

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2005

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

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

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 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 10K.

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: Non-accelerated filer:

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

Yes No

The aggregate market value of the common stock held by non-affiliates of the
Registrant was approximately \$117,728,000 based on the closing price of the
common stock of \$28.67 on June 30, 2005, as reported by the NASDAQ National
Market.

As of March 10, 2006, the Registrant had 5,565,463 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 2006 Annual Meeting of
Shareholders.

CASS INFORMATION SYSTEMS, INC.
FORM 10-K ANNUAL REPORT
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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. The Company is currently expanding its offerings in the telecommunications expense management market. In addition, 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 and Greenville, South Carolina. 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 governs 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.

Discontinued Operations

On December 30, 2005, the Company's bank subsidiary sold the operating assets of its wholly-owned subsidiary, Government e-Management Solutions, Inc. ("GEMS"), to N. Harris Computer Corporation for \$7,000,000 resulting in a pre-tax gain of \$1,336,000. Including this gain, GEMS' net loss for 2005 was \$298,000. GEMS developed, licensed and installed integrated financial, property and human resource management systems to the public sector, primarily cities and counties. GEMS was acquired on January 2, 2001 when the Company's bank subsidiary foreclosed on the operating assets of a software company in order to protect its financial interests. The Bank transferred these assets to a wholly-owned subsidiary, and invested in and stabilized the business. From the date of foreclosure through December 31, 2002, the assets were accounted for as a foreclosed asset held for sale. On January 1, 2003, the Company reclassified GEMS from held for sale to held and used and consolidated its operations into those of the Company. As a result of the sale, the Company's consolidated financial statements have been revised to present GEMS as a discontinued operation for all periods presented.

Employees

The Company and its subsidiaries had 556 full-time and 160 part-time employees as of December 31, 2005. Of these employees, the Bank had 62 full-time and 7 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 will, as soon as practicable after they are electronically filed with the Securities and Exchange Commission (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's website is: www.cassinfo.com. All reports filed with the SEC are available 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 available on their 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, 2005 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, 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 three 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 or currency fluctuations also could cause Cass' stock price to decrease regardless of its 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, 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 and in Greenville, South Carolina where approximately 5,800 square feet of office space is leased through November, 2013.

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 2005.

PART II.

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

The Company's Common Stock trades on The Nasdaq Stock Market(R) under the symbol "CASS". As of March 3, 2006 there were 240 holders of record of the Company's Common Stock. High and low sale prices, as reported by Nasdaq and adjusted for the 50% stock dividend issued September 15, 2005 for each quarter of 2005 and 2004 were as follows:

		2005		2004	
		High	Low	High	Low
1st	Quarter	\$ 27.327	\$ 22.667	\$ 23.333	\$ 19.455
2nd	Quarter	28.667	25.000	27.133	22.667
3rd	Quarter	39.999	26.540	28.000	24.667
4th	Quarter	35.100	29.550	25.667	23.300

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

	2005	2004
March 15	\$.140	\$.127
June 15	.140	.140
September 15	.140	.140
December 15	.160	.140

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 42,665 shares during 2005 for \$1,434,000 and did not repurchase any shares in 2004. As of December 31, 2005, 48,098 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.

The following table sets forth information about the Company's purchases of its \$.50 par value Common Stock, its only class of stock registered pursuant to Section 12 of the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Program	Maximum Number that May Yet Be Purchased Under The Program
September 30, 2005 Balance				75,763
October 1 - October 31	12,185	\$33.00	12,185	63,578
November 1 - November 30	--	--	--	63,578
December 1 - December 31	15,480	32.30	15,480	48,098
Total	27,665	\$32.61	27,665	48,098

Refer to Item 8, Note 14 to the consolidated financial statements for information concerning stock options and bonus plans.

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)	2005	2004	2003	2002	2001
Fee revenue and other income	\$ 38,653	\$ 34,047	\$ 32,371	\$ 28,030	\$ 23,243
Interest income on loans (1)	32,214	27,055	25,601	26,197	29,069
Interest income on debt and equity securities	2,441	2,558	2,033	4,733	4,323
Other interest income	3,596	1,120	609	687	2,790
Total interest income	38,251	30,733	28,243	31,617	36,182
Interest expense on deposits	4,486	3,024	1,847	2,240	3,863
Interest expense on short-term borrowings	5	1	14	33	9
Interest on subordinated convertible debentures	196	70	--	--	--
Total interest expense	4,687	3,095	1,861	2,273	3,872
Net interest income	33,564	27,638	26,382	29,344	32,310
Provision for loan losses	775	550	190	500	60
Net interest income after provision	32,789	27,088	26,192	28,844	32,250
Operating expense	55,216	47,045	47,383	46,575	44,729
Income before income tax expense	16,226	14,090	11,180	10,299	10,764
Income tax expense	4,982	4,209	3,385	2,987	3,739
Income from continuing operations	\$ 11,244	\$ 9,881	\$ 7,795	\$ 7,312	\$ 7,025
Net income (loss) from discontinued operations	(298)	(1,876)	107	--	--
Net income	10,946	8,005	7,902	7,312	7,025
Diluted earnings per share from continuing operations	\$ 1.99	\$ 1.76	\$ 1.40	\$ 1.31	\$ 1.24
Diluted earnings per share	1.94	1.43	1.42	1.31	1.24
Dividends per share	0.580	0.547	0.509	0.473	0.462
Dividend payout ratio	29.24%	37.79%	35.61%	35.94%	36.71%
Average total assets	\$ 776,899	\$ 709,518	\$626,451	\$602,446	\$572,724
Average net loans	506,898	471,412	438,072	399,018	371,367
Average debt and equity securities	71,037	78,745	57,729	97,668	72,111
Average total deposits	290,555	292,379	249,951	240,640	214,954
Average subordinated convertible debentures	3,700	1,314	--	--	--
Average total shareholders' equity	71,892	65,804	61,346	57,300	54,929
Return on average total assets	1.41%	1.13%	1.26%	1.21%	1.23%
Return on average total shareholders' equity	15.23	12.16	12.88	12.76	12.79
Average equity to assets ratio	9.25	9.27	9.79	9.51	9.59
Equity to assets ratio at year-end	9.20	9.71	10.03	10.59	9.22
Net interest margin	4.95	4.48	4.85	5.60	6.27
Allowance for loan losses to loans at year-end	1.19	1.21	1.17	1.22	1.29
Nonperforming assets to loans and foreclosed assets	.28	.18	1.12	3.50	1.60
Net loan charge-offs (recoveries) to average loans outstanding	.10	--	(0.01)	0.03	0.01

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, 2005, 2004 and 2003. All share and per share data have been restated to give effect to the 10% and 50% stock dividends issued on March 15, 2004 and September 15, 2005, 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 and Greenville, South Carolina. 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 expense 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"), to N. Harris Computer Corporation for \$7,000,000 resulting in a pre-tax gain of \$1,336,000. Including this gain, GEMS' net loss for 2005 was \$298,000. The assets, liabilities and operating results of GEMS have been reclassified as discontinued operations for all periods. GEMS developed and sold proprietary financial, human resource and revenue management software to government entities. GEMS was acquired on January 2, 2001 when the Company's bank subsidiary foreclosed on the operating assets of a software company in order to protect its financial interests.

As part of the Company's year-end closing procedures, the Company performed a valuation of its minority equity interest in a private imaging company. This investment was made in 2001 to acquire imaging technology for the Company's payment operations. The business has performed poorly during the past few years and the majority owner is in the process of implementing a new business plan. Based on the current and projected operating losses of this entity, the Company recognized a \$3,100,000 impairment charge on its investment. 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.

The Company had an excellent year in 2005 surpassing management's expectations. Total fee revenue and other income from continuing operations increased \$4,606,000 or 14% and net interest income increased \$5,701,000 or 21% while increases in total operating expenses were held to \$5,071,000 or 11%. This increase in operating expenses also includes the August 2004 acquisition of Cass' telecom group. These results were driven by a 3,557,000 or 12% increase in items processed, \$2,919,000,000 or 22% increase in dollars processed and strong expense control combined with a rise in the general level of interest rates. The disposition of GEMS and the \$3,100,000 impairment charge further strengthened the Company's balance sheet. 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. This trend has been positive over the past years and management anticipates that this should continue in 2006. The general level of interest rates, particularly short-term interest rates, began to increase in 2004 and continued through 2005. If rates continue to rise, the positive impact on net interest income and net earnings will continue. Management intends to continue to refine its risk management practices, monitor and manage the quality of the loan portfolio and maintain a strong financial and liquidity position.

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 Company accounts for income taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which establishes financial accounting and reporting standards for the effect of 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.

Summary of Results

(In thousands, except per share data)	December 31,			% Change	
	2005	2004	2003	2005 v 2004	2004 v 2003
Total Processing Volume	32,281	28,724	27,977	12.4%	2.7%
Total Processing Dollars	\$16,372,097	\$13,452,868	\$12,014,368	21.7%	12.0%
Payment and Processing Fees	\$ 35,901	\$ 30,695	\$ 28,440	17.0%	7.9%
Net Investment Income	\$ 32,789	\$ 27,088	\$ 26,192	21.0%	3.4%
Total Net Revenues	\$ 71,442	\$ 61,135	\$ 58,563	16.9%	4.4%
Average Earning Assets	\$ 697,285	\$ 643,847	\$ 563,071	8.3%	14.3%
Net Interest Margin	4.95%	4.48%	4.85%	10.5%	-7.6%
Impairment of Equity Investment	\$ 3,100	--	--	N/A	N/A
Net Income from Continuing Operations	\$ 11,244	\$ 9,881	\$ 7,795	13.8%	26.8%
Diluted EPS from Continuing Operations	\$ 1.99	\$ 1.76	\$ 1.40	13.1%	25.7%
Net Income	\$ 10,946	\$ 8,005	\$ 7,902	36.7%	1.3%
Diluted Earnings per Share	\$ 1.94	\$ 1.43	\$ 1.42	35.7%	0.7%
Return on Average Assets	1.41%	1.13%	1.26%		
Return on Average Equity	15.23%	12.16%	12.88%		

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 last year'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, 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 includes a \$1,336,000 gain on the sale of its operating assets.

The results of 2004 compared to 2003 include the following significant items:

Payment and processing fee revenue from continuing operations increased \$2,255,000 as the number of transactions processed increased 747,000. This increase was driven by the expansion of the Company's customer base and number of services offered.

Net interest income after provision for loan losses increased \$896,000 due primarily to the increase in average earning assets of \$80,776,000. This increase included an increase in total average loans of \$33,782,000. The growth in average earning assets was derived from both increases in deposits and accounts and drafts payable. Interest income, derived from the increase in earning assets, was partially offset by an increase in interest paid on deposit liabilities, due to both an increase in balances and an increase in rates paid.

Gains from the sale of securities decreased \$409,000 to \$1,045,000 in 2004 compared to \$1,454,000 in 2003. Bank service fees decreased \$87,000 or 5% to \$1,719,000 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 decreased \$83,000 or 12% to \$588,000 due mainly to a decrease in revenue generated from the investment in bank owned life insurance during 2004. Operating expenses from continuing operations decreased \$338,000 or less than 1% to \$47,045,000 despite the additional expenses generated from the acquisition of the telecom group in August 2004.

In addition to the factors above relating to the results of continuing operations, net income, diluted earnings per share, return on assets and return on equity were also affected by a \$1,876,000 net loss from the discontinued operations of GEMS.

Summary of Fourth Quarter Results

The positive trends in fee revenue, net interest income and net income that existed in 2005 continued during the fourth quarter. Net operating results, however, were also affected by two other significant events. The first was the sale of the operating assets of GEMS on December 30, 2005 and the second was the impairment of the Company's equity investment in a private imaging company. The sale of GEMS' operating assets resulted in a pre-tax gain of \$1,336,000. Including this gain, GEMS' net income was \$84,000 in the fourth quarter and these results are reflected as discontinued operations. Net income from continuing operations before taxes was reduced \$3,100,000 due to the impairment charge. For more detail refer to Item 8, Notes 2, 7 and 21.

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 related to fees and accounts and drafts payable for the years ended December 31, 2005, 2004 and 2003 were as follows:

(In thousands)	December 31,			% Change	
	2005	2004	2003	2005 v 2004	2004 v 2003
Freight Invoice Transaction Volume	26,626	23,526	23,359	13.2%	.7%
Freight Invoice Dollar Volume	\$11,949,052	\$9,752,203	\$8,673,993	22.5%	12.4%
Utility Transaction Volume	5,655	5,198	4,618	8.8%	12.6%
Utility Transaction Dollar Volume	\$4,423,045	\$3,700,665	\$3,340,375	19.5%	10.8%
Payment and processing revenue	\$35,901	\$30,695	\$28,440	17.0%	7.9%
Bank service fees	\$1,535	\$1,719	\$1,806	-10.7%	-4.8%
Gains on sales of investment securities	\$547	\$1,045	\$1,454	-47.7%	-28.1%
Other	\$670	\$588	\$671	13.9%	-12.4%

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

Freight transaction volume increased 3,100,000 during the past year. 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 per shipment due to escalating fuel costs. 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.

Fee revenue and other income in 2004 compared to 2003 include the following significant pre-tax components:

Freight transaction volume increased slightly due mainly to increased activity from existing clients. There was also a change in mix from lower priced, simple transactions to higher priced, complex transactions. Total dollar volume processed from this division increased during this period due to increased activity from existing clients and larger average freight charges. Fees for the period grew due to the increased volume and additional services provided. The increase in volume and fees from the utility division increased primarily due to new customers as the growth of this segment continues. The acquisition of the telecom group in August, 2004 contributed \$538,000 of payment and processing fees in 2004.

Bank service fees decreased \$87,000 during the year. 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 2004 the Company recorded net gains of \$1,045,000 on the sales of securities. During 2003, net gains of \$1,454,000 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 prior two years and to offset the loss of interest income due to the dramatic decline in the general level of interest rates. Other income decreased \$83,000 during this period. This decrease was primarily due to a decrease in income recognized from the increase in the cash surrender value of bank owned life insurance purchased by the Company in 2002.

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, 2005, 2004 and 2003:

(In Thousands)	2005	2004	2003	% Change 2005 v. 2004	% Change 2004 v. 2003
Average earning assets	\$697,285	\$643,847	\$563,071	8.3%	14.3%
Net interest income	34,534	28,838	27,310	19.8%	5.6%
Net interest margin	4.95%	4.48%	4.85%	10.5%	(7.6%)
Yield on earning assets	5.62%	4.96%	5.18%	13.3%	(4.2%)
Rate on interest bearing liabilities	2.45%	1.64%	1.24%	49.4%	32.3%

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.

Net interest income in 2004 compared to 2003:

The increase in net interest income was caused by the significant increase in earning assets that exceeded the decline in net interest margin. This increase in earning assets was funded by both an increase in accounts and drafts payable due to the increased dollars processed and an increase in bank deposits due to the expansion of the Banks' customer base. The Company is negatively affected by decreases 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 positively affected by increases in the level of interest rates. This is primarily due to the noninterest-bearing liabilities generated by the Company in the form of accounts and drafts payable. Despite the slight increase in interest rates during the second half of 2004 the net interest margin was lower than in 2003 due to the decreases over the prior few years and the fact that changes in interest rates affect some earning assets such as federal funds sold and floating rate loans immediately, and some earning assets such as fixed rate loans and municipal bonds over time. This decrease in net interest margin was also negatively impacted by an increase in rates paid on deposits. More information is contained in the tables below and in Item 7A of this report.

Total average loans increased \$33,782,000 or 8% to \$477,234,000. 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 increased \$21,016,000 or 36% to \$78,745,000 as the Company invested part of the increase in deposits and payables. Total average federal funds sold and other short-term investments increased \$25,978,000 or 42% to \$87,868,000. This increase was also funded by the increase in accounts and drafts payable and growth in bank deposits and provides the Company with additional liquidity to take advantage of higher interest rates.

The increase in both interest-bearing liabilities and rates paid on deposits partially offsets the increases achieved by an increase in earning assets. Interest-bearing deposits increased \$38,638,000 or 26% due to the Bank's marketing efforts to increase its customer base. Rates paid on the deposits increased from 1.24% to 1.61%. This resulted in an increase of \$1,177,000 or 64% in interest paid on deposits.

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:

(Dollars in thousands)	2005			2004			2003		
	Average Balance	Income/Expense	Interest Yield/Rate	Average Balance	Income/Expense	Interest Yield/Rate	Average Balance	Income/Expense	Interest Yield/Rate
Assets(1)									
Earning assets:									
Loans (2,3):									
Taxable	\$508,151	\$32,012	6.30%	\$471,995	\$26,807	5.68%	\$437,807	\$25,319	5.78%
Tax-exempt (4)	4,815	310	6.44	5,239	376	7.18	5,645	427	7.56
Debt and equity securities (5):									
Taxable	28,610	831	2.90	26,603	476	1.79	22,183	499	2.25
Tax-exempt (4)	42,427	2,472	5.83	52,142	3,154	6.05	35,546	2,317	6.52
Federal funds sold and other short-term investments	113,282	3,596	3.17	87,868	1,120	1.27	61,890	609	.98
Total earning assets	697,285	39,221	5.62	643,847	31,933	4.96	563,071	29,171	5.18
Nonearning assets:									
Cash and due from banks	28,874			23,035			19,136		
Premises and equipment, net	11,269			12,034			14,108		
Bank owned life insurance	11,298			10,874			10,419		
Goodwill and other intangibles, net	5,499			2,381			602		
Other assets	22,541			16,485			17,322		
Assets related to discontinued operations									
Allowance for loan losses	(6,068)			(5,822)			(5,380)		
Total assets	\$776,899			\$709,518			\$626,451		
Liabilities And Shareholders' Equity (1)									
Interest-bearing liabilities:									
Interest-bearing demand deposits									
Savings deposits	\$80,976	\$1,485	1.83%	\$73,792	\$ 845	1.15%	\$ 52,630	\$ 371	.70%
Time deposits of \$100 or more	26,622	458	1.72	29,712	293	.99	36,192	281	.78
Other time deposits	43,967	1,401	3.19	49,540	1,160	2.34	44,793	844	1.88
Total interest-bearing deposits	187,244	4,486	2.40	187,798	3,024	1.61	149,160	1,847	1.24
Short-term borrowings									
Subordinated convertible debentures	165	5	3.03	91	1	1.10	943	14	1.48
Total interest-bearing liabilities	187,409	4,491	2.40	187,889	3,025	1.61	150,103	1,861	1.24
Noninterest-bearing liabilities:									
Demand deposits	103,311			104,581			100,791		
Accounts and drafts payable	401,258			341,247			306,227		
Other liabilities	7,472			6,896			6,127		
Liabilities related to discontinued operations									
Shareholders' equity	1,857			1,787			1,857		
Total liabilities	705,007			643,714			565,105		
Shareholders' equity	71,892			65,804			61,346		
Total liabilities and shareholders' equity	\$776,899			\$709,518			\$626,451		
Net interest income		\$34,534			\$28,838			\$27,310	
Net interest margin			4.95%			4.48%			4.85%
Interest spread			3.17%			3.32%			3.94%

- Balances shown are daily averages.
- 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.
- Interest income on loans includes net loan fees of \$161,000, \$178,000 and \$90,000 for 2005, 2004 and 2003, respectively.
- Interest income is presented on a tax-equivalent basis assuming a tax rate of 35% for 2005 and 34% for 2004 and 2003. The tax-equivalent adjustment was approximately \$970,000, \$1,200,000 and \$928,000 for 2005, 2004 and 2003, respectively.
- 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.

(Dollars in thousands)	2005 Over 2004			2004 Over 2003		
	Volume(1)	Rate(1)	Total	Volume(1)	Rate(1)	To
Increase (decrease) in interest income:						
Loans (2,3):						
Taxable	\$2,146	\$3,059	\$5,205	\$1,950	\$ (462)	\$1,488
Tax-exempt (4)	(29)	(37)	(66)	(30)	(21)	(51)
Debt and equity securities:						
Taxable	38	317	355	90	(113)	(23)
Tax-exempt (4)	(570)	(112)	(682)	1,015	(178)	837
Federal funds sold and other short-term investments	402	2,074	2,476	300	211	511
Total interest income	\$1,987	\$5,301	\$7,288	\$3,325	\$ (563)	\$2,762
Interest expense on:						
Interest-bearing demand deposits	89	551	640	186	288	474
Savings deposits	(33)	198	165	(56)	68	12
Time deposits of \$100 or more	(141)	382	241	96	220	316
Other time deposits	20	396	416	403	(28)	375
Short-term borrowings	1	3	4	(10)	(3)	(13)
Subordinated convertible debenture	126	0	126	35	35	70
Total interest expense	62	1,530	1,592	654	580	1,234
Net interest income	\$1,925	\$3,771	\$5,696	\$2,671	\$ (1,143)	\$1,528

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 2005 and 34% for 2004 and 2003.

Loan Portfolio

Interest earned on the loan portfolio is a primary source of income for the Company. The loan portfolio was \$529,306,000 and represented 65% of the Company's total assets as of December 31, 2005 and generated \$32,214,000 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, 2005.

Loans by Type
(At December 31)

(Dollars in thousands)	2005	2004	2003	2002	2001
Commercial and industrial	\$146,892	\$117,777	\$103,638	\$101,116	\$115,316
Real estate:					
Mortgage	348,554	346,711	330,150	282,125	215,504
Construction	28,170	25,838	19,298	39,175	32,715
Industrial revenue bonds	4,514	4,955	5,373	5,773	6,155
Installment	107	1,741	1,911	1,918	1,787
Other	1,069	3,426	8,662	4,582	9,975
Total loans	\$529,306	\$500,448	\$469,032	\$434,689	\$381,452

Loans by Maturity
(At December 31, 2005)

	One Year or less	Over 1 Year Through 5 Years		Over 5 Years		Total
		Fixed Rate	Floating Rate(1)	Fixed Rate	Floating Rate(1)	
Commercial and industrial	\$ 54,268	\$ 28,259	\$63,985	\$ 380	--	\$146,892
Real estate:						
Mortgage	56,732	260,117	31,101	604	--	348,554
Construction	24,391	735	3,044	--	--	28,170
Industrial revenue bonds	967	1,052	--	2,495	--	4,514
Installment	4	103	--	--	--	107
Other	339	695	35	--	--	1,069
Total loans	\$136,701	\$290,961	\$98,165	\$3,479	--	\$529,306

(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, 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.

Loan portfolio changes from December 31, 2003 to December 31, 2004:

Total loans increased \$31,416,000 or 7% to \$500,448,000. This increase was due mainly to the expansion of church and church-related loans in the St. Louis metropolitan area and selected areas across the United States. At year-end, church and church-related real estate and construction credits totaled \$173,379,000, which represented a 7% increase over 2003. Additional details regarding the types and maturities of 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 \$775,000 in 2005, \$550,000 in 2004 and \$190,000 in 2003. 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 2005 was primarily the result of the risks inherent in an expanding loan portfolio and 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 \$528,000 in 2005, net loan charge-offs of \$19,000 in 2004 and net loan recoveries of \$23,000 in 2003. The allowance for loan losses was \$6,284,000 at December 31, 2005, compared to \$6,037,000 at December 31, 2004 and \$5,506,000 at December 31, 2003. The year-end 2005 allowance represented 1.19% of outstanding loans, compared to 1.21% at year-end 2004 and 1.17% at year-end 2003. From December 31, 2004 to December 31, 2005 the level of nonperforming loans increased \$926,000 from \$538,000 to \$1,464,000 which represents .28% 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. A charge or credit is made to expense to cover any deficiency or reduce any excess. 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

(Dollars in thousands)	December 31,				
	2005	2004	2003	2002	2001
Allowance at beginning of year	\$6,037	\$5,506	\$5,293	\$4,906	\$4,897
Loans charged-off:					
Commercial and industrial loans and industrial revenue bonds (IRB's)	532	--	--	152	110
Real estate:					
Mortgage	22	48	--	--	--
Construction	--	--	--	--	--
Installment	1	--	--	--	--
Other	--	--	2	--	--
Total loans charged-off	555	48	2	152	110
Recoveries of loans previously charged-off:					
Commercial, industrial and IRB's	10	29	25	39	59
Real estate:					
Mortgage	13	--	--	--	--
Construction	--	--	--	--	--
Installment	4	--	--	--	--
Total recoveries of loans previously charged-off	27	29	25	39	59
Net loans charged-off (recovered)	528	19	(23)	113	51
Provision charged to expense	775	550	190	500	60
Allowance at end of year	\$6,284	\$6,037	\$5,506	\$5,293	\$4,906
Loans outstanding:					
Average	\$512,966	\$477,234	\$443,452	\$404,093	\$376,275
December 31	529,306	500,448	469,032	434,689	381,452
Ratio of allowance for loan losses to loans outstanding:					
Average	1.23%	1.26%	1.24%	1.31%	1.30%
December 31	1.19%	1.21%	1.17%	1.22%	1.29%
Ratio of net charge-offs (recoveries) to average loans outstanding	.10%	--	(.01)%	.03%	.01%
Allocation of allowance for loan losses(1):					
Commercial, industrial and IRB's	\$3,419	\$3,066	\$2,575	\$2,167	\$2,129
Real estate:					
Mortgage	2,645	2,742	2,761	2,780	2,442
Construction	200	207	152	302	303
Installment	7	9	10	10	10
Other loans	13	13	8	34	22
Total	\$6,284	\$6,037	\$5,506	\$5,293	\$4,906
Percent of categories to total loans:					
Commercial and industrial and IRB's	28.6%	24.5%	23.2%	24.6%	31.8%
Real estate:					
Mortgage	65.9	69.3	70.4	64.9	56.5
Construction	5.3	5.2	4.1	9.0	8.6
Installment	--	.3	.4	.4	.5
Other	.2	.7	1.9	1.1	2.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%

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

Nonperforming Assets

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 \$114,000 for the year ended December 31, 2005. Of this amount, approximately \$32,000 was actually recorded as interest income on such loans.

Total nonaccrual commercial loans consists of four loans totaling \$983,000 that relate to businesses that are for sale or are in the process of liquidation. Reserves have been established for the estimated loss exposure. Total real estate loans that are contractually past due 90 days or more and still accruing interest consists of one loan of \$481,000 on real estate that is under contract to be sold. There were no loans renegotiated during the prior 12 months or foreclosed assets at December 31, 2005. Total foreclosed assets of \$375,000 at December 31, 2004 consisted of real estate that was foreclosed on March 2, 2004 and was sold during the first quarter of 2005 for a net gain of \$38,000. Foreclosed assets classified as other real estate owned are recorded at the lower of cost or fair value.

At December 31, 2005, approximately \$6,125,000 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 \$2,080,000 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 mortgage or installment credits, 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,				
	2005	2004	2003	2002	2001
Commercial, industrial and IRB's:					
Nonaccrual	\$ 983	\$ 297	\$ 318	\$ 51	\$ 157
Contractually past due 90 days or more and still accruing	--	--	--	--	18
Renegotiated loans	--	--	2,240	--	--
Real estate-construction on nonaccrual	--	--	--	--	265
Real estate-mortgage:					
Nonaccrual	--	69	1,207	--	32
Contractually past due 90 days or more and still accruing	481	4	147	3,388	--
Renegotiated loans	--	168	481	4,252	--
Installment loans contractually past due 90 days or more and still accruing	--	--	--	--	--
Other loans contractually past due 90 days and still accruing	--	--	--	1,503	--
Total nonperforming loans	1,464	538	4,393	9,194	472
Total foreclosed assets	--	375	859	6,241	5,710
Total nonperforming assets	\$ 1,464	\$ 913	\$ 5,252	\$15,435	\$ 6,182

Operating Expenses from Continuing Operations

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 \$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.

Operating expenses from continuing operations in 2004 compared to 2003 include the following significant pre-tax components:

Salaries and employee benefits expense increased \$733,000 or 2% to \$33,558,000. Of this increase, \$616,000 was related to the telecom group which was acquired in August 2004. The remaining increase primarily relates to annual salary increases and increases in pension and worker's compensation insurance expense.

Occupancy expense increased \$44,000 or 3% to \$1,589,000. Of this increase \$28,000 relates to the acquisition of the Cass telecom group in August 2004 and the remaining increase is primarily due to an increase in rent expense on leased office space.

Equipment expense decreased \$769,000 or 19% to \$3,276,000. This decrease is primarily due to software that was capitalized in 2000 and 2001 that is now fully amortized.

Amortization of intangibles increased from \$0 to \$57,000 due to the intangibles acquired in the acquisition of the Cass telecom group in August 2004.

Other operating expenses decreased \$403,000 or 4% to \$8,565,000. This decrease was influenced by many factors including a decrease of \$536,000 in postage and supply expense related to the increase in electronic processing in the Information Services Division. Advertising and business development expense decreased \$187,000 and professional fees decreased \$180,000 due to the timing of these activities. These decreases were partially offset by increases in expenses related to the acquisition of the Cass telecom group and an increase of \$288,000 in outside service fees, which includes fees related to the additional procedures required under Section 404 of the Sarbanes-Oxley Act and an increase in outside imaging expenses. 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 2005 totaled \$4,982,000 compared to \$4,209,000 in 2004 and \$3,385,000 in 2003. When measured as a percent of income before income taxes and discontinued operations, the Company's effective tax rate was 31% in 2005, 30% in 2004 and 30% in 2003. 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 expense (benefit) from discontinued operations was \$557,000, (\$947,000) and \$68,000 with effective rates of 215%, 34% and 39% for the years 2005, 2004 and 2003, 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 during the past five years.

Investment Portfolio

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 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, 2003 to December 31, 2004:

U.S. Treasury securities increased \$4,796,000 or 28% to \$21,899,000. U.S. government corporation and agency securities increased \$1,404,000 or 30% to \$6,094,000. State and political subdivision securities increased \$1,756,000 or 4% to \$48,533,000. 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 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 deposits and accounts and drafts payable. The changes in asset mix reflects 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, 2005, other than U.S. government corporations and agencies, for which the aggregate amortized cost exceeded 10% of total shareholders' equity.

Investment by Type

(Dollars in thousands)	December 31,		
	2005	2004	2003
U.S. Treasury securities	\$22,830	\$21,899	\$17,103
U.S. government corporations and agencies	4,978	6,094	4,690
State and political subdivisions	66,321	48,533	46,777
Stock of the Federal Home Loan Bank	448	403	376
Stock of the Federal Reserve Bank	282	201	201
Total investments	\$94,859	\$77,130	\$69,147

Investment in Debt Securities by Maturity
(At December 31, 2005)

(Dollars in thousands)	Within 1 Year	Over 1 to 5 Years	Over 5 to 10 Years	Over 10 Years	Yield
U.S. Treasury securities	\$22,830	\$ --	\$ --	\$ --	3.57%
U.S. government corporations and agencies	1,974	3,004	--	--	3.48%
State and political subdivisions(1)	--	16,110	24,410	25,801	5.91%
Total investment in debt securities	\$24,804	\$19,114	\$24,410	\$25,801	
Weighted average yield	3.47%	4.80%	6.39%	6.10%	5.21%

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

Deposits and Accounts and Drafts Payable

Noninterest-bearing demand deposits increased \$20,034,000 or 21% from December 31, 2004 to \$116,396,000 at December 31, 2005. The average balances of these deposits decreased \$1,270,000 or 1% from December 31, 2004 to \$103,311,000 at December 31, 2005. The increase 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 decreased \$8,665,000 or 5% from December 31, 2004 to \$170,602,000 at December 31, 2005. The average balances of these deposits remained fairly constant at \$187,798,000 in 2004 to \$187,244,000 in 2005.

Accounts and drafts payable generated by the Company in its payment processing operations increased \$87,338,000 or 24% from December 31, 2004 to \$445,811,000 at December 31, 2005. The average balances of these funds increased \$60,011,000 or 18% from 2004 to \$401,258,000 in 2005. 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, 2005)

(Dollars in thousands)	
Three months or less	\$ 7,961
Three to six months	5,323
Six to twelve months	4,719
Over twelve months	18,486
Total	\$ 36,489

Short-term Borrowings

Short-term borrowings increased \$61,000 or 48% from December 31, 2004 to \$188,000 at December 31, 2005. Average balances of these funds increased \$74,000 or 81% from 2004 to \$165,000 during 2005. 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, 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 consists of cash and cash equivalents, which include cash and due from banks, federal funds sold, and money market funds, and were \$149,692,000 at December 31, 2005, an increase of \$62,149,000 or 71% from December 31, 2004. At December 31, 2005 these assets represented 18% 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 \$94,859,000 at December 31, 2005, an increase of \$17,729,000 or 23% from December 31, 2004. These assets represented 12% of total assets at December 31, 2005. Of this total, 70% were state and political subdivision securities, 24% were U.S. Treasury securities, and 6% were U.S. government agencies. Of the total portfolio, 26% mature in one year, 20% mature after one year through five years, 27% mature after five years through ten years and 27% after ten years. During the year the Company sold securities with a market value of \$12,950,000 and a portion of these funds was reinvested in state and political subdivision securities and the loan portfolio.

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 \$74,789,000 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.

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 42,665 shares during 2005 for \$1,434,000. The Company did not repurchase any shares during 2004. As of December 31, 2005, 48,098 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.

Net cash flows provided by operating activities of continuing operations for the years 2005, 2004 and 2003 were \$13,420,000, \$11,759,000 and \$11,207,000 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 2006.

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, 2005 as shown in Item 8, Note 3 of this report.

In 2005, cash dividends paid were \$.58 per share for a total of \$3,201,000, a 6% increase over the prior year, which is attributable to an increase in the per share amount paid and additional shares outstanding. On August 16, 2005, the Company declared a 50% stock dividend payable to holders of record on September 2, 2005. On February 17, 2004 the Company declared a 10% stock dividend payable to holders of record on March 5, 2004.

Shareholders' equity was \$75,281,000, or 9% of total assets, at December 31, 2005, an increase of \$5,692,000 over the balance at December 31, 2004. This increase resulted from net income of \$10,946,000, proceeds from the exercise of stock options of \$144,000 and other items of \$189,000, which was partially offset by cash dividends paid of \$3,201,000, repurchase of shares of \$1,434,000, a decrease in other comprehensive income of \$949,000 and other items of \$3,000 related to the stock dividend.

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, 2005, unappropriated retained earnings of \$5,968,000 were available at the Bank for the declaration of dividends to the Company without prior approval from regulatory authorities.

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, 2005, 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, 2005 the balance of loan commitments, commercial and standby letters of credit were \$21,834,000, \$6,533,000 and \$7,407,000, 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 \$32.13 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, 2005:

(Dollars in thousands at December 31, 2005)	Amount of Commitment Expiration per Period				
	Total	Less than 1 year	1-3 Years	3-5 Years	Over 5 Years
Operating lease commitments	\$ 4,588	\$ 545	\$ 1,258	\$ 830	\$ 1,955
Capital lease commitments	8	8	--	--	--
Time deposits	67,053	45,304	15,065	6,684	0
Convertible subordinated debentures*	3,700	--	--	--	3,700
Total	\$75,349	\$45,857	\$16,323	\$ 7,514	\$ 5,655

* Includes principal payments only.

During 2005, the Company contributed \$2,989,000 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 2005 these assumptions were as follows:

Weighted average discount rate	6.00%
Rate of increase in compensation levels	4.00%
Expected long-term rate of return on assets	7.50%

Effect of Recent and Prospective Accounting Pronouncements

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 Accounting Principles Board ("APB") Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." The guidance in this FSP nullifies certain requirements of 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 guidance is required to be applied to reporting periods beginning after December 15, 2005. The Company does not anticipate this FSP will have a material impact on its consolidated financial statements.

In December 2004, the FASB issued SFAS 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaced, "Accounting for Stock-Based Compensation" ("SFAS 123") and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees". SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of income. The accounting provisions of SFAS 123R are effective for fiscal years beginning after June 15, 2005. The Company adopted SFAS 123R effective January 1, 2006 and does not expect it to have a significant adverse impact on the consolidated statements of income and net income per share.

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 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company is not currently aware of any accounting changes or errors to which the provisions of this Statement will apply.

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 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, 2005 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, 2005:

Change in Interest Rates	% Change in Net Interest Income	% Change in Fair Market Value of Equity
+200 basis points	12%	12%
+100 basis points	6%	6%
Stable Rates	0%	0%
-100 basis points	(6%)	(7%)
-200 basis points	(13%)	(17%)

Interest Rate Sensitive Position

The following table presents the Company's gap or interest rate risk position at December 31, 2005 for the various time periods indicated.

(Dollars in thousands)	Variable Rate	0-90 days	91-180 days	181-364 days	1-5 years	Over 5 Years	Total
Earning assets:							
Loans:							
Taxable	\$172,453	\$ 8,239	\$ 16,769	\$ 32,609	\$293,738	\$ 984	\$524,792
Tax-exempt	--	--	--	967	1,052	2,495	4,514
Debt and equity securities(1):							
Taxable	--	20,878	2,999	999	3,048	--	27,924
Tax-exempt	--	--	--	--	16,326	50,148	66,474
Other	730	--	--	--	--	--	730
Federal funds sold and other Short-term investments	120,131	--	--	--	--	--	120,131
Total earning assets	\$293,314	\$ 29,117	\$ 19,768	\$ 34,575	\$314,164	\$ 53,627	\$744,565
Interest-sensitive liabilities:							
Money market accounts	\$ 61,618	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 61,618
Now accounts	19,038	--	--	--	--	--	19,038
Savings deposits	22,893	--	--	--	--	--	22,893
Time deposits:							
\$100K and more	--	7,960	5,323	4,719	18,487	--	36,489
Less than \$100K	--	12,358	7,878	7,066	3,262	--	30,564
Federal funds purchased and Other-short term borrowing	188	--	--	--	--	--	188
Subordinated convertible debentures	--	--	--	--	--	3,700	3,700
Total interest-bearing liabilities	\$103,737	\$ 20,318	\$ 13,201	\$ 11,785	\$ 21,749	\$ 3,700	\$174,490
Interest sensitivity gap:							
Periodic	\$189,577	\$ 8,799	\$ 6,567	\$ 22,790	\$292,415	\$ 49,927	\$570,075
Cumulative	189,577	198,376	204,943	227,733	520,148	570,075	570,075
Ratio of interest-bearing assets to interest-bearing liabilities:							
Periodic	2.83x	1.43x	1.50x	2.93x	14.44x	14.49x	4.27x
Cumulative	2.83x	2.60x	2.49x	2.53x	4.05x	4.27x	4.27x

(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)	2005	2004
<hr/>		
Assets		
Cash and due from banks	\$ 29,561	\$ 23,131
Federal funds sold and other short-term investments	120,131	64,412
	<hr/>	<hr/>
Cash and cash equivalents	149,692	87,543
	<hr/>	<hr/>
Securities available-for-sale, at fair value	94,859	77,130
Loans	529,306	500,448
Less: Allowance for loan losses	6,284	6,037
	<hr/>	<hr/>
Loans, net	523,022	494,411
Premises and equipment, net	11,987	11,376
Investment in bank owned life insurance	11,545	11,090
Payments in excess of funding	7,665	6,998
Goodwill 4,398	4,433	
Assets related to discontinued operations	400	6,566
Other intangible assets, net	935	1,158
Other assets	14,195	15,816
	<hr/>	<hr/>
Total assets	\$ 818,698	\$ 716,521
	=====	=====
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 116,396	\$ 96,362
Interest-bearing	170,602	179,267
	<hr/>	<hr/>
Total deposits	286,998	275,629
Accounts and drafts payable	445,811	358,473
Short-term borrowings	188	127
Subordinated convertible debentures	3,700	3,700
Liabilities related to discontinued operations	1,848	2,181
Other liabilities	4,872	6,822
	<hr/>	<hr/>
Total liabilities	743,417	646,932
	<hr/>	<hr/>
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; 6,336,593 and 4,494,510 shares issued at December 31, 2005 and 2004, respectively	3,168	2,247
Additional paid-in capital	18,486	18,370
Retained earnings	71,506	64,685
Common shares in treasury, at cost (836,457 and 807,262 shares at December 31, 2005 and 2004, respectively)	(17,313)	(16,096)
Unamortized stock bonus awards	(160)	(160)
Accumulated other comprehensive income (loss)	(406)	543
	<hr/>	<hr/>
Total shareholders' equity	75,281	69,589
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 818,698	\$ 716,521
	=====	=====

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)	2005	2004	2003
Fee Revenue and Other Income:			
Information services payment and processing revenue	\$ 35,901	\$ 30,695	\$ 28,440
Bank service fees	1,535	1,719	1,806
Gains on sales of investment securities	547	1,045	1,454
Other	670	588	671
	38,653	34,047	32,371
Interest Income:			
Interest and fees on loans	32,214	27,055	25,601
Interest and dividends on securities:			
Taxable	831	476	499
Exempt from federal income taxes	1,610	2,082	1,534
Interest on federal funds sold and other short-term investments	3,596	1,120	609
	38,251	30,733	28,243
Interest Expense:			
Interest on deposits	4,486	3,024	1,847
Interest on short-term borrowings	5	1	14
Interest on subordinated convertible debentures	196	70	--
	4,687	3,095	1,861
Net interest income	33,564	27,638	26,382
Provision for loan losses	775	550	190
	32,789	27,088	26,192
Operating Expense:			
Salaries and employee benefits	38,044	33,558	32,825
Occupancy	1,941	1,589	1,545
Equipment	2,795	3,276	4,045
Amortization of intangible assets	172	57	--
Impairment of equity investment	3,100	--	--
Other operating	9,164	8,565	8,968
	55,216	47,045	47,383
Income before income tax expense and discontinued operations	16,226	14,090	11,180
Income tax expense	4,982	4,209	3,385
	11,244	9,881	7,795
Income (loss) from discontinued operations before income tax expense	259	(2,823)	175
Income tax expense (benefit)	557	(947)	68
	(298)	(1,876)	107
Net Income	\$ 10,946	\$ 8,005	\$ 7,902
Basic Earnings Per Share:			
From continuing operations	\$ 2.04	\$ 1.79	\$ 1.41
From discontinued operations	(.05)	(.34)	.02
Basic earnings per share	1.99	1.45	1.43
Diluted Earnings Per Share:			
From continuing operations	\$ 1.99	\$ 1.76	\$ 1.40
From discontinued operations	(.05)	(.33)	.02
Diluted earnings per share	1.94	1.43	1.42

See accompanying notes to consolidated financial statements.

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

	December 31,		
(Dollars in thousands)	2005	2004	2003
Cash Flows From Operating Activities:			
Net income from continuing operations	\$ 11,244	\$ 9,881	\$ 7,795
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	2,073	3,278	3,991
Gains on sales of investment securities	(547)	(1,045)	(1,454)
Amortization of stock bonus awards	134	96	57
Tax benefit from exercise of stock options and bonuses	55	114	176
Provision for loan losses	775	550	190
Deferred income tax benefit	(921)	(558)	(876)
(Decrease) increase in income tax liability	(181)	(1,295)	658
(Decrease) increase in pension liability	(1,278)	444	324
Impairment of equity investment	3,100	--	--
Other operating activities, net	(1,034)	294	346
Operating activities of discontinued operations	(967)	(951)	924
	12,453	10,808	12,131
	-----	-----	-----
Cash Flows From Investing Activities:			
From continuing operations:			
Proceeds from sales of securities available-for-sale	12,950	27,195	38,454
Proceeds from maturities of securities available-for-sale	77,150	31,200	15,522
Purchase of securities available-for-sale	(108,545)	(66,525)	(52,970)
Net increase in loans	(29,386)	(31,810)	(36,320)
Increase in payments in excess of funding	(667)	(778)	(1,950)
Purchases of premises and equipment, net	(2,582)	(1,399)	(1,417)
Payment for business acquisitions, net of cash acquired	--	(2,092)	--
Proceeds from sale of discontinued operations	6,600	--	--
Investing activities of discontinued operations	(98)	(193)	(464)
	(44,578)	(44,402)	(39,145)
	-----	-----	-----
Cash Flows From Financing Activities:			
From continuing operations:			
Net increase (decrease) in noninterest-bearing deposits	20,034	(18,272)	5,282
Net (decrease) increase in interest-bearing demand and savings deposits	(87)	16,947	342
Net (decrease) increase in time deposits	(8,578)	4,446	23,286
Net increase in accounts and drafts payable	87,338	58,484	72,098
Net increase (decrease) in short-term borrowings	61	4	(37,315)
Cash proceeds from exercise of stock options	144	190	260
Cash paid for stock dividend fractional shares	(3)	(4)	--
Cash dividends paid	(3,201)	(3,025)	(2,814)
Purchase of common shares for treasury	(1,434)	--	(1,764)
	94,274	58,770	59,375
	-----	-----	-----
Net increase in cash and cash equivalents	62,149	25,176	32,361
Cash and cash equivalents at beginning of year	87,543	62,367	30,006
	-----	-----	-----
Cash and cash equivalents at end of year	\$ 149,692	\$ 87,543	\$ 62,367
	=====	=====	=====
Supplemental information:			
Cash paid for interest	\$ 4,618	\$ 3,019	\$ 1,802
Cash paid for income taxes	6,792	5,155	2,775
Noncash transactions:			
Transfer of loans to other equity investments	\$ --	\$ --	\$ 2,000
Other real estate transferred from loans	--	375	--
Issuance of subordinated convertible debentures	--	3,700	--

See accompanying notes to consolidated financial statements.

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	Unamortized Stock Bonus Awards
Balance, December 31, 2002	\$ 2,080	\$ 8,466	\$ 64,607	\$ (15,275)	\$ (25)
Net income			7,902		
Cash dividends (\$.509 per share)			(2,814)		
Purchase of 59,237 common shares for treasury				(1,764)	
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 6,501 common shares pursuant to Stock Bonus Plan		47		114	(161)
Amortization of Stock Bonus Plan awards					57
Exercise of stock options		(223)		483	
Tax benefit on stock awards		176			
Balance, December 31, 2003	2,080	8,466	69,695	(16,442)	(129)
Comprehensive income for 2003					
Net income			8,005		
Cash dividends (\$.547 per share)			(3,025)		
10% 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 3,886 common shares pursuant to Stock Bonus Plan		53		74	(127)
Amortization of Stock Bonus Plan awards					96
Exercise of stock options		(82)		272	
Tax benefit on stock awards		114			
Balance, December 31, 2004	2,247	18,370	64,685	(16,096)	(160)
Comprehensive income for 2004					
Net income			10,946		
Cash dividends (\$.58 per share)			(3,201)		
50% Stock Dividend	921		(924)		
Purchase of 42,665 common shares for treasury				(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 3,508 common shares pursuant to Stock Bonus Plan		64		70	(134)
Amortization of Stock Bonus Plan awards					134
Exercise of stock options		(3)		147	
Tax benefit on stock awards		55			
Balance, December 31, 2005	\$ 3,168	\$ 18,486	\$ 71,506	\$ (17,313)	\$ (160)
Comprehensive income for 2005					

(In thousands, except per share data)	Accumulated Other Comprehensive Income (Loss)	Total	Comp- rehensive Income
Balance, December 31, 2002	\$ 1,193	\$ 61,046	
Net income		7,902	\$ 7,902
Cash dividends (\$.509 per share)		(2,814)	
Purchase of 59,237 common shares for treasury		(1,764)	
Other comprehensive income (loss):			
Net unrealized gain on debt securities available-for-sale, net of tax	899	899	899
Reclassification adjustment for gains on sales of investment securities, available-for-sale, net of tax	(960)	(960)	(960)
Minimum pension liability adjustment, net of tax	(10)	(10)	(10)

Issuance of 6,501 common shares pursuant to Stock Bonus Plan		--	
Amortization of Stock Bonus Plan awards		57	
Exercise of stock options		260	
Tax benefit on stock awards		176	
Balance, December 31, 2003	1,122	64,792	
Comprehensive income for 2003			7,831
			=====
Net income		8,005	8,005
Cash dividends (\$.547 per share)		(3,025)	
10% Stock Dividend		(4)	
Other comprehensive income (loss):			
Net unrealized gain on debt securities available-for-sale, net of tax	261	261	261
Reclassification adjustment for gains on sales of investment securities, available-for-sale, net of tax	(690)	(690)	(690)
Minimum pension liability adjustment, net of tax	(150)	(150)	(150)
Issuance of 3,886 common shares pursuant to Stock Bonus Plan		--	
Amortization of Stock Bonus Plan awards		96	
Exercise of stock options		190	
Tax benefit on stock awards		114	
Balance, December 31, 2004	543	69,589	
Comprehensive income for 2004			7,426
			=====
Net income		10,946	10,946
Cash dividends (\$.58 per share)		(3,201)	
50% Stock Dividend		(3)	
Purchase of 42,665 common shares for treasury		(1,434)	
Other comprehensive income (loss):			
Net unrealized loss on debt securities available-for-sale, net of tax	(510)	(510)	(510)
Reclassification adjustment for gains on sales of investment securities, available-for-sale, net of tax	(361)	(361)	(361)
Minimum pension liability adjustment, net of tax	(78)	(78)	(78)
Issuance of 3,508 common shares pursuant to Stock Bonus Plan		--	
Amortization of Stock Bonus Plan awards		134	
Exercise of stock options		144	
Tax benefit on stock awards		55	
Balance, December 31, 2005	\$ (406)	\$ 75,281	
Comprehensive income for 2005			\$ 9,997
			=====

See accompanying 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 2004 and 2003 consolidated financial statements have been reclassified to conform to the 2005 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 a 50% stock dividend 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 an 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. Investments in equity securities without readily determinable fair values are stated at cost.

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 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 to their estimated residual values and reviewed for impairment in accordance with SFAS 144.

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. 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 Options The Company accounts for stock-based compensation under the stock option plan in accordance with Accounting Principles Board ("APB") 25, "Accounting for Stock Issued to Employees," and accordingly the Company recognizes no compensation expense as the exercise price of the stock options equals the market price of the underlying stock on the date of grant. The Company adopted the recognition provisions of Statement of Financial Accounting Standard ("SFAS") 123, "Accounting for Stock-Based Compensation," as amended by SFAS 148. An entity that continues to apply APB 25 must disclose certain pro forma information as if the fair value-based accounting method in SFAS 123 had been used to account for stock-based compensation costs. The Company uses the Black-Scholes option-pricing model to determine the fair value of the stock options at the date of grant. There were 8,827 options granted in 2005, 15,195 options granted in 2004 and 23,314 options granted in 2003. The required disclosure provisions of SFAS 123, as amended by SFAS 148, are provided in the table below.

(In thousands, except per share data)	2005	2004	2003
Net income from continuing operations:			
As reported	\$ 11,244	\$ 9,881	\$ 7,795
Add: Stock based compensation expense included in reported net income, net of tax	86	63	38
Less: Stock based compensation expense determined under the fair value based method for all awards, net of tax	(105)	(109)	(81)
Pro forma net income from continuing operations	\$ 11,225	\$ 9,835	\$ 7,752
Net income effect of subordinated convertible debentures	108	39	--
Proforma net income from continuing operations assuming dilution	\$ 11,333	\$ 9,874	\$ 7,752
Net income from continuing operations per common share: (1)			
Basic, as reported	\$ 2.04	\$ 1.79	\$ 1.41
Basic, proforma	2.04	1.78	1.40
Diluted, as reported	1.99	1.76	1.40
Diluted, proforma	1.98	1.76	1.39
Weighted average assumptions:			
Risk-free interest rate	3.97%	3.61%	3.22%
Expected life	7 yrs	7 yrs.	7 yrs
Expected volatility	15%	15%	15%
Expected dividend yield	2.32%	2.42%	3.32%

(1) Per share data for 2004 and 2003 have been restated for the 50% stock dividend on September 15, 2005.

Impact of New Accounting Pronouncements

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 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 guidance is required to be applied to reporting periods beginning after December 15, 2005. The Company does not anticipate this FSP will have a material impact on its consolidated financial statements.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaced, "Accounting for Stock-Based Compensation" ("SFAS 123") and supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). SFAS 123R requires the measurement of all employee share-based payments to employees, including grants of employee stock options, using a fair-value-based method and the recording of such expense in our consolidated statements of income. The accounting provisions of SFAS 123R are effective for fiscal years beginning after June 15, 2005. The Company adopted SFAS 123R effective January 1, 2006 and does not expect it to have a significant adverse impact on the consolidated statements of income and net income per share.

In May 2005, the FASB issue 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 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company is not currently aware of any accounting changes or errors to which the provisions of this Statement will apply.

Note 2

Acquisitions and Dispositions

On December 30, 2005, the Company's bank subsidiary sold the operating assets of its wholly-owned subsidiary, Government e-Management Solutions, Inc. ("GEMS"), to N. Harris Computer Corporation for \$7,000,000 resulting in a pre-tax gain of \$1,336,000. Including this gain, GEMS experienced a net loss in 2005 of \$298,000 on total revenues of \$8,219,000. The net loss was \$1,876,000 in 2004 on total revenues of \$5,157,000 and in 2003 GEMS had a net profit of \$107,000 on revenues of \$7,696,000. 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 reclassified as discontinued operations for all periods. As a result of the sale, goodwill of \$2,927,000 was written off. GEMS developed and sold proprietary financial, human resource and revenue management software to government entities. GEMS was acquired on January 2, 2001 when the Company's bank subsidiary foreclosed on the operating assets of a software company in order to protect its financial interests.

On August 24, 2004 the Company acquired substantially all of the operating assets of PROFITLAB, Inc., a provider of telecom auditing and application services based in Greenville, South Carolina. Consideration for the acquisition included cash in the amount of \$1,098,000 and the issuance of \$3,700,000 of 5.33% subordinated convertible debentures. The debentures are convertible, per a schedule, into approximately 115,144 shares of the Company's Common Stock at a price of \$32.13 per share. The securities mature 10 years after the date of issuance. The debentures may be called by the Company without penalty after August 24, 2010. Total cost of the acquisition was approximately \$4,977,000 which included \$862,000 in acquired software, which is being amortized on a straight-line basis over five years and \$4,039,000 in goodwill based on the Company's purchase price allocation. All acquired intangible assets are deductible for tax purposes.

On November 24, 2004 the Company acquired Franklin Bancorp, Orange, California and merged its subsidiary bank, Franklin Bank of California into the Bank. The purpose of the acquisition and merger is to establish a branch in California to serve existing customers and prospects. Total cost of the acquisition was \$2,707,000 which included \$136,000 of goodwill based on the Company's purchase price allocation. The acquired goodwill is not deductible for tax purposes.

The above mentioned acquisitions of PROFITLAB, Inc. and Franklin Bancorp were accounted for using the purchase method of accounting and, accordingly, the consolidated financial statements include the assets, liabilities and results of operations for the periods subsequent to the respective acquisition dates, and the assets acquired and liabilities assumed were recorded at their estimated fair values as of the acquisition dates.

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, 2005 and 2004, 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, 2005 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, 2005, unappropriated retained earnings of \$5,968,000 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 \$525,000 and \$766,000 at December 31, 2005 and 2004, respectively.

The Company and the Bank's actual and required capital amounts and ratios as of December 31, 2005 and 2004 are as follows:

(Dollars in thousands)	Actual		Capital requirements		Requirement to be well capitalized under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At December 31, 2005						
Total capital (to risk-weighted assets):						
Cass Information Systems, Inc.	\$80,066	12.80%	\$50,036	8.00%	\$ N/A	N/A%
Cass Commercial Bank	42,597	14.64	23,277	8.00	29,096	10.00
Tier I capital (to risk-weighted assets):						
Cass Information Systems, Inc.	\$70,082	11.21%	\$25,018	4.00%	\$ N/A	N/A%
Cass Commercial Bank	38,251	13.15	11,638	4.00	17,457	6.00
Tier I capital (to average assets):						
Cass Information Systems, Inc.	\$70,082	8.52%	\$24,691	3.00%	\$ N/A	N/A%
Cass Commercial Bank	38,251	11.16	10,279	3.00	17,132	5.00
At December 31, 2004						
Total capital (to risk-weighted assets):						
Cass Information Systems, Inc.	\$69,238	11.86%	\$46,691	8.00%	\$ N/A	N/A%
Cass Commercial Bank	36,634	12.01	24,392	8.00	30,490	10.00
Tier I capital (to risk-weighted assets):						
Cass Information Systems, Inc.	\$59,501	10.19%	\$23,345	4.00%	\$ N/A	N/A%
Cass Commercial Bank	32,817	10.76	12,196	4.00	18,294	6.00
Tier I capital (to average assets):						
Cass Information Systems, Inc.	\$59,501	7.91%	\$22,563	3.00%	\$ N/A	N/A%
Cass Commercial Bank	32,817	9.46	10,408	3.00	17,346	5.00

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, 2005 and 2004, are summarized as follows:

2005				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$22,877	\$ --	\$ 47	\$22,830
Obligations of U.S. government corporations and agencies	5,047	--	69	4,978
State and political subdivisions	66,474	289	442	66,321
Total debt securities	94,398	289	558	94,129
Stock in Federal Reserve Bank and Federal Home Loan Bank	730	--	--	730
Total	\$95,128	\$ 289	\$ 558	\$94,859

2004				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$21,939	\$ --	\$ 40	\$21,899
Obligations of U.S. government corporations and agencies	6,077	51	34	6,094
State and political subdivisions	47,445	1,172	84	48,533
Total debt securities	75,461	1,223	158	76,526
Stock in Federal Reserve Bank and Federal Home Loan Bank	604	--	--	604
Total	\$76,065	\$ 1,223	\$ 158	\$77,130

The fair values of securities with unrealized losses at December 31, 2005 and 2004 are as follows:

2005						
(In thousands)	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
U. S. Treasury securities	\$19,857	\$ 21	\$ 2,973	\$ 26	\$22,830	\$ 47
Obligations of U.S. government corporations and agencies	3,004	43	1,974	26	4,978	69
State and political subdivisions	35,538	271	5,041	171	40,579	442
Total	\$58,399	\$ 335	\$ 9,988	\$ 223	\$68,387	\$ 558

2004						
(In thousands)	Less than 12 months		12 months or more		Total	
	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses
U. S. Treasury securities	\$21,899	\$ 40	\$ --	\$ --	\$21,899	\$ 40
Obligations of U.S. government corporations and agencies	2,970	34	--	--	2,970	34
State and political subdivisions	5,380	84	--	--	5,380	84
Total	\$30,249	\$ 158	\$ --	\$ --	\$30,249	\$ 158

There are 57 securities (10 greater than 12 months) in an unrealized loss

position included in the table above. There were 18 securities in an unrealized loss position as of December 31, 2004, and all had been in an unrealized loss position for less than one year. 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 to hold these securities until maturity.

The amortized cost and fair value of debt and equity securities at December 31, 2005, by contractual maturity, are shown in the following table. Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

(In thousands)	2005	
	Amortized Cost	Fair Value
Due in 1 year or less	\$24,877	\$24,804
Due after 1 year through 5 years	19,373	19,114
Due after 5 years through 10 years	24,140	24,410
Due after 10 years	26,008	25,801
No stated maturity	730	730
Total	\$95,128	\$94,859

The amortized cost of debt securities pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes at December 31, 2005 and 2004 were \$13,027,000 and \$13,074,000, respectively.

Proceeds from sales of debt securities classified as available-for-sale were \$12,950,000, \$27,195,000 and \$38,454,000 for 2005, 2004 and 2003, respectively. Gross realized gains and losses on the sales were \$547,000 and \$0 in 2005, \$1,048,000 and \$3,000 in 2004, and \$1,454,000 and \$0 in 2003.

Note 5

Loans

A summary of loan categories at December 31, 2005 and 2004 is as follows:

(In thousands)	2005	2004
Commercial and industrial	\$146,892	\$117,777
Real estate:		
Mortgage	164,590	182,476
Mortgage - Church & related	183,964	164,235
Construction	13,052	16,694
Construction - Church & related	15,118	9,144
Industrial revenue bonds	4,514	4,955
Installment	107	1,741
Other	1,069	3,426
Total	\$529,306	\$500,448

The Company originates commercial, industrial, real estate and installment 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, 2005, 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, 2005	\$ 4,151
New loans	-
Payments	109
Aggregate balance, December 31, 2005	\$ 4,042

A summary of the activity in the allowance for loan losses for 2005, 2004 and 2003 is as follows:

(In thousands)	2005	2004	2003
Balance, January 1	\$ 6,037	\$ 5,506	\$ 5,293
Provision charged to expense	775	550	190
Loans charged off	(555)	(48)	(2)
Recoveries of loans previously charged off	27	29	25
Net loan (charge-offs) recoveries	(528)	(19)	23
Balance, December 31	\$ 6,284	\$ 6,037	\$ 5,506

The following is a summary of information pertaining to impaired loans at December 31, 2005 and 2004:

(In thousands)	2005	2004
Impaired loans without a valuation allowance	\$ --	\$ --
Impaired loans with a valuation allowance	3,545	2,718
Allowance for loan losses related to impaired loans	1,567	1,023

Impaired loans consist primarily of renegotiated loans, nonaccrual loans and loans 90 days past due and still accruing interest. In 2005, impaired loans also included a loan for \$2,080,000 related to one borrower that, although current, management has doubt as to the collectability of all amounts under the agreement. Impaired loans continuing to accrue interest were \$2,561,000 and \$2,352,000 at December 31, 2005 and 2004, respectively. Of these, loans delinquent 90 days or more and still accruing interest at December 31, 2005 and 2004 totaled \$481,000 and \$4,000, respectively. The average balance of impaired loans during 2005 and 2004 was \$3,103,000 and \$3,395,000, respectively. Income that would have been recognized on non-accrual loans under the original terms of the contract was \$114,000, \$38,000 and \$272,000 for 2005, 2004 and 2003, respectively. Income that was recognized on non-accrual loans was \$32,000, \$15,000 and \$164,000 for 2005, 2004 and 2003, respectively. There were no foreclosed loans which have been reclassified and held as other real estate owned as of December 31, 2005. There was \$375,000 of other real estate owned included in other assets on the consolidated balance sheet at December 31, 2004.

Note 6

Premises and Equipment

A summary of premises and equipment at December 31, 2005 and 2004, is as follows:

(In thousands)	2005	2004
Land	\$ 873	\$ 873
Buildings	10,472	10,459
Leasehold improvements	1,596	1,023
Furniture, fixtures and equipment	17,659	17,930
Purchased software	3,585	3,446
Internally developed software	4,130	4,130
	38,315	37,861
Less accumulated depreciation and amortization	26,328	26,485
Total	\$11,987	\$11,376

Total depreciation and amortization charged to expense in 2005, 2004 and 2003 amounted to \$1,971,000, \$2,679,000 and \$3,410,000, respectively.

The Company and its subsidiaries lease various premises and equipment under operating lease agreements, which expire at various dates through 2020. 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, 2005:

(In thousands)	Amount
2006	\$ 545
2007	630
2008	628
2009	442
2010	388
2011 and after	1,955
Total	\$ 4,588

Rental expense for 2005, 2004 and 2003 was \$552,000, \$305,000 and \$454,000, respectively.

Equity Investments in Non-Marketable Securities

In 2001 the Company made an initial investment in a private imaging company to acquire imaging technology for the Company's payment operations. With subsequent additions, this investment eventually totaled \$3,100,000 and represents a 19.99% ownership interest in the company. The remaining 80.01% ownership interest is owned by another investor. As part of the Company's year-end closing procedures, the Company performed a valuation of its minority equity interest. This business has performed poorly in recent years, and the majority investor is implementing a new business plan. Based on the current and projected operating losses of the investee, the Company recognized a \$3,100,000 impairment charge on its investment in 2005. As of December 31, 2005 the Company's equity investment in this company was \$0 and the remaining financial interest in this entity was a \$1,152,000 interest in a secured line of credit participated with the entity's majority investor for working capital purposes. As of December 31, 2005 all interest payments under this line were current.

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

Note 8

Acquired Intangible Assets

The Company accounts for intangible assets in accordance with SFAS 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, 2005 are as follows:

(In thousands)	December 31, 2005		December 31, 2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Software	\$ 862	\$ (230)	\$ 862	\$ (58)
Unamortized intangible assets:				
Goodwill	4,625	(227) *	4,660	(227) *
Minimum pension liability	303	--	353	--
Total unamortized intangible assets	4,928	(227)	5,013	(227)
Total intangible assets	\$ 5,790	\$ (457)	\$ 5,875	\$ (285)

*Amortization through December 31, 2001 prior to adoption of SFAS 142.

On August 24, 2004 the Company acquired \$4,039,000 of goodwill and \$862,000 in software related to the acquisition of PROFITLAB, Inc. On November 24, 2004 the Company acquired \$136,000 of goodwill from the acquisition of Franklin Bancorp. The acquisitions of PROFITLAB, Inc. and Franklin Bancorp are further discussed in Note 2 of this report.

The minimum pension liability was recorded in accordance with SFAS 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 are adjusted annually.

The weighted average amortization period at December 31, 2005 was five years for all amortized intangible assets combined. Amortization of intangible assets amounted to \$172,000, \$57,000 and \$0 for the years ended December 31, 2005, 2004 and 2003 respectively. Estimated future amortization of intangibles is as follows: \$172,000 in 2006, 2007 and 2008, \$116,000 in 2009 and \$0 in 2010.

Note 9

Interest-Bearing Deposits

Interest-bearing deposits consist of the following at December 31, 2005 and 2004:

(In thousands)	2005	2004
NOW and Money Market Deposit Accounts	\$ 80,656	\$ 80,475
Savings deposits	22,893	23,161
Time deposits:		
Less than \$100	30,564	29,514
\$100 or more	36,489	46,117
Total	\$170,602	\$179,267

Interest on deposits consist of the following for 2005, 2004 and 2003:

(In thousands)	2005	2004	2003
NOW and Money Market Deposit Accounts	\$1,485	\$ 845	\$ 371
Savings deposits	458	293	281
Time deposits:			
Less than \$100	1,142	726	351
\$100 or more	1,401	1,160	844
Total	\$4,486	\$3,024	\$1,847

The scheduled maturities of time deposits at December 31, 2005 and 2004 are summarized as follows:

(In thousands)	2005		2004	
	Amount	Percent of Total	Amount	Percent of Total
Due within:				
One year	\$45,304	67.6%	\$57,605	76.2%
Two years	3,240	4.8	1,454	1.9
Three years	11,825	17.6	1,311	1.7
Four years	4,601	6.9	10,787	14.3
Five years	2,083	3.1	4,474	5.9
Total	\$67,053	100.0%	\$75,631	100.0%

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, 2005 and 2004 the bank subsidiary had short-term borrowings of \$188,000 and \$127,000, 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 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. The average amount of borrowings for 2004 was \$91,000 at an average rate of 1.10% and the maximum amount outstanding at the end of any month during the year was \$131,000.

Note 11

Subordinated Convertible Debentures

On August 24, 2004 the Company issued to PROFITLAB, Inc. \$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 \$32.13 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.

Common Stock and Earnings Per Share

The table below shows activity in the outstanding shares of the Company's Common Stock during 2005.

Shares outstanding at January 1, 2005	3,687,248
Issuance of common stock:	
50% stock dividend, issued September 15, 2005	1,842,083
Issued under Stock Bonus Plan*	3,508
Stock options exercised*	9,962
Stock repurchased	(42,665)
Shares outstanding at December 31, 2005	5,500,136

*Not restated for stock dividend, issued September 15, 2005

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. The calculations of basic and diluted earnings per share for the periods ended December 31, 2005, 2004 and 2003 are as follows:

(Dollars in thousands, except per share data)	2005	2004	2003
Basic			
Net income from continuing operations	\$ 11,244	\$ 9,881	\$ 7,795
Net income (loss) from discontinued operations	(298)	(1,876)	107
Net income	\$ 10,946	\$ 8,005	\$ 7,902
Weighted average common shares outstanding	5,508,475	5,512,151	5,515,971
Basic earnings per share from continuing operations	\$ 2.04	\$ 1.79	\$ 1.41
Basic earnings per share from discontinued operations	(.05)	(0.34)	0.02
Basic earnings per share	\$ 1.99	\$ 1.45	\$ 1.43
Diluted			
Net income from continuing operations	\$ 11,244	\$ 9,881	\$ 7,795
Net income effect of 5.33% convertible debentures	108	39	--
Net income, assuming dilution, from continuing operations	11,352	9,920	7,795
Net income (loss) from discontinued operations	(298)	(1,876)	107
Net income	\$ 11,054	\$ 8,044	\$ 7,902
Weighted-average common shares outstanding	5,508,475	5,512,151	5,515,971
Effect of dilutive stock options and awards	78,781	68,796	55,859
Effect of 5.33% convertible debentures	115,145	40,676	--
Weighted-average common shares outstanding assuming dilution	5,702,401	5,621,623	5,571,830
Diluted earnings per share from continuing operations	\$ 1.99	\$ 1.76	\$ 1.40
Diluted earnings per share from discontinued operations	(0.05)	(0.33)	0.02
Diluted earnings per share	\$ 1.94	\$ 1.43	\$ 1.42

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

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. Disclosure information is based on a measurement date of December 31 of the corresponding year.

A summary of the activity in the defined benefit pension plan's benefit obligation, assets, funded status and amounts recognized in the Company's consolidated balance sheets at December 31, 2005 and 2004, is as follows:

(In thousands)	2005	2004
Benefit obligation:		
Balance, January 1	\$ 22,951	\$ 20,026
Service cost	1,292	1,186
Interest cost	1,384	1,237
Actuarial loss	1,342	875
Benefits paid	(434)	(373)
Balance, December 31	\$ 26,535	\$ 22,951
Plan assets:		
Fair value, January 1	\$ 16,994	\$ 15,085
Actual return	1,154	1,199
Employer contribution	2,988	1,083
Benefits paid	(434)	(373)
Fair value, December 31	\$ 20,702	\$ 16,994
Funded status:		
Unfunded projected benefits obligation	\$ (5,833)	\$ (5,957)
Unrecognized prior service cost	74	82
Unrecognized net loss	4,871	3,472
Accrued pension cost	\$ (888)	\$ (2,403)

The accumulated benefit obligation was \$21,338,000 and \$18,384,000 for the periods ended December 31, 2005 and 2004, respectively. The Company expects to contribute approximately \$1,200,000 to the plan in 2006.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2006	\$ 592,000
2007	663,000
2008	894,000
2009	958,000
2010	1,038,000
2011 - 2015	5,964,000

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

	2005	2004	2003
Weighted average discount rate	5.75%	6.00%	6.25%
Rate of increase in compensation levels	4.00%	4.00%	4.00%

The pension cost for 2005, 2004 and 2003 was \$1,473,000, \$1,250,000 and \$1,042,000, respectively, and included the following components:

(In thousands)	2005	2004	2003
Service cost - benefits earned during the year	\$ 1,292	\$ 1,186	\$ 979
Interest cost on projected benefit obligations	1,384	1,237	1,105
Expected return on plan assets	(1,312)	(1,233)	(1,055)
Net amortization and deferral	109	60	13
Net periodic pension cost	\$ 1,473	\$ 1,250	\$ 1,042

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

	2005	2004	2003
Weighted average discount rate	6.00%	6.25%	7.00%
Rate of increase in compensation levels	4.00%	4.00%	4.00%
Expected long-term rate of return on assets	7.50%	8.00%	8.00%

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

Asset Class	Percentage of Plan Assets	
	2005	2004
Equity securities	39.6%	36.6%
Debt securities	59.8%	63.0%
Cash and cash equivalents	0.6%	0.4%
Total	100.0%	100.0%

The investment objective for the defined benefit pension 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	8 - 10%		33.3%		2.67% - 3.33%
Fixed income	6 - 7%		66.7%		4.00% - 4.67%
					6.67% - 8.00%

In addition to the above funded benefit plan, the Company has an unfunded supplemental executive retirement plan which covers key executives of the Company. This is a noncontributory plan in which the Company's subsidiaries make accruals designed to fund normal service costs on a current basis using the same method and criteria as its defined benefit plan.

The pension cost for 2005, 2004 and 2003 for the supplemental executive retirement plan was \$191,000, \$110,000 and \$145,000 respectively, and included the following components:

(In thousands)	2005	2004	2003
Service cost - benefits earned during the year	\$ (34)	\$ (57)	\$ (24)
Interest cost on projected benefit obligations	161	117	107
Net amortization and deferral	64	50	62
Net periodic pension cost	\$ 191	\$ 110	\$ 145

A summary of the activity in the supplemental executive retirement plan's benefit obligation, funded status and amounts recognized in the Company's consolidated balance sheets at December 31, 2005 and 2004, is as follows:

(In thousands)	2005	2004
Benefit obligation:		
Balance, January 1	\$ 1,966	\$ 1,695
Service cost	(34)	(57)
Interest cost	161	117
Actuarial loss	795	211
Balance, December 31	\$ 2,888	\$ 1,966
Funded status:		
Unfunded projected benefits obligation	\$(2,888)	\$(1,966)
Unrecognized prior service cost	303	353
Unrecognized actuarial loss	1,120	317
Accrued pension cost	(1,465)	(1,296)
Minimum liability adjustment	(673)	(595)

Accrued pension cost

\$(2,138)

\$(1,891)

The accumulated benefit obligation was \$2,138,000 and \$1,891,000 for the periods ended December 31, 2005 and 2004, respectively. Since this is an unfunded plan there are no plan assets. Benefits paid on the plan were \$20,000 in 2005, \$9,000 in 2004 and no benefits were paid in 2003. Expected future benefits over the next 10 years are as follows:

2006	\$	32,000
2007		32,000
2008		233,000
2009		233,000
2010		233,000
2011 - 2015		1,156,000

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 provisions of SFAS 87, "Employers' Accounting for Pensions," required the Company to record an additional minimum liability of \$673,000 and \$595,000 at December 31, 2005 and 2004, respectively. This liability represents the amount by which the accumulated benefit obligation exceeds the sum of the fair value of plan assets and accrued amounts previously recorded. The additional liability is offset by an intangible asset to the extent of previously unrecognized prior service cost. The intangible assets of \$303,000 and \$353,000 at December 31, 2005 and 2004, respectively, are included in other intangible assets on the accompanying consolidated balance sheets. The remaining amount at December 31, 2005 of \$370,000 is recorded, net of tax, as an accumulated other comprehensive loss.

The Company 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 2005, 2004 and 2003 was \$2,543,000, \$1,781,000 and \$1,755,000, respectively.

The Company sponsors a defined contribution 401(k) plan to provide additional retirement benefits to substantially all employees. Contributions under the 401(k) plan for 2005, 2004 and 2003 were \$334,000, \$310,000 and \$292,000, respectively.

Note 14

Stock Option and Bonus Plans

(All shares and per share amounts have been restated for the 50% stock dividend issued September 15, 2005).

The Company maintains a restricted stock bonus plan which provides for the issuance of up to 173,250 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 2005, 2004 and 2003, 5,492 shares, 5,829 shares and 9,751 shares, respectively, were granted with weighted average per share market prices of \$24.53 in 2005, \$21.94 in 2004 and \$16.49 in 2003. The fair value of such shares, which is based on the market price on the date of grant, has been recorded in the consolidated financial statements through the establishment of a contra shareholders' equity account which is amortized to expense over the three-year vesting period. Amortization of the restricted stock bonus awards totaled \$134,000 for 2005, \$96,000 for 2004 and \$57,000 for 2003. At December 31, 2005 the weighted-average grant date fair value and weighted average contractual life for outstanding shares of restricted stock was \$21.71 and .8 years, respectively.

A summary of restricted stock bonus share activity follows:

	2005	2004	2003
Awards available for grant beginning of year	82,132	87,961	97,713
Restricted shares awarded	(5,492)	(5,829)	(9,752)
Awards available for grant end of year	76,640	82,132	87,961

The Company also maintains a performance-based stock option plan, which provides for the granting of options to acquire up to 693,000 shares of Company Common Stock. Options currently vest and expire over a period not to exceed seven years.

The following table summarizes stock options outstanding as of December 31, 2005:

Exercise Price	Options Outstanding	Weighted Average Remaining Contractual Life
\$11.751	324	1.01
14.690	3,250	1.01
14.575	84,599	0.01
14.217	3,465	0.01
13.276	2,039	0.01
15.000	18,000	4.01
16.497	5,116	4.01
20.182	8,806	5.01
23.940	3,671	5.01
25.340	2,250	5.01
23.833	3,555	6.01
24.333	4,826	6.01

Changes in options outstanding were as follows:

	Shares	Weighted Average Exercise Price
Balance at December 31, 2002	194,945	12.01
Granted	23,314	15.34
Exercised	(41,262)	7.21
Forfeited	(10,395)	13.28
Balance at December 31, 2003	166,602	13.58
Granted	15,195	21.97
Exercised	(21,609)	8.76
Forfeited	(2,940)	14.57
Balance at December 31, 2004	157,248	15.03
Granted	8,827	24.11
Exercised	(18,445)	13.93
Forfeited	(7,729)	15.22
Balance at December 31, 2005	139,901	16.01

At December 31, 2005, 27,870 shares were exercisable with a weighted average exercise price of \$14.57. The restricted stock bonus plan and the performance-based stock option plan have both been approved by the Company's shareholders.

Note 15

Other Operating Expense

Details of other operating expense for 2005, 2004 and 2003 are as follows:

(In thousands)	2005	2004	2003
Postage, printing and supplies	\$2,310	\$2,215	\$2,751
Advertising and business development	1,289	1,103	1,290
Professional fees	1,750	1,746	1,926
Outside service fees	1,946	1,711	1,423
Data processing services	220	202	199
Telecommunications	522	426	449
Other	1,127	1,162	930
Total other operating expense	\$9,164	\$8,565	\$8,968

Note 16

Income Taxes

The components of income tax expense (benefit) from continuing operations for 2005, 2004 and 2003 are as follows:

(In thousands)	2005	2004	2003
Current:			
Federal	\$ 5,171	\$ 4,277	\$ 3,783
State	732	490	478
Deferred	(921)	(558)	(876)
Total income tax expense	\$ 4,982	\$ 4,209	\$ 3,385

A reconciliation of expected income tax expense (benefit), computed by applying the effective federal statutory rate of 34% for 2005, 2004 and 2003 to income from continuing operations before income tax expense, to reported income tax expense is as follows:

(In thousands)	2005	2004	2003
Expected income tax expense:	\$ 5,517	\$ 4,791	\$ 3,801
(Reductions) increases resulting from			
Tax-exempt income	(769)	(964)	(793)
State taxes, net of federal benefit	483	323	315
Other, net	(249)	59	62
Total income tax expense	\$ 4,982	\$ 4,209	\$ 3,385

The tax effects of temporary differences which give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2005 and 2004, are presented below:

(In thousands)	2005	2004
Deferred tax assets:		
Allowance for loan losses	\$ 2,396	\$ 2,113
Security impairment writedown	1,182	--
Accrued pension cost	338	841
Net operating loss carry forward(1)	584	700
Deferred revenue	58	23
Minimum pension liability	133	82
Unrealized loss on investment in securities available-for-sale	99	--
Other	527	520
Total deferred tax assets	\$ 5,317	\$ 4,279
Deferred tax liabilities:		
Unrealized gain on investment in securities available-for-sale	--	(362)
Premises and equipment	(174)	(240)
Intangible/assets	(5)	--
Other	(177)	(149)
Total deferred tax liabilities	(356)	(751)
Net deferred tax assets	\$ 4,961	\$ 3,528

- As of December 31, 2005, 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, 2005 or 2004, 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 expense (benefit) from discontinued operations was \$557,000, (\$947,000) and \$68,000 with effective rates of 215%, 34% and 39% for the years 2005, 2004 and 2003, 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 during the past five years.

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, 2005, 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, 2005 and 2004:

(In thousands)	2005	2004
Conditional commitments to extend credit	\$21,834	\$20,524
Standby letters of credit	7,407	6,097
Commercial letters of credit	6,533	1,091

Following is a summary of the carrying amounts and fair values of the Company's financial instruments at December 31, 2005 and 2004:

(In thousands)	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Balance sheet assets:				
Cash and cash equivalents	\$149,692	\$149,692	\$ 87,543	\$ 87,543
Investment in debt and equity securities	94,859	94,859	77,130	77,130
Loans, net	523,022	516,917	494,411	493,066
Accrued interest receivable	3,324	3,324	2,588	2,588
Total	\$770,897	\$764,792	\$661,672	\$660,327
Balance sheet liabilities:				
Deposits	\$286,998	\$286,998	\$275,629	\$275,683
Accounts and drafts payable	445,811	445,811	358,473	358,473
Short-term borrowings	188	188	127	127
Subordinated convertible debentures	3,700	3,564	3,700	3,675
Accrued interest payable	296	296	226	226
Total	\$736,993	\$736,857	\$638,155	\$638,184

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, 2005, 2004 and 2003, is as follows:

(In thousands)	Information Services	Banking Services	Corporate and Eliminations	Total

2005				
Fee revenue and other income:				
Income from customers	\$ 35,901	\$ 2,752	\$ --	\$ 38,653
Intersegment income	1,323	1,597	(2,920)	--
Net interest income (expense) after provision for loan losses:				
Interest from customers	19,436	13,352	--	32,789
Intersegment interest	163	(163)	--	--
Depreciation and amortization	1,865	278	--	2,143
Income taxes	2,615	2,367	--	4,982
Net income from continuing operations	6,499	4,745	--	11,244
Goodwill	4,262	136	--	4,398
Other intangible assets, net	935	--	--	935
Assets related to discontinued operations	--	--	400	400
Total assets	\$ 489,857	\$ 338,107	\$ (9,266)	\$ 818,698

2004				
Fee revenue and other income:				
Income from customers	\$ 32,320	\$ 1,727	\$ --	\$ 34,047
Intersegment income	--	1,467	(1,467)	--
Net interest income (expense) after provision for loan losses:				
Interest from customers	15,652	11,436	--	27,088
Intersegment interest	62	(62)	--	--
Depreciation and amortization	2,904	314	60	3,278
Income taxes	2,006	2,203	--	4,209
Net income from continuing operations	6,225	3,656	--	9,881
Goodwill	4,262	171	--	4,433
Other intangible assets, net	805	--	353	1,158
Assets related to discontinued operations	--	--	6,566	6,566
Total assets	\$ 397,722	\$ 314,625	\$ 4,174	\$ 716,521

2003				
Fee revenue and other income:				
Income from customers	\$ 30,454	\$ 1,917	\$ --	\$ 32,371
Intersegment income	--	1,512	(1,512)	--
Net interest income (expense) after provision for loan losses:				
Interest from customers	15,039	11,153	--	26,192
Intersegment interest	155	(155)	--	--
Depreciation and amortization	3,428	491	71	3,990
Income taxes	1,153	2,232	--	3,385
Net income from continuing operations	4,090	3,705	--	7,795
Goodwill	223	--	--	223
Other intangible assets, net	--	--	404	404
Assets related to discontinued operations	--	--	7,488	7,488
Total assets	\$ 335,955	\$ 328,412	\$ (18,451)	\$ 645,916

Condensed Financial Information of Parent Company

Following are the condensed balance sheets of the Company (parent company only) as of December 31, 2005 and 2004, and the related condensed statements of income and cash flows for each of the years in the three-year period ended December 31, 2005.

(In thousands)	Condensed Balance Sheets December 31	
	2005	2004
Assets:		
Cash and due from banks	\$ 12,113	\$ 8,595
Short-term investments	71,911	56,395
Investment in debt and equity securities, available-for-sale	89,621	71,933
Loans, net	270,579	216,826
Investment in subsidiary	38,367	37,150
Premises and equipment, net	10,591	10,746
Other assets	35,041	35,031
Total assets	\$528,223	\$436,676
Liabilities and Shareholders' Equity:		
Accounts and drafts payable	\$445,811	\$358,473
Subordinated convertible debentures	3,700	3,700
Other liabilities	3,431	4,914
Total liabilities	452,942	367,087
Total shareholders' equity	75,281	69,589
Total liabilities and shareholders' equity	\$528,223	\$436,676

(In thousands)	Condensed Statements of Income December 31		
	2005	2004	2003
Income from subsidiary:			
Dividends	\$ 3,200	\$ --	\$ 870
Interest	197	75	163
Management fees	1,323	1,032	870
Total income from subsidiary	4,720	1,107	1,903
Information services revenue	35,901	30,695	28,440
Net interest income after provision	18,189	14,574	13,973
Gains on sales of investment securities	547	1,045	1,415
Other income	608	581	599
Total income	\$59,965	\$48,002	\$46,330
Expenses:			
Salaries and employee benefits	\$33,337	28,963	28,397
Other expenses	14,315	10,808	11,820
Total expenses	\$47,652	\$39,771	\$40,217
Income before income tax and equity in undistributed income of subsidiary	12,313	8,231	6,113
Income tax expense	2,614	2,006	1,153
Income before undistributed income of subsidiary	9,699	6,225	4,960
Equity in undistributed income of subsidiary	1,247	1,780	2,942
Net income	\$10,946	\$ 8,005	\$ 7,902

Condensed Statements of Cash Flows

(In thousands)	December 31		
	2005	2004	2003
Cash flows from operating activities:			
Net income	\$ 10,946	\$ 8,005	\$ 7,902
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed income of subsidiary	(1,247)	(1,780)	(2,942)
Net change in other assets	41	(4,077)	(5,948)
Net change in other liabilities	(1,350)	(651)	1,421
Amortization of stock bonus awards	134	96	57
Other, net	1,743	2,440	3,223
Net cash provided by operating activities	10,267	4,033	3,713
Cash flows from investing activities:			
Net increase in securities	(18,975)	(8,254)	(8,825)
Net increase in loans	(53,753)	(9,692)	(1,894)
Payment for business acquisitions, net of cash acquired	--	(2,092)	--
Purchases of premises and equipment, net	(1,344)	(1,197)	(605)
Net cash used in investing activities	(74,072)	(21,235)	(11,324)
Cash flows from financing activities:			
Net increase in accounts and drafts payable	87,338	58,484	72,098
Advances from subsidiary	--	--	(35,861)
Cash dividends paid	(3,201)	(3,025)	(2,814)
Purchases of common shares for treasury	(1,434)	--	(1,764)
Other financing activities	136	(279)	365
Net cash provided by financing activities	82,839	55,180	32,024
Net increase in cash and cash equivalents	19,034	37,978	24,413
Cash and cash equivalents at beginning of year	64,990	27,012	2,599
Cash and cash equivalents at end of year	\$ 84,024	\$ 64,990	\$ 27,012

SUPPLEMENTARY FINANCIAL INFORMATION
(Unaudited)

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	YTD
2005					
Fee revenue and other income	\$ 9,681	\$ 9,283	\$ 9,720	\$ 9,969	\$ 38,653
Interest income	8,518	9,189	9,813	10,731	38,251
Interest expense	992	1,216	1,229	1,250	4,687
Net interest income	7,526	7,973	8,584	9,481	33,564
Provision for loan losses	200	200	225	150	775
Operating expense	12,587	13,039	13,144	13,346	55,216
Impairment of equity investment				3,100	3,100
Income tax expense	1,469	1,407	1,670	436	4,982
Net income from continuing operations	2,951	2,610	3,265	2,418	11,244
Net income (loss) from discontinued operations before income taxes	(275)	(39)	(259)	832	259
Provisions for income taxes	(91)	(13)	(87)	748	557
Net income (loss) from discontinued operations	(184)	(26)	(172)	84	(298)
Net income	\$ 2,767	\$ 2,584	\$ 3,093	\$ 2,502	\$ 10,946
Net income per share:					
Basic earnings per share from continuing operations	\$ 0.53	\$ 0.48	\$ 0.59	\$ 0.44	\$ 2.04
Basic earnings per share from discontinued operations	(0.03)	(0.01)	(0.03)	0.02	(0.05)
Basic earnings per share	0.50	0.47	0.56	0.46	1.99
Diluted earnings per share from continuing operations	0.52	0.47	0.58	0.42	1.99
Diluted earnings per share from discontinued operations	(0.03)	(0.01)	(0.03)	0.02	(0.05)
Diluted earnings per share	0.49	0.46	0.55	0.44	1.94
2004					
Fee revenue and other income	\$ 8,588	\$ 8,228	\$ 8,173	\$ 9,058	\$ 34,047
Interest income	7,140	7,212	7,875	8,506	30,733
Interest expense	567	738	828	962	3,095
Net interest income	6,573	6,474	7,047	7,544	27,638
Provision for loan losses	200	150	150	50	550
Operating expenses	11,661	11,202	11,806	12,376	47,045
Income tax expense	1,027	999	921	1,262	4,209
Net income from continuing operations	2,273	2,351	2,343	2,914	9,881
Net income (loss) from discontinued operations before income taxes	(642)	(977)	(557)	(647)	(2,823)
Provision for income taxes	(216)	(326)	(187)	(218)	(947)
Net income (loss) from discontinued operations	(426)	(651)	(370)	(429)	(1,876)
Net income	\$ 1,847	\$ 1,700	\$ 1,973	\$ 2,485	\$ 8,005
Net income per share:					
Basic earnings per share from continuing operations	\$ 0.41	\$ 0.43	\$ 0.42	\$ 0.53	\$ 1.79
Basic earnings per share from discontinued operations	(0.08)	(0.12)	(0.06)	(0.08)	(0.34)
Basic earnings per share	0.33	0.31	0.36	0.45	1.45
Diluted earnings per share from continuing operations	0.41	0.41	0.43	0.51	1.76
Diluted earnings per share from discontinued operations	(0.08)	(0.11)	(0.07)	(0.07)	(0.33)
Diluted earnings per share	0.33	0.30	0.36	0.44	1.43

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 as of December 31, 2005 and 2004, 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, 2005. 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 Cass Information Systems, Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in note 2 to the consolidated financial statements, during the fourth quarter of 2005, the Company sold the business and assets of Government e-Management Solutions, Inc (GEMS). The assets, liabilities and results of operation of GEMS are included in discontinued operations in the consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Cass Information Systems, Inc.'s internal control over financial reporting as of December 31, 2005, 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 10, 2006 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 10, 2006

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. 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, 2005.

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, 2005.

Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 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, 2005, 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 Cass Information Systems, Inc. maintained effective internal control over financial reporting as of December 31, 2005, 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, Cass Information Systems, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, 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 Cass Information Systems, Inc. as of December 31, 2005 and 2004, 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, 2005, and our report dated March 10, 2006 expressed an unqualified opinion on those consolidated financial statements.

St. Louis, Missouri
March 10, 2006

ITEM 9B. OTHER INFORMATION

NONE

PART III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning directors and executive officers of the Registrant is incorporated herein by reference from the Company's definitive Proxy Statement for its 2006 Annual Meeting of Shareholders ("2006 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. The following sections of the 2006 Proxy Statement are incorporated herein by reference: "Election of Directors" and "Executive Officers" (please note that "Section 16(a) Beneficial Ownership 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. Pursuant to Nasdaq listing requirements, the policy is publicly available and can be viewed on the Company's website at www.cassinio.com.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated herein by reference from the section "Executive Officers" of the Company's 2006 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 concerning security ownership of certain beneficial owners and management and related stockholder matters is incorporated herein by reference from the section "Executive Officers" of the Company's 2006 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

Information concerning certain relationships and related transactions is incorporated herein by reference from the section "Executive Officers" of the Company's 2006 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 2006 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.
- 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 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.
- 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.
- 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 10, 2006 By /s/ Lawrence A. Collett

Lawrence A. Collett
Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: March 10, 2006 By /s/ Eric H. Brunngraber

Eric H. Brunngraber
Vice President-Secretary
(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 10, 2006 By /s/ Robert J. Bodine

Robert J. Bodine

Date: March 10, 2006 By /s/ K. Dane Brooksher

K. Dane Brooksher

Date: March 10, 2006 By /s/ Eric H. Brunngraber

Eric H. Brunngraber

Date: March 10, 2006 By /s/ Bryan S. Chapell

Bryan S. Chapell

Date: March 10, 2006 By /s/ Lawrence A. Collett

Lawrence A. Collett

Date: March 10, 2006 By /s/ Benjamin F. Edwards, IV

Benjamin F. Edwards, IV

Date: March 10, 2006 By /s/ Thomas J. Fucoloro

Thomas J. Fucoloro

Date: March 10, 2006 By /s/ Wayne J. Grace

Wayne J. Grace

Date: March 10, 2006 By /s/ Harry J. Krieg

Harry J. Krieg

Date: March 10, 2006 By /s/ Howard A. Kuehner

Howard A. Kuehner

Date: March 10, 2006 By /s/ Irving A. Shepard

Irving A. Shepard

Date: March 10, 2006 By /s/ A. J. Signorelli

A. J. Signorelli

SUBSIDIARIES OF CASS INFORMATION SYSTEMS, INC.*

Name & Address -----	State of Incorporation -----
Cass Commercial Bank 13001 Hollenberg Drive Bridgeton, Missouri 63044	Missouri
Cass Information Systems, Inc. 13001 Hollenberg Drive Bridgeton, Missouri 63044	Missouri

*Pursuant to Item 601(b) (21) (ii), the names of particular subsidiaries may be omitted if the unnamed subsidiaries, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary (as such term is defined in Rule 1-02 (W) of Regulation S-X) as of the end of the year covered by this annual report on Form 10-K.

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Cass Information Systems, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-44499, 333-91456, and 333-91568) on Form S-8 of Cass Information Systems, Inc. of our reports dated March 10, 2006, with respect to the consolidated balance sheets of Cass Information Systems, Inc. as of December 31, 2005 and 2004, 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, 2005, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 and the effectiveness of internal control over financial reporting as of December 31, 2005, which reports appear in the December 31, 2005 annual report on Form 10-K of Cass Information Systems, Inc.

Our report refers to the sale of the business and assets of Government e-Management Solutions, Inc. in the fourth quarter of 2005.

St. Louis, Missouri
March 14, 2006

CERTIFICATIONS

I, Lawrence A. Collett, Chairman and Chief Executive Officer of Cass Information Systems, Inc., certify that:

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

Date: March 10, 2006

/s/ Lawrence A. Collett

Lawrence A. Collett
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Eric H. Brunngraber, Vice President-Secretary of Cass Information Systems, Inc., certify that:

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

Date: March 10, 2006

/s/ Eric H. Brunngraber

 Eric H. Brunngraber
 Vice President - Secretary
 (Principal Financial and Accounting Officer)

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

In connection with the Annual Report of Cass Information Systems, Inc. ("the Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Lawrence A. Collett, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lawrence A. Collett

Lawrence A. Collett
Chairman and Chief Executive Officer
March 10, 2006

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

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

In connection with the Annual Report of Cass Information Systems, Inc. ("the Company") on Form 10-K for the period ended December 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric H. Brunngraber, Vice President-Secretary of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eric H. Brunngraber

Eric H. Brunngraber
Vice President - Secretary
(Principal Financial and Accounting Officer)
March 10, 2006

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