensitivity gap:						
Periodic	$208,992	$(1,463)	$(23,644)	$ 23,590	$318,402	$
Cumulative	208,992	207,529	183,885	207,475	525,877	5
Ratio of interest-bearing assets to interest-bearing liabilities:						
Periodic	3.21	0.97	0.30	3.64	83.32	
Cumulative	3.21	2.52	2.08	2.16	3.87	

(1)Balances shown reflect earliest re-pricing date.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
(In thousands, except share and per share data)	2006	2
Assets		
Cash and due from banks	$ 26,995	$ 2
Federal funds sold and other short-term investments	169,509	12
Cash and cash equivalents	196,504	14
Securities available-for-sale, at fair value	102,749	9
Loans	504,125	52
Less: Allowance for loan losses	6,592	
Loans, net	497,533	52
Premises and equipment, net	12,898	1
Investment in bank owned life insurance	12,024	1
Payments in excess of funding	9,333	

Goodwill	7,471	
Assets related to discontinued operations	--	
Other intangible assets, net	1,156	
Other assets	18,803	1
Total assets	$858,471	$81
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	$106,587	$11
Interest-bearing	183,307	17
Total deposits	289,894	28
Accounts and drafts payable	468,393	44
Short-term borrowings	181	
Subordinated convertible debentures	3,700	
Liabilities related to discontinued operations	277	
Other liabilities	12,105	
Total liabilities	774,550	74
Shareholders' Equity:		
Preferred stock, par value $.50 per share; 2,000,000 shares authorized and no shares issued	--	
Common stock, par value $.50 per share; 20,000,000 shares authorized; 9,112,484 and 6,336,593 shares issued at December 31, 2006 and 2005, respectively	4,556	
Additional paid-in capital	17,896	1
Retained earnings	81,516	7
Common shares in treasury, at cost (784,773 and 836,457 shares at December 31, 2006 and 2005, respectively)	(17,077)	(1
Accumulated other comprehensive loss	(2,970)	
Total shareholders' equity	83,921	7
Total liabilities and shareholders' equity	$858,471	$81

See accompanying notes to consolidated financial statements.

CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	December 31,	
(In thousands, except share and per share data)	2006	2005
Fee Revenue and Other Income:		
Information services payment and processing revenue	$ 40,343	$ 35,901
Bank service fees	1,625	1,535
Gains on sales of investment securities	--	547
Other	853	670

Total fee revenue and other income	42,821	38,653
Interest Income:		
Interest and fees on loans	36,164	32,214
Interest and dividends on securities:		
Taxable	1,052	831
Exempt from federal income taxes	2,575	1,610
Interest on federal funds sold and other short-term investments	7,262	3,596
Total interest income	47,053	38,251
Interest Expense:		
Interest on deposits	6,414	4,486
Interest on short-term borrowings	7	5
Interest on subordinated convertible debentures	198	196
Total interest expense	6,619	4,687
Net interest income	40,434	33,564
Provision for loan losses	1,150	775
Net interest income after provision for loan losses	39,284	32,789
Operating Expense:		
Salaries and employee benefits	42,676	38,044
Occupancy	1,979	1,941
Equipment	2,928	2,795
Amortization of intangible assets	226	172
Impairment of equity investment	--	3,100
Other operating	10,468	9,164
Total operating expense	58,277	55,216
Income before income tax expense and discontinued operations	23,828	16,226
Income tax expense	8,367	4,982
Net income from continuing operations	15,461	11,244
Income (loss) from discontinued operations before income tax expense	(675)	259
Income tax (benefit) expense	(280)	557
Net loss from discontinued operations	(395)	(298)
Net income	$ 15,066	$ 10,946
Basic Earnings Per Share:		
From continuing operations	$ 1.86	$ 1.36
From discontinued operations	(.05)	(.03)
Basic earnings per share	1.81	1.33
Diluted Earnings Per Share:		
From continuing operations	$ 1.82	$ 1.33
From discontinued operations	(.05)	(.04)
Diluted earnings per share	1.77	1.29

See accompanying notes to consolidated financial statements.

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CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	December 31 2006	2005
Cash Flows From Operating Activities:		
Net income from continuing operations	$ 15,461	$ 11,244
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	2,049	2,073
Gains on sales of investment securities	--	(547)
Stock-based compensation expense	227	134
Provision for loan losses	1,150	775
Deferred income tax benefit	(289)	(921)
Increase (decrease) in income tax liability	1,628	(181)
Impairment of equity investment	--	3,100
Other operating activities, net	(3,195)	(2,257)
Operating activities of discontinued operations	(1,536)	(967)
Net cash provided by operating activities	15,495	12,453
Cash Flows From Investing Activities:		
From continuing operations:		
Proceeds from sales of securities available-for-sale	--	12,950
Proceeds from maturities of securities available-for-sale	83,510	77,150
Purchase of securities available-for-sale	(90,326)	(108,545)
Net decrease (increase) in loans	24,339	(29,386)
Increase in payments in excess of funding	(1,668)	(667)
Purchases of premises and equipment, net	(2,953)	(2,582)
Payment for business acquisitions, net of cash acquired	(3,172)	--
Proceeds from sale of discontinued operations	205	6,600
Investing activities of discontinued operations	--	(98)
Net cash provided by (used in) investing activities	9,935	(44,578)
Cash Flows From Financing Activities:		
From continuing operations:		
Net (decrease) increase in noninterest-bearing deposits	(9,809)	20,034
Net (decrease) increase in interest-bearing demand and savings deposits	(9,038)	(87)
Net increase (decrease) in time deposits	21,743	(8,578)
Net increase in accounts and drafts payable	22,582	87,338
Cash proceeds from exercise of stock options	327	144
Cash dividends paid	(3,666)	(3,201)
Purchase of common shares for treasury	(870)	(1,434)
Other financing activities, net	113	58
Net cash provided by financing activities	21,382	94,274
Net increase in cash and cash equivalents	46,812	62,149
Cash and cash equivalents at beginning of year	149,692	87,543

Cash and cash equivalents at end of year	$ 196,504	$ 149,692
	=========	==========
Supplemental information:		
Cash paid for interest	$ 6,171	$ 4,618
Cash paid for income taxes	8,136	6,792
Noncash transactions:		
Other real estate transferred from loans	$ --	$ --
Issuance of subordinated convertible debentures	--	--

See accompanying notes to consolidated financial statements.

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CASS INFORMATION SYSTEMS, INC. AND SUBSIDIARIES
STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(In thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accu O Compr Incom
Balance, December 31, 2003	$2,080	$8,337	$69,695	$(16,442)	$
Net income			8,005		
Cash dividends ($.365 per share)			(3,025)		
10% common stock dividend	167	9,819	(9,990)		
Other comprehensive income (loss):					
Net unrealized gain on debt securities available-for-sale, net of tax					
Reclassification adjustment for gains on sales of investment securities, available-for-sale, net of tax					
Minimum pension liability adjustment, net of tax					
Issuance of 8,744 common shares pursuant to Stock Bonus Plan		(74)		74	
Amortization of Stock Bonus Plan awards		96			
Exercise of stock options		(82)		272	
Excess tax benefit on stock awards		114			
Balance, December 31, 2004	2,247	18,210	64,685	(16,096)	
Comprehensive income for 2004					
Net income			10,946		
Cash dividends ($.387 per share)			(3,201)		
50% common stock dividend	921		(924)		
Purchase of 42,665 common shares				(1,434)	
Other comprehensive income (loss):					
Net unrealized loss on debt securities available-for-sale, net of tax					
Reclassification adjustment for gains on sales of investment securities, available-for-sale, net of tax					
Minimum pension liability adjustment, net of tax					

Issuance of 8,238 common shares pursuant to Stock Bonus Plan		(70)		70	
Amortization of Stock Bonus Plan awards		134			
Exercise of stock options		(3)		147	
Excess tax benefit on stock awards		55			
Balance, December 31, 2005	3,168	18,326	71,506	(17,313)	
Comprehensive income for 2005					
Net income			15,066		
Cash dividends ($.440 per share)			(3,666)		
50% common stock dividend	1,388		(1,390)		
Purchase of 30,000 common shares				(870)	
Other comprehensive income (loss):					
Net unrealized gain on debt securities available-for-sale, net of tax					
Adoption of SFAS 158					(
Issuance of 15,010 common shares pursuant to Stock Bonus Plan		(198)		198	
Exercise of stock options		(581)		908	
Excess tax benefit on stock awards		122			
Stock-based compensation expense		227			
Balance, December 31, 2006	$4,556	$17,896	$81,516	$(17,077)	$(
Comprehensive income for 2006					

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1
Summary of Significant Accounting Policies

Summary of Operations The Company provides payment and information services, which include processing and payment of freight, utility and telecommunications invoices. These services include the acquisition and management of data, information delivery and financial exchange. The consolidated balance sheet captions, "Accounts and drafts payable" and "Payments in excess of funding," consist of obligations related to the payment services that are performed for customers. The Company also provides a full range of banking services to individual, corporate and institutional customers through its wholly owned bank subsidiary.

Basis of Presentation The accounting and reporting policies of the Company and its subsidiaries conform to U.S. generally accepted accounting principles. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of intercompany transactions. Certain amounts in the 2005 and 2004 consolidated financial statements have been reclassified to conform to the 2006 presentation. Such reclassifications have no effect on previously reported net income or shareholders' equity. The Company's bank subsidiary sold the assets of GEMS, its wholly owned subsidiary, on December 30, 2005. The assets, liabilities and results of operations of GEMS have been presented as discontinued operations. See Note 2 for more details. The Company issued 50% stock dividends on September 15, 2006 and on September 15,

2005 and the share and per share information have been restated for all periods presented in the accompanying consolidated financial statements.

Use of Estimates In preparing the consolidated financial statements, Company management is required to make estimates and assumptions which significantly affect the reported amounts in the consolidated financial statements. A significant estimate, which is particularly susceptible to change in a short period of time, is the determination of the allowance for loan losses.

Cash and Cash Equivalents For purposes of the consolidated statements of cash flows, the Company considers cash and due from banks, federal funds sold and other short-term investments as segregated in the accompanying consolidated balance sheets to be cash equivalents.

Investment in Debt and Equity Securities The Company classifies its debt and marketable equity 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 whether it has the ability and intent to hold the investment until a marketplace recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. 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. Premiums and discounts are amortized or accreted to interest income over the estimated lives of the securities using the level-yield method. Interest income is recognized when earned. Gains and losses are calculated using the specific identification method.

Allowance for Loan Losses The allowance for loan losses is increased by provisions charged to expense and is available to absorb charge offs, net of recoveries. Management utilizes a systematic, documented approach in determining the appropriate level of the allowance for loan losses. Management's approach, which provides for general and specific allowances, is based on current economic conditions, past losses, collection experience, risk characteristics of the portfolio, assessments of collateral values by obtaining independent appraisals for significant properties, and such other factors which, in management's judgment, deserve current recognition in estimating loan losses.

Management believes the allowance for loan losses is adequate to absorb probable losses in the loan portfolio. While management uses all available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. Additionally, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to increase the allowance for loan losses based on their judgments and interpretations about information available to them at the time of their examination.

Premises and Equipment Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed over the estimated useful lives of the assets, or the respective lease terms for leasehold improvements, using straight-line and accelerated methods. Estimated useful lives do not exceed 40 years for

buildings, the lesser of 10 years or the life of the lease for leasehold improvements and range from 3 to 7 years for software, equipment, furniture and fixtures. Maintenance and repairs are charged to expense as incurred.

Intangible Assets Cost in excess of fair value of net assets acquired have resulted from business acquisitions, which were accounted for using the purchase method. Goodwill and intangible assets with indefinite useful lives are not amortized, but instead are tested for impairment at least annually. Intangible assets with definite useful lives are amortized over their respective estimated useful lives.

Periodically, the Company reviews intangible assets for events or changes in circumstances that may indicate that the carrying amount of the assets may not be recoverable. Based on those reviews, adjustments of recorded amounts have not been required.

Non-marketable Equity Investments The Company accounts for non-marketable equity investments, in which it holds less than a 20% ownership in, under the cost method. Under the cost method of accounting, investments are carried at cost and are adjusted only for other than temporary declines in fair value, distributions of earnings and additional investments. The Company periodically evaluates whether any declines in fair value of its investments are other than temporary. In performing this evaluation, the Company considers various factors including any decline in market price, where available, the investee's financial condition, results of operations, operating trends and other financial ratios. Non-marketable equity investments are included in other assets on the consolidated balance sheets.

Foreclosed Assets Other real estate, included in other assets in the accompanying consolidated balance sheets, is recorded at the lower of cost or fair value less costs to sell. If the fair value of other real estate declines subsequent to foreclosure, the difference is recorded as a valuation allowance through a charge to expense. Subsequent increases in fair value are recorded through reversal of the valuation allowance. Expenses incurred in maintaining the properties are charged to expense.

Treasury Stock Purchases of the Company's common stock are recorded at cost. Upon reissuance, treasury stock is reduced based upon the average cost basis of shares held.

Comprehensive Income Comprehensive income consists of net income, changes in net unrealized gains (losses) on available-for-sale securities and minimum pension liability adjustments and is presented in the accompanying consolidated statements of shareholders' equity and comprehensive income.

Interest on Loans Interest on loans is recognized based upon the principal amounts outstanding. It is the Company's policy to discontinue the accrual of interest when there is reasonable doubt as to the collectability of principal or interest. Subsequent payments received on such loans are applied to principal if there is any doubt as to the collectability of such principal; otherwise, these receipts are recorded as interest income. The accrual of interest on a loan is resumed when the loan is current as to payment of both principal and interest and/or the borrower demonstrates the ability to pay and remain current.

Impairment of Loans A loan is considered impaired when it is probable that a creditor will be unable to collect all amounts due, both principal and interest, according to the contractual terms of the loan agreement. When measuring impairment, the expected future cash flows of an impaired loan are discounted at the loan's effective interest rate. Alternatively, impairment could be measured by reference to an observable market price, if one exists, or the fair value of the collateral for a collateral-dependent loan. Regardless of the historical

measurement method used, the Company measures impairment based on the fair value of the collateral when the Company determines foreclosure is probable. Additionally, impairment of a restructured loan is measured by discounting the total expected future cash flows at the loan's effective rate of interest as stated in the original loan agreement. The Company uses its nonaccrual methods as discussed above for recognizing interest on impaired loans.

Information Services Revenue A majority of the Company's revenues are attributable to fees for providing services. These services include freight invoice rating, payment processing, auditing, and the generation of accounting and transportation information. The Company also processes, pays and generates management information from electric, gas, telecommunications and other invoices. The specific payment and information processing services provided to each customer are developed individually to meet each customer's specific requirements. The Company enters into service agreements with customers typically for fixed fees per transaction that are invoiced monthly. Revenues are recognized in the period services are rendered and earned under the service agreements, as long as collection is reasonably assured.

Income Taxes Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Deferred tax assets are reduced if necessary, by a deferred tax asset valuation allowance. In the event that management determines it will not be able to realize all or part of net deferred tax assets in the future, the Company adjusts the recorded value of deferred tax assets, which

would result in a direct charge to income tax expense in the period that such determination is made. Likewise, the Company will reverse the valuation allowance when realization of the deferred tax asset is expected. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Earnings Per Share Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income, adjusted for the net income effect of the interest expense on the outstanding convertible debentures, by the sum of the weighted-average number of common shares outstanding and the weighted-average number of potential common shares outstanding.

Stock-Based Compensation The Company adopted Statement of Financial Accounting Standards No. 123 ("SFAS No. 123") in 2000. As provided by SFAS No. 123, the Company applied the intrinsic value-based method, as outlined in Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for stock options and restriced stock awards. Under the intrinsic value-based method, no compensation expense was recognized if the exercise price of the Company's employee stock options equaled the market price of the underlying stock on the date of the grant. Accordingly, no compensation cost was recognized for stock options granted to employees, since all options granted under the Company's share incentive programs had an exercise price equal to the market value of the underlying common stock on the date of the grant.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R") "Share-based Payment." This statement

supersedes SFAS No. 123. SFAS No. 123R requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the modified prospective method of application, which requires the Company to recognize compensation expense on a prospective basis. Therefore, prior period financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based awards, expense is also recognized to reflect the remaining service period of awards that had been included in pro forma disclosures required by SFAS No. 123 in prior periods. SFAS No. 123R also requires that excess tax benefits related to stock option exercises and restricted stock awards be reflected as financing cash inflows instead of operating cash inflows.

The pro forma disclosures for 2005 and 2004 required by SFAS No. 123 are provided in the table below.

(In thousands, except per share data)	2005	2004
Net income from continuing operations:		
As reported	$11,244	$9,881
Add: Stock based compensation expense included in reported net income, net of tax	86	63
Less: Stock based compensation expense determined under the fair value based method for all awards, net of tax	(105)	(109)
Pro forma net income from continuing operations	$11,225	$9,835
Net income effect of subordinated convertible debentures	108	39
Proforma net income from continuing operations assuming dilution	$11,333	$9,874
Net income from continuing operations per common share: (1)		
Basic, as reported	$ 1.36	$ 1.19
Basic, proforma	1.36	1.19
Diluted, as reported	1.33	1.17
Diluted, proforma	1.32	1.17

(1) Per share data for 2005 and 2004 have been restated for the 50% stock dividends paid on September 15, 2006 and 2005.

Pension Plans The amounts recognized in the consolidated financial statements related to pension 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, 2006, rate of increase in future compensation levels and mortality rates. These assumptions are updated annually and are disclosed in Note 13. In September 2006, the FASB issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)" ("SFAS No. 158"). SFAS No. 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the

changes occur 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. The Company recognized the required changes and disclosures in its consolidated 2006 financial statements.

Impact of New Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), "Share-Based Payment". This Statement addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services. The Statement eliminates the ability to account for share-based compensation transactions using APB Opinion No. 25, "Accounting for Stock Issued to Employees", and generally requires instead that such transactions be accounted for using a fair-value based method. For public entities, the cost of employee services received in exchange for an award of equity instruments, such as stock options, will be measured based on the grant-date fair value of those instruments, and that cost will be recognized over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). This Statement was adopted by the Company on January 1, 2006. The implementation of SFAS No. 123R did not have a material effect on the Company's financial condition or results of operations. See Note 13 to the consolidated financial statements.

In November 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position ("FSP") FAS 115-1 and 124-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The guidance addresses the determination of when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. The FSP also includes accounting considerations subsequent to the recognition of an other-than-temporary impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in this FSP amends FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and adds a footnote to APB Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." The guidance in this FSP nullifies certain requirements of the Emerging Issues Task Force ("EITF"), Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," and supersedes EITF Abstracts, Topic D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value." The Company applied this guidance effective January 1, 2006 and there was no material impact on its consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154 "Accounting Changes and Error Corrections" as a replacement of APB Opinion No. 20 and FASB Statement No. 3. This Statement applies to all voluntary changes in accounting principles and changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This Statement carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. This Statement also carries forward the guidance in APB Opinion No. 20 requiring justification of a change in accounting principle on the basis of preferability. This Statement was adopted by the Company on January 1, 2006 and there was no material impact on its consolidated financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes", an Interpretation of SFAS No. 109 "Accounting for Income Taxes". FASB Interpretation No. 48 clarifies the accounting for uncertainty in income taxes in financial statements and prescribes a recognition

threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The FASB Interpretation is effective for fiscal years beginning after December 15, 2006. The Company implemented FASB Interpretation No. 48 on January 1, 2007, which did not have a material impact on the Company's consolidated financial statements.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements"("SAB No. 108"). SAB No. 108 provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. This statement is effective for fiscal years ending after November 15, 2006. This bulletin did not have an impact on the Company's consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159"). SFAS No. 159 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently assessing the impact of SFAS No. 159 on its financial statements.

Note 2
Acquisitions and Dispositions

On July 7, 2006, the Company acquired 100% of the common stock of NTransit, Inc., a company whose service provides auditing and expense management of parcel shipments. While this acquisition does not meet the Regulation S-X criteria of a significant business combination, it positions the Company to expand its offerings in the specialized service and expertise in parcel shipping, which is a unique segment of the transportation industry that has experienced tremendous growth in recent years. Pro forma results, assuming the NTransit, Inc. acquisition had been consummated January 1, 2005, would not be significantly different than reported.

On December 30, 2005, the Company's bank subsidiary sold the operating assets of its wholly-owned subsidiary, Government e-Management Solutions, Inc. ("GEMS"). In accordance with FASB Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" the assets, liabilities and operating results of GEMS, including the gain on sale in 2005, have been presented as discontinued operations for all periods.

Note 3
Capital Requirements And Regulatory Restrictions

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The

Company and the Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulators to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets, and of Tier I capital to average assets. Management believes that as of December 31, 2006 and 2005, the Company and the Bank met all capital adequacy requirements to which they are subject.

The Bank is also subject to the regulatory framework for prompt corrective action. As of December 31, 2006, the most recent notification from the regulatory agencies categorized the Bank as well capitalized. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category.

Subsidiary dividends are a significant source of funds for payment of dividends by the Company to its shareholders. At December 31, 2006, unappropriated retained earnings of $3,287,000 were available at the Bank for the declaration of dividends to the Company without prior approval from regulatory authorities. However, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

Restricted funds on deposit used to meet regulatory reserve requirements amounted to approximately $1,000,000 and $525,000 at December 31, 2006 and 2005, respectively.

The Company and the Bank's actual and required capital amounts and ratios as of December 31, 2006 and 2005 are as follows:

	Actual		Capital requirements		
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	A
At December 31, 2006					
Total capital (to risk-weighted assets):					
Cass Information Systems, Inc.	$85,205	13.64%	$49,978	8.00%	$
Cass Commercial Bank	42,242	14.19%	23,815	8.00%	
Tier I capital (to risk-weighted assets):					
Cass Information Systems, Inc.	74,913	11.99%	24,989	4.00%	
Cass Commercial Bank	38,511	12.94%	11,908	4.00%	
Tier I capital (to average assets):					
Cass Information Systems, Inc.	74,913	8.65%	26,248	3.00%	
Cass Commercial Bank	38,511	11.25%	10,273	3.00%	

At December 31, 2005
Total capital (to risk-weighted assets):

Cass Information Systems, Inc.	$80,066	12.80%	$50,036	8.00%	$
Cass Commercial Bank	42,597	14.64	23,277	8.00	
Tier I capital (to risk-weighted assets):					
Cass Information Systems, Inc.	$70,082	11.21%	$25,018	4.00%	$
Cass Commercial Bank	38,251	13.15	11,638	4.00	
Tier I capital (to average assets):					
Cass Information Systems, Inc.	$70,082	8.52%	$24,691	3.00%	$
Cass Commercial Bank	38,251	11.16	10,279	3.00	

Note 4
Investment in Debt and Equity Securities

Debt and marketable equity securities have been classified in the consolidated balance sheets as available for sale according to management's intent. The amortized cost, gross unrealized gains, gross unrealized losses and fair value of debt and equity securities at December 31, 2006 and 2005, are summarized as follows:

	2006			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities	$ 16,849	$ --	$ 25	$
Obligations of U.S. government-sponsored corporations and agencies	3,022	--	37	
State and political subdivisions	81,559	862	214	
Total debt securities	101,430	862	276	
Stock in Federal Reserve Bank and Federal Home Loan Bank	733	--	--	
Total	$ 102,163	$ 862	$ 276	$

	2005			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Treasury securities	$ 22,877	$ --	$ 47	$
Obligations of U.S. government-sponsored corporations and agencies	5,047	--	69	
State and political subdivisions	66,474	289	442	
Total debt securities	94,398	289	558	
Stock in Federal Reserve Bank and Federal Home Loan Bank	730	--	--	
Total	$ 95,128	$ 289	$ 558	$

The fair values of securities with unrealized losses at December 31, 2006 and

2005 are as follows:

	2006				
	Less than 12 months		12 months or more		
(In thousands)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estim fair
U. S. Treasury securities	$ 16,824	$ 25	$ --	$ --	$ 1
Obligations of U.S. government-sponsored corporations and agencies	--	--	2,985	37	
State and political subdivisions	11,729	37	10,622	177	2
Total	$ 28,553	$ 62	$ 13,607	$ 214	$ 4

	2005				
	Less than 12 months		12 months or more		
(In thousands)	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estim fair
U. S. Treasury securities	$ 19,857	$ 21	$ 2,973	$ 26	$ 2
Obligations of U.S. government-sponsored corporations and agencies	3,004	43	1,974	26	
State and political subdivisions	35,538	271	5,041	171	4
Total	$ 58,399	$ 335	$ 9,988	$ 223	$ 6

There were 38 securities (17 greater than 12 months) in an unrealized loss position as of December 31, 2006. All unrealized losses are reviewed to determine whether the losses are other than temporary. Management believes that all unrealized losses are temporary since they are market driven and the Company has the ability and intent to hold these securities until maturity.

There were 57 securities (10 greater than 12 months) in an unrealized loss position included as of December 31, 2005. All unrealized losses are reviewed to determine whether the losses are other than temporary. Management believes that all unrealized losses are temporary since they are market driven and the Company has the ability and intent to hold these securities until maturity.

The amortized cost and fair value of debt and equity securities at December 31, 2006, by contractual maturity, are shown in the following table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

(Dollars in thousands)	2006	
	Amortized Cost	Fair V
Due in 1 year or less	$ 18,371	$ 18
Due after 1 year through 5 years	24,677	24
Due after 5 years through 10 years	55,037	55
Due after 10 years	3,345	3
No stated maturity	733	
Total	$102,163	$102

The amortized cost of debt securities pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes at December 31, 2006 and 2005 were $5,006,000 and $13,027,000, respectively.

Proceeds from sales of debt securities classified as available-for-sale were $0, $12,950,000 and $27,195,000 for 2006, 2005 and 2004, respectively. Gross realized gains and losses on the sales were $0 in 2006, and gains of $547,000 and losses of $0 in 2005 and gains of $1,048,000 and losses of $3,000 in 2004.

Note 5
Loans

A summary of loan categories at December 31, 2006 and 2005 is as follows:

(Dollars in thousands)	2006	20
Commercial and industrial	$ 113,162	$ 146
Real estate:		
Commercial	140,095	164
Mortgage - Church & related	211,949	183
Construction	15,064	13
Construction - Church & related	14,715	15
Industrial revenue bonds	6,293	4
Other	2,847	1
Total	$ 504,125	$ 529

The Company originates commercial, industrial and real estate loans to businesses, churches and consumers throughout the metropolitan St. Louis, Missouri area, Orange County, California and other selected cities in the United States. The Company does not have any particular concentration of credit in any one economic sector; however, a substantial portion of the commercial and industrial loans are extended to privately-held commercial companies in this market area, and are generally secured by the assets of the business. The Company also has a substantial portion of real estate loans secured by mortgages that are extended to churches in this market area and selected cities throughout

the United States.

Loan transactions involving executive officers and directors of the Company and its subsidiaries and loans to affiliates of executive officers and directors for the year ended December 31, 2006, are summarized below. Such loans were made in the normal course of business on substantially the same terms, including interest rates and collateral, as those

prevailing at the same time for comparable transactions with other persons, and did not involve more than the normal risk of collectability.

(In thousands)	
Aggregate balance, January 1, 2006	$ 4,151
New loans	--
Payments	3,190
Aggregate balance, December 31, 2006	$ 961

A summary of the activity in the allowance for loan losses for 2006, 2005 and 2004 is as follows:

(In thousands)	2006	2005	20
Balance, January 1	$ 6,284	$ 6,037	$ 5,
Provision charged to expense	1,150	775	
Loans charged off	(864)	(555)	
Recoveries of loans previously charged off	22	27	
Net loan charge-offs	(842)	(528)	
Balance, December 31	$ 6,592	$ 6,284	$ 6,

The following is a summary of information pertaining to impaired loans at December 31, 2006 and 2005:

(In thousands)	2006	20
Impaired loans without a valuation allowance	$ --	$
Impaired loans with a valuation allowance	795	3,
Allowance for loan losses related to impaired loans	395	1,

Impaired loans consist primarily of renegotiated loans, nonaccrual loans and loans greater than 90 days past due and still accruing interest. In 2005, impaired loans included a loan for $2,080,000 related to one borrower that, although current, management had doubts as to the collectability of all amounts under the agreement. In 2006, this loan is current. There were no impaired loans continuing to accrue interest at December 31, 2006 compared to $2,561,000 at December 31, 2005. Nonaccrual loans were $795,000 and $983,000 at December 31, 2006 and 2005, respectively. Loans delinquent 90 days or more and still accruing interest at December 31, 2005 totaled $481,000. The average balance of impaired loans during 2006 and 2005 was $ 1,177,000 and $3,103,000, respectively. Income that would have been recognized on non-accrual loans under the original terms of the contract was $152,000, $114,000 and $38,000 for 2006, 2005 and 2004, respectively. Income that was recognized on non-accrual loans was $25,000, $32,000 and $15,000 for 2006, 2005 and 2004, respectively. There were no foreclosed loans which have been reclassified and held as other real estate owned as of December 31, 2006. There was no other real estate owned included in other assets on the consolidated balance sheet at December 31, 2006 and 2005.

Note 6
Premises and Equipment

A summary of premises and equipment at December 31, 2006 and 2005, is as follows:

(In thousands)	2006	200
Land	$ 873	$
Buildings	10,453	10,
Leasehold improvements	2,013	1,
Furniture, fixtures and equipment	18,312	17,
Purchased software	4,672	3,
Internally developed software	4,037	4,
	40,360	38,
Less accumulated depreciation and amortization	27,462	26,
Total	$ 12,898	$ 11,

Total depreciation and amortization charged to expense in 2006, 2005 and 2004 amounted to $2,042,000, $1,971,000 and $2,679,000, respectively.

The Company and its subsidiaries lease various premises and equipment under operating lease agreements, which expire at various dates through 2020. Rental expense for 2006, 2005 and 2004 was $614,000, $552,000 and $305,000, respectively. The following is a schedule, by year, of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2006:

(In thousands)	Amount

2007	$ 657
2008	656
2009	469
2010	415
2011	404
2012 and after	1,564
Total	$ 4,165

Note 7
Equity Investments in Non-Marketable Securities

In 2005, the Company recognized a $3,100,000 impairment charge for an investment in a private imaging company. As of December 31, 2006 and 2005, the Company's equity investment was $0.

Non-marketable equity investments in low-income housing projects are included in other assets on the Company's consolidated balance sheets. The total balances of these investments at December 31, 2006 and 2005 were $329,000 and $447,000, respectively.

Note 8
Acquired Intangible Assets

The Company accounts for intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," which requires that intangibles with indefinite useful lives be tested annually for impairment and those with finite useful lives be amortized over their useful lives. Details of the Company's intangible assets as of December 31, 2006 and 2005 are as follows:

	December 31, 2006		Decembe
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount
Assets eligible for amortization:			
Software	$ 862	(402)	$ 862
Customer List	750	(54)	-
Total	1,612	(456)	862
Assets not eligible for amortization:			
Goodwill	7,698	(227)*	4,625
Minimum pension liability	--	--	303
Total	7,698	(227)	4,928
Total intangible assets	9,310	(683)	$ 5,790

*Amortization through December 31, 2001 prior to adoption of SFAS No. 142.

Software is amortized over 4-5 years and the customer list that was acquired in the NTransit purchase is amortized over seven years. Goodwill includes $3,073,000 acquired in 2006 in the NTransit purchase. The minimum pension liability was recorded in accordance with SFAS No. 87, "Employers' Accounting for Pensions", which requires the Company to record an additional minimum

pension liability by the amount that the accumulated benefit obligation exceeds the sum of the fair value of plan assets and accrued amounts previously recorded and offset this liability by an intangible asset to the extent of previously unrecognized prior service costs. The liability and corresponding intangible asset have been eliminated in accordance with SFAS No. 158.

The weighted average amortization period at December 31, 2006 was six years for all amortized intangible assets combined. Amortization of intangible assets amounted to $226,000, $172,000 and $57,000 for the years ended December 31, 2006, 2005 and 2004 respectively. Estimated future amortization of intangibles is as follows: $280,000 in 2007 and 2008, $222,000 in 2009 and $107,000 in 2010 and 2011.

Note 9
Interest-Bearing Deposits

Interest-bearing deposits consist of the following at December 31, 2006 and 2005:

(In thousands)	2006	20
NOW and money market deposit accounts	$ 66,588	$ 80
Savings deposits	27,923	22
Time deposits:		
Less than $100	27,653	30
$100 or more	61,143	36
Total	$ 183,307	$ 170

Interest on deposits consist of the following for 2006, 2005 and 2004:

(In thousands)	2006	2005	20
NOW and money market deposit accounts	$ 1,831	$ 1,485	$
Savings deposits	730	458	
Time deposits:			
Less than $100	1,297	1,142	
$100 or more	2,556	1,401	1,
Total	$ 6,414	$ 4,486	$ 3,

The scheduled maturities of time deposits at December 31, 2006 and 2005 are summarized as follows:

(In thousands)	2006 Amount	2006 Percent of Total	2005 Amount	P of
Due within:				
One year	$84,928	95.6%	$45,304	
Two years	2,262	2.5%	3,240	
Three years	227	.3%	11,825	
Four years	1,235	1.4%	4,601	
Five years	144	.2%	2,083	
Total	$88,796	100%	$67,053	

Note 10
Short-Term Borrowings

Company short-term borrowings consist mainly of federal funds purchased and tax deposits of the United States Treasury. At December 31, 2006 and 2005 the bank subsidiary had short-term borrowings of $181,000 and $188,000, respectively that consisted of borrowings from the Treasury related to tax deposits received from customers not yet drawn upon by the Treasury. These borrowings are secured by U.S. Treasury and agency securities. The average amount of all borrowings for 2006 was $161,000 at an average rate of 4.46% and the maximum amount outstanding at the end of any month during the year was $225,000. The average amount of borrowings for 2005 was $165,000 at an average rate of 3.03% and the maximum amount outstanding at the end of any month during the year was $229,000.

Note 11
Subordinated Convertible Debentures

On August 24, 2004, the Company issued $3,700,000 of 5.33% subordinated convertible debentures in partial consideration for the acquisition of the assets of PROFITLAB, Inc. Interest is payable annually on the anniversary date of the acquisition. The holders of the debentures can convert up to 20% of the principal amount into fully paid and non-assessable shares of the common stock of the Company at a rate per share of $21.42 after the third anniversary of the issuance date. After the fourth anniversary date an additional 30% can be converted under the same terms. After the fifth anniversary date, 100% can be converted under the same terms. The securities mature 10 years after the date of issuance. The debentures may be called by the Company without penalty after August 24, 2010.

Note 12
Common Stock and Earnings Per Share

The table below shows activity in the outstanding shares of the Company's common stock during 2006.

Shares outstanding at January 1, 2006	5,500,136
Issuance of common stock:	
50% stock dividend, issued September 15, 2006	2,744,082
Issued under Stock Bonus Plan*	10,007
Stock options exercised*	93,486

Stock repurchased*	(20,000)
Shares outstanding at December 31, 2006	8,327,711

*Not restated for stock dividend, issued September 15, 2006.

Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding. Diluted earnings per share is computed by dividing net income, adjusted for the net income effect of the

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interest expense on the outstanding convertible debentures, by the sum of the weighted-average number of common shares outstanding and the weighted-average number of potential common shares outstanding. Under the treasury stock method, outstanding stock options are dilutive when the average market price of the Company's common stock, combined with the effect of any unamortized compensation expense, exceeds the option price during a period. In addition, proceeds from the assumed exercise of dilutive options along with the related tax benefit are assumed to be used to repurchase common shares at the average market price of such stock during the period. Anti-dilutive shares are those option shares with exercise prices in excess of the current market value.

The calculations of basic and diluted earnings per share for the periods ended December 31, 2006, 2005 and 2004 are as follows:

(Dollars in thousands, except per share data)	2006	2005
Basic		
Net income from continuing operations	$ 15,461	$ 11,244
Net loss from discontinued operations	(395)	(298
Net income	$ 15,066	$ 10,946
Weighted average common shares outstanding	8,310,171	8,262,713
Basic earnings per share from continuing operations	$ 1.86	$ 1.36
Basic earnings per share from discontinued operations	(.05)	(.03
Basic earnings per share	$ 1.81	$ 1.33
Diluted		
Net income from continuing operations	$ 15,461	$ 11,244
Net income effect of 5.33% convertible debentures	109	108
Net income, assuming dilution, from continuing operations	15,570	11,352
Net loss from discontinued operations	(395)	(298
Net income	$ 15,175	$ 11,054
Weighted-average common shares outstanding	8,310,171	8,262,713
Effect of dilutive stock options and awards	67,830	118,172
Effect of 5.33% convertible debentures	172,717	172,717

Weighted-average common shares outstanding assuming dilution	8,550,718	8,553,602
Diluted earnings per share from continuing operations	$ 1.82	$ 1.33
Diluted earnings per share from discontinued operations	(.05)	(.04
Diluted earnings per share	$ 1.77	$ 1.29

Share and per share data in the schedule above have been restated for the 50% stock dividends on September 15, 2006 and 2005.

Note 13
Employee Benefit Plans

The Company has a noncontributory defined benefit pension plan, which covers most of its employees. The Company accrues and makes contributions designed to fund normal service costs on a current basis using the projected unit credit with service proration method to amortize prior service costs arising from improvements in pension benefits and qualifying service prior to the establishment of the plan over a period of approximately 30 years.

The Company also has an unfunded supplemental executive retirement plan (SERP) which covers key executives of the Company. The SERP is a noncontributory plan in which the Company's subsidiaries make accruals designed to fund normal service costs on a current basis using the same method and criteria as the Plan.

On December 31, 2006 the Company adopted the provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)," (SFAS No. 158). SFAS No. 158 requires recognition of the overfunded or underfunded status through comprehensive income in the year in which they occur. SFAS No. 158 was adopted on a prospective basis as required. Prior years' amounts have not been restated.

The prior accounting for defined pension and other postretirement plans allowed for delayed recognition of changes in plan assets and benefit obligations and recognition of a liability that may have been less than the underfunded status of the plans or an asset for plans that may have been underfunded. The following table illustrates the incremental effect

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of applying SFAS No. 158 for the Company's defined benefit pension plan and the SERP on individual line items in the Company's consolidated balance sheet as of December 31, 2006.

(Dollars In Thousands)	Before Adoption	Adjustment: Defined Benefit Plan	Adjustment: SERP
Other intangible assets	$ 1,459	$ --	(303)
Other assets	17,495	1,068	240

Total assets	857,466	1,068	(63)
Other liabilities	7,986	3,784	335
Total liabilities	770,431	3,784	335
Accumulated comprehensive income (loss)	144	(2,716)	(398)
Total shareholders' equity	87,035	(2,716)	(398)
Total liabilities and shareholders' equity	857,466	1,068	(63)

A summary of the activity in the Plan's projected benefit obligation, assets, funded status and amounts recognized in the Company's consolidated balance sheets at December 31, 2006 and 2005, is as follows:

(In thousands)	2006	2005
Projected benefit obligation:		
Balance, January 1	$ 26,535	$ 22,951
Service cost	1,554	1,292
Interest cost	1,565	1,384
Actuarial (loss) gain	(99)	1,342
Benefits paid	(578)	(434)
Balance, December 31	$ 28,977	$ 26,535
Plan assets:		
Fair value, January 1	$ 20,702	$ 16,994
Actual return	1,869	1,154
Employer contribution	3,200	2,988
Benefits paid	(578)	(434)
Fair value, December 31	$ 25,193	$ 20,702
Funded status:		
Unfunded projected benefits obligation	$ (3,784)	$ (5,833)
Unrecognized prior service cost	--	74
Unrecognized net loss	--	4,871
Prepaid (accrued) pension asset / liabilty	$ (3,784)	$ (888)

The following represent the major assumptions used to determine the projected benefit obligation of the Plan. The Plan's expected benefit cash flows are discounted using the Citibank Pension Discount Curve rates.

	2006	2005	2004
Weighted average discount rate	6.00%	5.75%	6.00%
Rate of increase in compensation levels	4.00%	4.00%	4.00%

The accumulated benefit obligation was $23,092,000 and $21,338,000 as of December 31, 2006 and 2005, respectively. The Company expects to contribute approximately $1,800,000 to the Plan in 2007. The following pension benefit

payments, which reflect expected future service, as appropriate, are expected to be paid:

2007	$723,000
2008	939,000
2009	1,005,000
2010	1,090,000
2011	1,097,000
2012 - 2016	6,800,000

The Plan's pension cost for 2006, 2005 and 2004 was $ 1,786,000, $1,473,000 and $1,250,000, respectively, and included the following components:

(In thousands)	2006	2005	2004
Service cost - benefits earned during the year	$1,554	$ 1,292	$ 1,186
Interest cost on projected benefit obligations	1,565	1,384	1,237
Expected return on plan assets	(1,603)	(1,312)	(1,233)
Net amortization and deferral	270	109	60
Net periodic pension cost	$1,786	$ 1,473	$ 1,250

The estimate of the total amount to be recognized in net periodic benefit cost and other comprehensive income for 2007 is $1,489,000.

The following represent the major assumptions used to determine the net benefit cost of the Plan:

	2006	2005	2004
Weighted average discount rate	5.75%	6.00%	6.25%
Rate of increase in compensation levels	4.00%	4.00%	4.00%
Expected long-term rate of return on assets	7.50%	7.50%	8.00%

The asset allocation for the defined benefit pension plan as of the measurement date, by asset category, is as follows:

	Percentage of Plan Assets	
Asset Class	2006	2005

Equity securities	43.8%	39.6%
Debt securities	55.8%	59.8%
Cash and cash equivalents	0.4%	0.6%
Total	100.0%	100.0%

The investment objective for the Plan is to maximize total return with a tolerance for average risk. Asset allocation strongly favors fixed income investments, with a target allocation of approximately 67% fixed income, 33% equities, and 0% cash. Due to volatility in the market, this target allocation is not always desirable and asset allocations can fluctuate between acceptable ranges. The fixed income component is invested in pooled investment grade securities. The equity component is invested in pooled large cap stocks. More aggressive or volatile sectors, although currently not employed, can be represented in the asset mix to pursue higher returns with proper diversification. The assumed long-term rate of return on assets, which falls within the expected range, is 7.5% as derived below:

Asset Class	Expected Long-Term Return on Class	X	Allocation	=	Contribution to Assumption
Equity securities	7 - 9%		44%		3.1% - 4.0%
Fixed income	5 - 7%		56%		2.8% - 3.9%
					5.9% - 7.9%

A summary of the activity in the SERP projected benefit obligation, funded status and amounts recognized in the Company's consolidated balance sheets at December 31, 2006 and 2005, is as follows:

(In thousands)	2006	2005
Benefit obligation:		
Balance, January 1	$ 2,888	$ 1,966
Service cost (benefit)	43	(34)
Interest cost	150	161
Actuarial (gain) loss	(336)	795
Balance, December 31	$ 2,745	$ 2,888
Funded status:		
Unfunded projected benefits obligation	$ (2,745)	$(2,888)
Unrecognized prior service cost	252	303
Unrecognized actuarial loss	755	1,120
Accrued pension cost	(1,738)	(1,465)
Minimum liability adjustment	--	(673)
Accrued pension cost	$ (1,738)	$(2,138)

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The SERP's pension cost for 2006, 2005 and 2004 was $304,000, $191,000, and $110,000, respectively, and included the following components:

(In thousands)	2006	2005	2004
Service cost - benefits earned during the year	$ 43	$ (34)	$ (57)
Interest cost on projected benefit obligations	150	161	117
Net amortization and deferral	111	64	50
Net periodic pension cost	$ 304	$ 191	$ 110

The accumulated benefit obligation was $2,107,000 and $2,138,000 for the periods ended December 31, 2006 and 2005, respectively. Since this is an unfunded plan there are no plan assets. Benefits paid on the plan were $32,000 in 2006, $20,000 in 2005 and $9,000 in 2004. Expected future benefits over the next 10 years are as follows:

2007	$ 31,000
2008	224,000
2009	224,000
2010	223,000
2011	223,000
2012 - 2016	1,104,000

The major assumptions used to determine the projected benefit obligation and net benefit cost are the same as those in the defined plan explained above. The estimate of the total amount to be recognized in net periodic benefit cost and other comprehensive income for 2007 is $233,000.

The pre-tax amounts in accumulated other comprehensive income (loss) as of December 31 were as follows:

	The Plan		SERP	
(In thousands)	2006	2005	2006	2005
Prior service cost	$ 66	$ --	$ 252	$ --
Net actuarial loss	4,245	--	755	--
Minimum liability adjustment	--	--	--	(370)
Total	$4,311	$ --	$1,007	$ (370)

The estimated pre-tax prior service cost and net actuarial loss in accumulated other comprehensive income (loss) at December 31, 2006 expected to be recognized as components of net periodic benefit cost in 2007 for the Plan were $8,000 and $116,000 respectively. The estimated pre-tax prior service credit and net actuarial loss in accumulated other comprehensive income (loss) at December 31, 2006, expected to be recognized as components of net periodic benefit cost in 2007 for SERP are $50,000 and $50,000 respectively.

The minimum liability concept, including recognition of an intangible asset, has been eliminated under SFAS No. 158 effective December 31, 2006. Prior to the adoption of SFAS No. 158, a minimum liability adjustment for the SERP was recognized in accumulated other comprehensive income (loss) to the extent there was an unfunded accumulated benefit obligation that had not been recognized in the balance sheet. A minimum pension liability of $75,000 after-tax ($117,000 pre-tax) was recognized in accumulated other comprehensive loss as of December 31, 2006, prior to the adoption of SFAS No. 158, representing a $253,000 adjustment (pre-tax) for the change in the additional minimum liability for the year ended December 31, 2006. A minimum pension liability of $237,000 after-tax ($370,000 pre-tax) was included in accumulated other comprehensive income (loss) in the Company's balance sheet as of December 31, 2005. The adjustment for the change in the additional minimum liability decreased accumulated other comprehensive income (loss) by $162,000 after-tax ($253,000 pre-tax) for the year ended December 31, 2006.

The Company also maintains a noncontributory profit sharing plan, which covers most of its employees. Employer contributions are calculated based upon formulas which relate to current operating results and other factors. Profit sharing expense recognized in the consolidated statements of income in 2006, 2005 and 2004 was $3,524,000, $2,543,000 and $1,781,000, respectively.

The Company also sponsors a defined contribution 401(k) plan to provide additional retirement benefits to substantially all employees. Contributions under the 401(k) plan for 2006, 2005 and 2004 were $349,000, $334,000 and $310,000, respectively.

Note 14
Stock Bonus and Option Plans
(All shares and per share amounts have been restated for the 50% stock dividends issued September 15, 2006 and September 15, 2005).

The Company maintains a restricted stock bonus plan which provides for the issuance of up to 259,875 shares of common stock, the purpose of which is to permit grants of shares, subject to restrictions, to key employees and non-employee directors of the Company as a means of retaining and rewarding them for long-term performance. During 2006, 2005 and 2004, 15,010 shares 8,463 shares and 8,744 shares, respectively, were granted with weighted average per share market values at date of grant of $26.58 in 2006, $16.35 in 2005 and $14.63 in 2004. The fair value of such shares, which is based on the market price on the date of grant, is amortized to expense over the three-year vesting period. Amortization of the restricted stock bonus awards totaled $197,000 for 2006, $134,000 for 2005 and $96,000 for 2004. At December 31, 2006 the weighted-average grant date fair value and weighted average contractual life for outstanding shares of restricted stock was $22.88 and .97 years, respectively. As of December 31, 2006, the total unrecognized compensation expense related to non-vested stock awards was $514,000.

Changes in restricted shares outstanding were as follows:

	Shares	Fair Value
Balance at December 31, 2005	18,695	14.47
Granted	15,010	26.58
Vested	(10,459)	13.52
Forfeited	(765)	19.79
Balance at December 31, 2006	22,481	22.88

The Company also maintains a performance-based stock option plan, which provides for the granting of options to purchase up to 1,039,000 shares of common stock. Options currently vest and expire over a period not to exceed seven years. The plans authorize the grant of awards in the form of options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code and options that do not qualify (non-statutory stock options).

For the year ended December 31, 2006, there were 5,505 non-qualified options exercised that generated a tax benefit and 134,724 were incentive stock options that did not generate any excess tax benefits for the Company. During 2006, the Company recognized stock option expense of $30,000. As of December 31, 2006, the total unrecognized compensation expense related to non-vested stock options was $134,000 and the related weighted-average period over which it is expected to be recognized is approximately 4.8 years.

The Company uses the Black-Scholes option-pricing model to determine the fair value of the stock options at the date of grant. Following are the assumptions used to estimate the fair value of option grants during the years ended December 31, 2006 and 2005:

	2006	2005
Risk-free interest rate	4.37%	3.97%
Expected life	7 yrs.	7 yrs.
Expected volatility	5.00%	15.00%
Expected dividend yield	1.88%	2.32%

The risk-free interest rate is based on the zero-coupon U.S. Treasury yield for the period equal to the expected life of the options at the time of the grant. The expected life was derived using the historical exercise activity. The Company uses historical volatility for a period equal to the expected life of the options using average monthly closing market prices of the Company's stock. The expected dividend yield is determined based on the Company's current rate of annual dividends.

The following table summarizes stock options outstanding as of December 31, 2006:

Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life

$ 9.717	428	2.0
10.000	26,999	3.0
10.998	3,792	3.0
13.455	13,208	4.0

15.960	4,488	4.0
16.893	3,375	4.0
15.889	4,351	5.0
16.222	7,240	5.0
22.733	23,924	6.0

Changes in options outstanding were as follows:

	Shares	Weighted Average Exercise Price
Balance at December 31, 2003	249,903	$ 9.05
Granted	22,793	14.65
Exercised	(32,414)	5.84
Forfeited	(4,410)	9.71
Balance at December 31, 2004	235,872	10.02
Granted	13,241	16.07
Exercised	(27,668)	9.29
Forfeited	(11,594)	10.15
Balance at December 31, 2005	209,851	10.67
Granted	25,227	22.73
Exercised	(140,229)	9.71
Forfeited	(7,044)	14.58
Balance at December 31, 2006	87,805	15.40
Exercisable at December 31, 2006	2,399	$ 9.95

The total intrinsic value of options exercised during 2006 was $1,728,000. The total intrinsic value of options exercised during 2005 was $216,000. The average remaining contractual term for options exercisable as of December 31, 2006 was 2.8 years and the aggregate intrinsic value was $65,000.

A summary of the activity of the non-vested options during 2006 is shown below.

Weighted-

	Shares	Average Grant Date Fair Value
Non-vested at December 31, 2005	168,047	$1.82
Granted	25,227	3.25
Vested	(100,824)	1.68
Forfeited	(7,044)	2.20
Non-vested at December 31, 2006	85,406	$2.38

Note 15
Other Operating Expense

Details of other operating expense for 2006, 2005 and 2004 are as follows:

(In thousands)	2006	2005	2004
Postage and supplies	$ 2,502	$ 2,310	$ 2,215
Promotional Expense	1,552	1,289	1,103
Professional fees	1,997	1,750	1,746
Outside service fees	2,088	1,946	1,711
Data processing services	232	220	202
Telecommunications	578	522	426
Other	1,519	1,127	1,162
Total other operating expense	$ 10,468	$ 9,164	$ 8,565

Note 16
Income Taxes

The components of income tax expense (benefit) from continuing operations for 2006, 2005 and 2004 are as follows:

(In thousands)	2006	2005	2004
Current:			

Federal	$ 7,196	$ 5,171	$ 4,277
State	1,460	732	490
Deferred	(289)	(921)	(558)
Total income tax expense	$ 8,367	$ 4,982	$ 4,209

A reconciliation of expected income tax expense (benefit), computed by applying the effective federal statutory rate of 35% for 2006 and 2005 and 34% for 2004 to income from continuing operations before income tax expense, to reported income tax expense is as follows:

(In thousands)	2006	2005	2004
Expected income tax expense:	$ 8,340	$ 5,517	$ 4,791
(Reductions) increases resulting from			
Tax-exempt income	(1,151)	(769)	(964)
State taxes, net of federal benefit	949	483	323
Other, net	229	(249)	59
Total income tax expense	$ 8,367	$ 4,982	$ 4,209

The tax effects of temporary differences which give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2006 and 2005, are presented below:

(In thousands)	2006	2005
Deferred tax assets:		
Allowance for loan losses	$ 2,513	$ 2,396
SFAS No. 158 pension funding liability	2,416	--
Security impairment write-down	1,152	1,182
Accrued pension cost	--	338
Net operating loss carry forward(1)	582	584
SERP Accrual	--	548
Deferred revenue	53	58
Minimum pension liability	--	133
Unrealized loss on investment in securities available-for-sale	--	99
Other	130	57
Total deferred tax assets	$ 6,846	$ 5,395
Deferred tax liabilities:		
Premises and equipment	(3)	(174)
Intangible/assets	(427)	(83)
Unrealized gain on investment in securities available-for-sale	(205)	--
Other	(154)	(177)
Total deferred tax liabilities	(789)	(434)
Net deferred tax assets	$ 6,057	$ 4,961

1. As of December 31, 2006, the Company had approximately $ 1,700,000 of net operating loss carryforwards as a result of the acquisition of Franklin Bancorp. The utilization of the net operating loss carryforward is subject to Section 382 of the Internal Revenue Code and limits the Company's use to

approximately $120,000 per year during the carryforward period, which expires in 2019.

A valuation allowance would be provided on deferred tax assets when it is more likely than not that some portion of the assets will not be realized. The Company has not established a valuation allowance at December 31, 2006 or 2005, due to management's belief that all criteria for recognition have been met, including the existence of a history of taxes paid sufficient to support the realization of deferred tax assets.

The Company's income tax (benefit) expense from discontinued operations was ($280,000), $557,000, ($947,000) with effective rates of 41%, 215% and 34% for the years 2006, 2005 and 2004, respectively. The decrease from 2005 to 2006 was primarily the result of differences between book and tax valuations resulting from the sale of GEMS.

Note 17
Contingencies

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

Note 18
Disclosures About Financial Instruments

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, commercial

letters of credit and standby letters of credit. The Company's maximum potential exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, commercial letters of credit and standby letters of credit is represented by the contractual amounts of those instruments. At December 31, 2006, no amounts have been accrued for any estimated losses for these instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commercial and standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These off-balance sheet financial instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The approximate remaining term of commercial and standby letters of credit range from less than 1 to 5 years. Since these 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 may obtain and liquidate the collateral to recover amounts paid under its guarantees on these financial instruments.

The following table shows conditional commitments to extend credit, standby letters of credit and commercial letters at December 31, 2006 and 2005:

(In thousands)	2006	2005
Conditional commitments to extend credit	$ 22,506	$ 21,834
Standby letters of credit	6,417	7,407
Commercial letters of credit	2,650	6,533

Following is a summary of the carrying amounts and fair values of the Company's financial instruments at December 31, 2006 and 2005:

	2006		2005	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance sheet assets:				
Cash and cash equivalents	$ 196,504	$ 196,504	$ 149,692	$ 149,692
Investment in debt and equity securities	102,749	102,749	94,859	94,859
Loans, net	497,533	494,735	523,022	516,917
Accrued interest receivable	4,140	4,140	3,324	3,324
Total	$ 800,926	$ 798,128	$ 770,897	$ 764,792
Balance sheet liabilities:				
Deposits	$ 289,894	$ 289,894	$ 286,998	$ 286,998
Accounts and drafts payable	468,393	468,393	445,811	445,811
Short-term borrowings	181	181	188	188
Subordinated convertible debentures	3,700	3,110	3,700	3,564
Accrued interest payable	744	744	296	296
Total	$ 762,912	$ 762,322	$ 736,993	$ 736,857

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

Cash and Other Short-term Instruments For cash and cash equivalents, accrued interest receivable, accounts and drafts payable, short-term borrowings and accrued interest payable, the carrying amount is a reasonable estimate of fair value because of the demand nature or short maturities of these instruments.

Investment in Debt and Equity Securities Fair values are based on quoted market prices or dealer quotes.

Loans The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits The fair value of demand deposits, savings deposits and certain money

market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates above do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market nor the benefit derived from the customer relationship inherent in existing deposits.

Subordinated Convertible Debentures The fair value of convertible subordinated debentures is estimated by discounting the projected future cash flows using estimated current rates for similar borrowings.

Commitments to Extend Credit and Standby Letters of Credit The fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements, the likelihood of the counterparties drawing on such financial instruments and the present credit-worthiness of such counterparties. The Company believes such commitments have been made at terms which are competitive in the markets in which it operates; however, no premium or discount is offered thereon.

Limitations Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Other significant assets or liabilities that are not considered financial assets or liabilities include premises and equipment and the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market (core deposit intangible). In addition, tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates.

Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on management's judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Note 19
Industry Segment Information

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

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

The Company's accounting policies for segments are the same as those described in Note 1 of this report. Management evaluates segment performance based on net income after allocations for corporate expenses and income taxes. Transactions between segments are accounted for at what management believes to be market

value. Information for prior periods have been restated to reflect changes in the composition of the Company's segments.

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

Summarized information about the Company's operations in each industry segment for the periods ended December 31, 2006, 2005 and 2004, is as follows:

(In thousands)	Information Services	Banking Services	Corpor and Eliminat
2006			
Fee revenue and other income:			
Income from customers	$ 41,180	$ 1,641	$ --
Intersegment income (expense)	1,487	1,741	(3,228
Net interest income (expense) after provision for loan losses:			
Interest from customers	25,500	13,784	--
Intersegment interest	349	(349)	--
Depreciation and amortization	1,889	379	--
Income taxes	5,431	2,936	--
Net income from continuing operations	11,151	4,310	--
Goodwill	7,335	136	--
Other intangible assets, net	1,156	--	--
Assets related to discontinued operations	--	--	--
Total assets	$ 527,227	$ 333,454	$ (2,210
2005			
Fee revenue and other income:			
Income from customers	$ 35,901	$ 2,752	$ --

Intersegment income (expense)	1,323	1,597	(2,920
Net interest income (expense) after provision for loan losses:			
Interest from customers	19,436	13,353	--
Intersegment interest	163	(163)	--
Depreciation and amortization	1,865	278	--
Income taxes	2,615	2,367	--
Net income from continuing operations	6,499	4,745	--
Goodwill	4,262	136	--
Other intangible assets, net	935	--	--
Assets related to discontinued operations	--	--	400
Total assets	$ 489,857	$ 338,107	$ (9,266
2004			
Fee revenue and other income:			
Income from customers	$ 32,320	$ 1,727	$ --
Intersegment income (expense)	--	1,467	(1,467

Net interest income (expense) after provision for loan losses:			
Interest from customers	15,652	11,436	--
Intersegment interest	62	(62)	--
Depreciation and amortization	2,904	314	60
Income taxes	2,006	2,203	--
Net income from continuing operations	6,225	3,656	--
Goodwill	4,262	171	--
Other intangible assets, net	805	--	353
Assets related to discontinued operations	--	--	6,566
Total assets	$ 397,722	$314,625	$ 4,174

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Note 20
Condensed Financial Information of Parent Company

Following are the condensed balance sheets of the Company (parent company only) as of December 31, 2006 and 2005, and the related condensed statements of income and cash flows for each of the years in the three-year period ended December 31, 2006.

	Condensed Balance Sh December 31	
(In thousands)	2006	
Assets:		
Cash and due from banks	$ 10,472	$
Short-term investments	127,419	
Investment in debt and equity securities, available-for-sale	98,519	
Loans, net	234,718	
Investment in subsidiary	38,641	
Premises and equipment, net	11,574	
Other assets	44,525	
Total assets	$ 565,868	$
Liabilities and Shareholders' Equity:		
Accounts and drafts payable	$ 468,393	$
Subordinated convertible debentures	3,700	
Other liabilities	9,854	
Total liabilities	481,947	
Total shareholders' equity	83,921	
Total liabilities and shareholders' equity	$ 565,868	$

Condensed Statements of Income

(In thousands)	December 31 2006	2005	20
Income from subsidiary:			
Dividends	$ 3,655	$ 3,200	$
Interest	422	197	
Management fees	1,487	1,323	1,
Income from subsidiary	5,564	4,720	1,
Information services revenue	40,343	35,901	30,
Net interest income after provision	23,401	18,189	14,
Gains on sales of investment securities	--	547	1,
Other income	838	608	
Total income	$ 70,146	$ 59,965	$ 48,
Expenses:			
Salaries and employee benefits	$ 37,479	$ 33,337	$ 28,
Other expenses	12,430	14,315	10,
Total expenses	$ 49,909	$ 47,652	$ 39,
Income before income tax and equity in undistributed income of subsidiary	20,237	12,313	8,
Income tax expense	5,431	2,614	2,
Income before undistributed income of subsidiary	14,806	9,699	6,
Equity in undistributed income of subsidiary	260	1,247	1,
Net income	$ 15,066	$ 10,946	$ 8,

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Condensed Statements of Cash Flows

(In thousands)	December 31 2006	2005	20
Cash flows from operating activities:			
Net income	$ 15,066	$ 10,946	$ 8,
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiary	(260)	(1,247)	(1,
Net change in other assets	(6,288)	41	(4,
Net change in other liabilities	2,457	(1,350)	(
Amortization of stock bonus awards	196	134	
Other, net	1,889	1,743	2,
Net cash provided by operating activities	13,060	10,267	4,

Cash flows from investing activities:			
Net increase in securities	(8,065)	(18,975)	(8,
Net increase (decrease) in loans	35,861	(53,753)	(9,
Payment for business acquisitions, net of cash acquired	(3,172)	--	(2,
Purchases of premises and equipment, net	(2,188)	(1,344)	(1,
Net cash used in investing activities	22,436	(74,072)	(21,
Cash flows from financing activities:			
Net increase in accounts and drafts payable	22,582	87,338	58,
Cash dividends paid	(3,666)	(3,201)	(3,
Purchases of common shares for treasury	(870)	(1,434)	
Other financing activities	325	136	(
Net cash provided by financing activities	18,371	82,839	55,
Net increase in cash and cash equivalents	53,867	19,034	37,
Cash and cash equivalents at beginning of year	84,024	64,990	27,
Cash and cash equivalents at end of year	$137,891	$ 84,024	$ 64,

Note 21
SUPPLEMENTARY FINANCIAL INFORMATION
(Unaudited)

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2006				
Fee revenue and other income	$ 10,466	$ 10,354	$ 10,928	$ 11,073
Interest income	10,956	11,374	12,251	12,472
Interest expense	1,315	1,514	1,781	2,009
Net interest income	9,641	9,860	10,470	10,463
Provision for loan losses	150	150	200	650
Operating expenses	13,869	14,284	15,021	15,103
Income tax expense	2,136	2,056	2,205	1,970
Net income from continuing operations	3,952	3,724	3,972	3,813
Net loss from discontinued operations before income taxes	--	(325)	(150)	(200)
Benefits from income taxes	--	136	62	82
Net loss from discontinued operations	--	(189)	(88)	(118)
Net income	$ 3,952	$ 3,535	$ 3,884	$ 3,695
Net income per share:				
Basic earnings per share from				

continuing operations	$ .47	$ .45	$ .48	$ .46
Basic earnings per share from				
discontinued operations	--	(.02)	(.01)	(.02)
Basic earnings per share	.47	.43	.47	.44
Diluted earnings per share from				
continuing operations	.47	.43	.47	.45
Diluted earnings per share from				
discontinued operations	--	(.02)	(.01)	(.02)
Diluted earnings per share	.47	.41	.46	.43
2005				
Fee revenue and other income	$ 9,681	$ 9,283	$ 9,720	$ 9,969
Interest income	8,518	9,189	9,813	10,731
Interest expense	992	1,216	1,229	1,250
Net interest income	7,526	7,973	8,584	9,481
Provision for loan losses	200	200	225	150
Operating expense	12,587	13,039	13,144	13,346
Impairment of equity investment	--	--	--	3,100
Income tax expense	1,469	1,407	1,670	436
Net income from continuing operations	2,951	2,610	3,265	2,418
Net income (loss) from discontinued				
operations before income taxes	(275)	(39)	(259)	832
(Benefit from) Provision for income taxes	(91)	(13)	(87)	748
Net income (loss) from discontinued operations	(184)	(26)	(172)	84
Net income	$ 2,767	$ 2,584	$ 3,093	$ 2,502
Net income per share:				
Basic earnings per share from				
continuing operations	$ 0.35	$ 0.33	$ 0.39	$ 0.29
Basic earnings per share from				
discontinued operations	(0.02)	(0.01)	(0.02)	0.02
Basic earnings per share	0.33	0.32	0.37	0.31
Diluted earnings per share from				
continuing operations	0.35	0.31	0.38	0.29
Diluted earnings per share from				
discontinued operations	(0.02)	(0.01)	(0.01)	0.00
Diluted earnings per share	0.33	0.30	0.37	0.29

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Cass Information Systems, Inc.:

We have audited the accompanying consolidated balance sheets of Cass Information Systems, Inc. and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, cash flows, and shareholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company

Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in notes 1 and 13 to the consolidated financial statements, as of December 31, 2006, the Company adopted Statement of Financial Accounting Standard No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 9, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

St. Louis, Missouri
March 9, 2007

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of December 31, 2006. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2006.

There have not been changes in our internal control over financial reporting that occurred during our fourth fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentations.

Under the supervision and with the participation of our management, including principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which follows.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Cass Information Systems, Inc.:

We have audited management's assessment, included in the accompanying Management Report on Internal Control over Financial Reporting, that Cass Information Systems, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly

reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted

accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control--Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2006 and 2005, and the related consolidated statements of income, cash flows, and shareholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2006, and our report dated March 9, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

St. Louis, Missouri
March 9, 2007

ITEM 9B. OTHER INFORMATION

NONE

PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE OF THE REGISTRANT

Information required by this item 10 is incorporated herein by reference from the following sections of the Company's definitive Proxy Statement for its 2007 Annual Meeting of Shareholders ("2007 Proxy Statement"), a copy of which will be filed with the Securities and Exchange Commission (SEC) no later than 120 days after the close of the fiscal year: "Election of Directors" and "Executive Officers" (please note that "Section 16(a) Beneficial Ownership Reporting Compliance" is within the "Executive Officers" section).

The Company has adopted a Code of Conduct and Business Ethics policy, applicable to all Company directors, executive officers and employees. The policy is publicly available and can be viewed on the Company's website at www.cassinfo.com. The Company intends to satisfy the disclosure requirement under Item 10 of Form 8-K regarding the amendment to, or a waiver from, a provision of this policy that applies to the Company's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions and that relates to any

element of the code of ethics definition enumerated in Item 406(b) of Regulation S-K by posting such information on its website.

There have been no material changes to the procedures by which stockholders may recommend nominees to the Board.

ITEM 11. EXECUTIVE COMPENSATION

Information required pursuant to this item 11 is incorporated herein by reference from the sections entitled "Executive Officers" and "Election of Directors" of the Company's 2007 Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the close of the fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required pursuant to this item 12 is incorporated herein by reference from the sections entitled "Executive Officers" and "Election of Directors" of the Company's 2007 Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the close of the fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information required by this item 13 is incorporated herein by reference from the sections entitled "Executive Officers" and "Election of Directors" of the Company's 2007 Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the close of the fiscal year.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning our principal accountant's fees and services is incorporated herein by reference from the section "Ratification of Appointment of Independent Registered Public Accounting Firm" of the Company's 2007 Proxy Statement, a copy of which will be filed with the SEC no later than 120 days after the close of the fiscal year.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are incorporated by reference in or filed as an exhibit to this Report:

(1) and (2) Financial Statements and Financial Statement Schedules Submitted as a separate section of this report.

(3) Exhibits listed under (b) of this Item 15.

(b) Exhibits

2.1 GEMS Asset Purchase Agreement, incorporated by reference to Form 8-K, filed with the SEC on January 4, 2006 (File No 333 - 44497).

3.1 Restated Articles of Incorporation of Registrant, incorporated by reference to Exhibit 4.1 to Form S-8 Registration Statement No. 333-44499, filed with the SEC on January 20, 1998.

3.2 Articles of Merger of Cass Commercial Corporation, incorporated by reference to Exhibit 3.1 to the quarterly report on Form 10-Q for the quarter ended September 30, 2006 (File No. 333 - 44497).

3.3 Amended and Restated Bylaws of Registrant, incorporated by reference to Exhibit 3.2 to the quarterly report on Form 10-Q for the quarter ended March 31, 2003 (File No 333 - 44497).

10.1 1995 Restricted Stock Bonus Plan, as amended to January 19, 1999, including form of Restriction Agreement, incorporated by reference to Exhibit 4.3 to Post-Effective Amendment No. 2 to Form S-8 Registration Statement No. 33-91456, filed with the SEC on February 16, 1999.

10.2 1995 Performance-Based Stock Option Plan, as amended to January 19, 1999, including forms of Option Agreements, incorporated by reference to Exhibit 4.3 to Post-Effective Amendment No. 2 to Form S-8 Registration Statement No. 33-91568, filed with the SEC on February 16, 1999.

10.3 Form of Directors' Indemnification Agreement, incorporated by reference to Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended March 31, 2003 (File No 333 - 44497).

21 Subsidiaries of registrant.

23 Consent of Independent Registered Public Accounting Firm.

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

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

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

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

(c) None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CASS INFORMATION SYSTEMS, INC.

Date: March 9, 2007 By /s/ Lawrence A. Collett

Lawrence A. Collett

Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: March 9, 2007 By /s/ P. Stephen Appelbaum

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below on the dates indicated by the following persons on behalf of the Company and in their capacity as a member of the Board of Directors of the Company.

Date: March 9, 2007 By /s/ Robert J. Bodine

Robert J. Bodine

Date: March 9, 2007 By /s/ K. Dane Brooksher

K. Dane Brooksher

Date: March 9, 2007 By /s/ Eric H. Brunngraber

Eric H. Brunngraber

Date: March 9, 2007 By /s/ Bryan S. Chapell

Bryan S. Chapell

Date: March 9, 2007 By /s/ Lawrence A. Collett

Lawrence A. Collett

Date: March 9, 2007 By /s/ Robert A. Ebel

Robert A. Ebel

Date: March 9, 2007 By /s/ Benjamin F. Edwards, IV

Benjamin F. Edwards, IV

Date: March 9, 2007 By /s/ Wayne J. Grace

Wayne J. Grace

Date: March 9, 2007 By /s/ Harry J. Krieg

Harry J. Krieg

Date: March 9, 2007 By /s/ Irving A. Shepard

Irving A. Shepard

Date: March 9, 2007 By /s/ A. J. Signorelli

A. J. Signorelli

Date: March 9, 2007 By /s/ Franklin D. Wicks, Jr.

Franklin D. Wicks, Jr.