

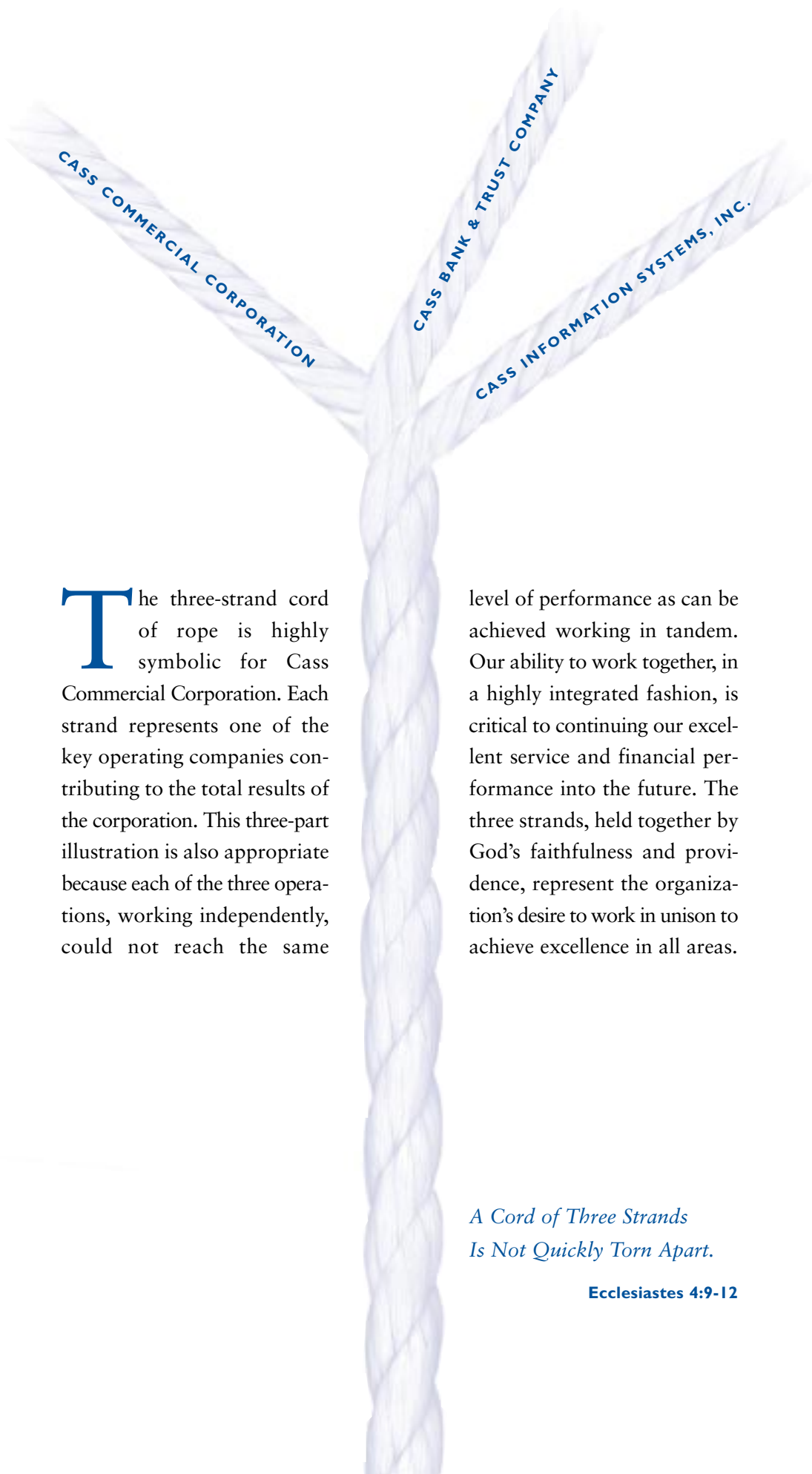


THIS IS CASS



CASS COMMERCIAL CORPORATION

1997 Annual Report



The three-strand cord of rope is highly symbolic for Cass Commercial Corporation. Each strand represents one of the key operating companies contributing to the total results of the corporation. This three-part illustration is also appropriate because each of the three operations, working independently, could not reach the same

level of performance as can be achieved working in tandem. Our ability to work together, in a highly integrated fashion, is critical to continuing our excellent service and financial performance into the future. The three strands, held together by God's faithfulness and providence, represent the organization's desire to work in unison to achieve excellence in all areas.

*A Cord of Three Strands
Is Not Quickly Torn Apart.*

Ecclesiastes 4:9-12

**CASS COMMERCIAL CORPORATION
AND SUBSIDIARIES**

LETTER TO SHAREHOLDERS

1 997 marked another year of record earnings for Cass Commercial Corporation. Net income after taxes increased to \$7,011,000, an increase of \$492,000 or 7.5% from 1996. On a per share basis, net earnings were \$1.82 compared to \$1.69 in 1996. We are pleased to announce these results for our shareholders and to see the benefits emanating from the unique integration of operations of the holding company and its subsidiaries. As related to assets, net earnings represented 1.59% of average assets outstanding. This continues the trend of high-performance earnings that has been a hallmark of our company. Cass is, once again, among the leaders in the industry in terms of earnings on assets.

Total capital exceeded \$52.6 million and approximates 12.0% of assets, placing the company in a very stable financial condition. Capital remains significantly higher than industry averages, providing our customers and shareholders a high level of protection.

Our loan portfolio continues to be conservatively managed. The reserve for losses to loans outstanding was approximately 2.3% at year-end. Non-accrual loans were only \$285,000, or .15% of average loans outstanding. Total problem loans were only \$1,331,000, representing just .68% of total loans outstanding at year-end. Therefore, despite growth in total assets, the quality of our loan portfolio continues to be outstanding.

These results place Cass in a very profitable, stable, growing and strong financial position at year-end. We thank God for providing these outstanding results.

OPERATING HIGHLIGHTS

Many factors contributed to our performance during 1997. One of the most significant achievements was the sizable amount of new business gained in our payables processing services. 1997 was another record year of new accounts in our freight payment operations. This is the fourth consecutive year in which we experienced record volume. The market for outsourcing freight payables and transportation information activities remains strong and the new business pipeline is good as we enter 1998. Our quality of service, processing integrity and breadth of capabilities continue to be the highest in the industry. Our position of leadership in the industry remains solid.

1997 was also a year of record earnings for our privately held business and church-related banking segments. This was primarily due to the relocation of our headquarters facility which improved our operating efficiencies, and the integration of certain administrative tasks within the organization. The market for financial services remains strong and the company is extremely pleased with the results of its banking operations in 1997.

ORGANIZATIONAL ACTIVITIES

During the year several of our business operations were integrated. The headquarters facility of Cass Bank & Trust Company was integrated with the offices of Cass Information Systems, Inc. in April 1997, producing sizable operating economies and allowing the organizations to work more closely together. All of our companies are now headquartered on our eight-acre campus in Bridgeton, Missouri. These moves are producing the highest level of integrated activities in our recent past, as well as providing our staff with an improved operating facility. We are indeed pleased with the outcome of these activities.

Three new branches opened in the St. Louis region during 1997. Our new facility in Fenton is targeted to serve the commercial customer base in the southwest section of the region. This branch serves privately held companies and churches in this rapidly growing area. We also opened a new facility in Chesterfield Valley to serve the expanding business community in the western corridor of the metropolitan area. Finally, a new branch was opened in Bridgeton to serve businesses in Earth City and the North County areas. These new branches strategically position our banking operations to reach a broader base of commercial customers in the St. Louis region.

Also during the year, we restructured certain functions for added efficiency and growth. The customer service, commercial lending and marketing operations of Cass Bank & Trust

Company were merged into distinct operating teams to provide better service and marketing response. We are excited by the outcome of this restructuring and the new staff that has been added to facilitate the Bank's growth.

We have also restructured our financial operations to integrate many activities shared by the holding company and our two subsidiary operations. New information systems and processing technologies are being added in our financial and accounting operations to provide needed management information and to give added controls as the company grows to larger activity levels.

Additionally, our Chicago Software Group was converted from an independent, stand-alone operation and was merged into the Payment Services Group of Cass Information Systems, Inc. (CIS). This change gives significant stability to this operating unit and provides additional technology support to assist CIS in meeting its growth and service challenges. This group will continue supporting its related Rating and Software Service operations. We also moved our Chicago operations into a new, more efficient operating location.

During 1997, we unveiled our new utility processing and information services. The need for information about energy-related costs has accelerated and, in response to market demand, we introduced a line of utility processing and information services for large corporations. The initial growth has been encouraging. A new marketing and sales staff has been added to serve this growing, important market segment.

BUSINESS SEGMENTS

As a result of the activities during 1997, Cass Commercial Corporation now operates in four distinct business segments:

Privately Held Companies

This business segment serves the financial needs of commercial customers in the metropolitan St. Louis region with sales up to \$75 million. This market has been the traditional banking focus for the company. Customer relationships in this business area continued to grow in 1997 and, as a result of our restructuring and marketing activities, we believe that future growth in this business segment appears strong. As we enter 1998, we are better equipped and more capable of serving a larger number of businesses and can provide a broader array of financial services than ever before.

Church and Church-Related Ministries

For the fourth consecutive year, the volume of financial services to this important community continued to grow. We intend to expand our services to this important market and we anticipate continued growth in new relationships.

We believe the expansion of activities among church and para-church organizations will bring about needed changes in moral and ethical behavior in the United States. We have seen this change occurring in the St. Louis region and are pleased that God has allowed us to be a partner with many of these organizations.

Freight Bill Payment, Audit, Software and Transportation Information Services

This business segment continues to provide exceptional growth for the company. Our strong

position in the marketplace allows us to be a leader in developing new relationships and in serving these important Fortune 500 industrial customers. Our high levels of service – along with our flexibility and breadth of information capabilities – allow us to meet the needs of most organizations that handle these activities internally. Our commitment to grow and nurture this core business continues unabated.

Utility Processing and Information Services

This emerging market provides us with an opportunity to leverage our parallel activities in the freight bill processing arena. The deregulation of utility companies throughout the country is occurring, and the demand for information services exists. We are meeting this need by providing a new team of marketing and sales professionals. We anticipate significant growth in this new business segment.

We have restructured and positioned Cass to grow its businesses in each of these four important segments. For the near future, we anticipate that improved results from each segment will allow us to grow and to achieve above average financial performance.

ACKNOWLEDGEMENTS

During 1997, we added more new customer relationships than in any previous year in our history. We are eager to serve these new relationships and to continue broadening our activities with additional institutions. This growth could not have occurred without the support of our existing customers and their willingness to promote the Cass organization to others. We are honored by their support and we recognize our

responsibility to provide quality service to our customers – service that allows them to be efficient and profitable.

Our staff continues to be highly committed to achieving excellence. It is unfortunate that we are unable to assign a value to our staff on the Balance Sheet. For they are – by far – our most important asset. Their efforts are the key to serving our customers and providing the services necessary to meet market demands. Since we are a service company, the capabilities, competencies and commitment of our staff is critical. We are indeed thankful to all of our employees for their outstanding efforts in 1997.

Our Board of Directors and shareholders continue to support our organization in so many important ways. Their long-standing commitment to Cass Commercial Corporation has been unwavering. We want to thank them for their faithfulness to the company again in 1997.

In May 1997, we experienced a very tragic event as Richard E. Stein, a Senior Commercial Lender in our banking operation, passed away suddenly. Dick had been with the company more than 20 years and provided leadership in growing our commercial lending activities. He was an individual who clearly displayed the conservativeness, excellence and thoroughness that we seek to achieve at Cass. All of us in the Cass organization wish to express once again our condolences to Dick's family and our regret at the loss of his presence.

Like every other year in our history, 1997 would not have been possible were it not for God's divine hand leading us through successes and disappointments. Only my heart can express to God the gratitude I have for his unwavering support of the Cass organization. Words simply

are inadequate! In previous annual reports, we have commented on the importance of our culture at Cass in trying to please God through the way we conduct our activities and through our desire to give Him the honor and glory He so richly deserves. Although unworthy of His grace and mercy, we again acknowledge His Lordship and Sovereignty. We hope He, above all, is satisfied with our performance, for in the end, His approval is all that matters.



Lawrence A. Collett
Chairman, Chief Executive Officer

FINANCIAL SERVICES TO PRIVATELY HELD BUSINESSES

QUALITY AND STRENGTH

1997 was a year of solid performance in our core banking services to privately held companies. While our marketing “calling” program yielded new banking relationships, further improvement in credit quality was also achieved in an already strong loan portfolio. The year ended with “Impaired” loans at only .68% of total loans (well below national targets for excellent asset quality). Other quality measures such as loans past due also remain at historic lows. This benefits our clients, as well as shareholders, since clients rely on a lender’s experience as an important indicator of safety and soundness in any financing they might be contemplating. Further, these measures show that we are building a strong platform for sustainable growth and are taking a long-term approach to our business objectives.

GROWTH

A continuing objective for our company is to maintain a low ratio of clients-per-bank-officer so that personal attention devoted to each client remains at the very highest levels. In response, we added more bankers to the Cass team in 1997. The ongoing consolidation in the St. Louis banking community has given us the opportunity to improve the Cass talent pool of bankers who are knowledgeable and experienced, and have a service orientation.

In 1997 we took significant steps to support long-term growth in our core commercial niche by expanding our network of bank locations. This is best illustrated by our new headquarters

in the Bridgeton/Earth City area. Exemplifying that Cass is not the usual bank, the facility is clearly built for business banking, not retail banking. We also added two new branch locations – in Chesterfield Valley and Fenton – to enhance our capabilities to serve new clients as well as provide convenience for existing ones.

INNOVATION

Innovation and uniqueness in serving privately held companies have been hallmarks of Cass. Some of these innovations include: often maintaining a lower Prime commercial lending rate than our competitors, locating the majority of our bank branches in business parks, putting remote deposit drop boxes throughout the St. Louis metro area and offering specialized Marketing and Customer Relations officers in addition to Lending officers. These services and many more were designed for one primary purpose... to create a superior banking experience





Our new headquarters facility in Bridgeton, Missouri, now provides over 63,000 square feet of space on an eight-acre campus, convenient to the expanding Earth City and North County business communities.

for our business clients. This spirit of innovation continues today as we continually seek to refine and improve our products and our clients' satisfaction. Some of our new innovations include:

Cass Banking Teams – The traditional specialties of Lending, Marketing and Customer Relations have been woven together from separate departments into integrated banking teams under the leadership of a Team Leader. This integration creates a more seamless flow of communications among various internal disciplines and improves responsiveness to our customers. It also allows our clients to have an ongoing relationship with several Bank officers, improving accessibility and service while minimizing the effects of single officer turnover. As many banks strive to dedicate fewer and fewer bankers to their customer base through the use of automated credit scoring programs and centralized call centers, Cass is actually making more minds available, helping its clients with smart solutions.

Tailored Products – At Cass, we continue to provide banking products that are tailored for privately held companies. Our clients benefit

from moderate-cost products with very high technical functionality. This is achieved by balancing the in-house technical expertise from our processing lines of business with the knowledge of the needs of our customers. Although we offer most of the banking products used by Fortune 500 companies (electronic commerce, online information reporting, wholesale lockbox services, controlled disbursement accounts, money fund investments, etc.), our banking fees do not reflect the cost of capacity enhancements that only large companies use.

STRONG MOMENTUM

As we go forward, demand for our services is strong. Our level of pending new business is encouraging. This is due, we believe, to an undermet need to serve privately held businesses with high-technology and high-touch products. At Cass, we take the time to listen and develop helpful solutions. We explain why credit is extended or denied in a way that makes sense to business owners. We are a bank that uses its core competencies in innovative ways that add value. Finally, we conduct our business with discipline and integrity – leaving little doubt of our trustworthiness as a financial institution.

FINANCIAL SERVICES TO CHURCHES AND CHURCH-RELATED MINISTRIES

1997 was the fourth consecutive year of solid growth in providing financial services to churches and church-related ministries.

We were intentionally deliberate in developing our church and church-related ministry business segment in order to properly assess and determine its appropriateness within the bank's niche strategy. To date, we are satisfied that this segment is synergistically compatible and is a logical extension of our financial services.

This development period has provided the following insights:

First, lending to churches is solid business. Every one of our church customers has managed its financial responsibilities in a manner that is above reproach.

Second, we can adapt our proven "team management" methodology, to successfully market financial services to these important institutions.

Third, we can develop and consistently apply appropriate underwriting standards to church lending.

Fourth, we see a strong demand for church and church-related ministry lending and depository services, both now and into the future.

We have successfully implemented our "Cass team" approach to this business segment, which includes identifying the church's vision; assessing its resources, capabilities and needs; and building a relationship with the church staff and officers. Our team then develops a comprehensive financial plan and banking proposal for each of our prospects.

One of the defining and unique aspects of our approach to churches is taking the time to listen, understand and provide in-depth counsel. We assist in developing a comprehensive financial plan which addresses both the lending and depository needs of the church, and in assisting it to be a better steward of its finances.

Many times this entails "walking with" our churches over a period of years, until they have taken the necessary steps and are prepared to establish a relationship with a financial institution.

The Psalmist says, what will last? His righteousness will endure forever.

"And there's an old fashioned word, consecration, which is the notion of taking that which is common and putting it aside for a holy purpose. We don't make it holy by consecrating it, but we set it aside for greater purposes than are ordinary.

"Cass, by its ideals, is saying, we know that our bank's activities are common things, but we are going to set them aside for a grander purpose. We are going to trust that the Lord will use us, in very ordinary ways, to accomplish extra-ordinary purposes. Even righteous purposes.

"Because, those are things that will endure. It is true you know – all that which is done for man will pass. Only that which is done for God will last, and will last forever. An eternal purpose in an earthly company."

A seminary president

“God has established four major institutions in human life: there is the home or the family; the church or the spiritual family; there is human government; and work.

“I think what stands out in my mind in regard to Cass Bank is that it truly views itself as a divine institution, not inferior to home, or to the family of faith, or government, but rather a partner with these other divine institutions in serving God and the needs of people.

“This is seen in the bank’s corporate vision, in its service orientation, in its charitable contributions, in its publications, and most significantly in its people, and in its leadership.

“Cass accepts its role as an institution that is raised up by God and sustained by God, and its future is dependent upon God.”

The senior pastor of one of St. Louis County’s leading churches

“Cass and I began a relationship about four years ago. They have knocked down walls in the African American community among pastors and businessmen that I have never seen come down in such a way.

“Cass has established many relationships that have matured to this day as strong partnerships that have helped us share trust and belief in one another.

“With man some things may not be possible, but with God all things are possible.”

A Cass customer, who is both a businessman and a pastor

In 1997, the growth in our new church relationships was more than double the prior year’s. As in previous years, we added a diverse representation of small, medium and larger-size church relationships across a variety of denominations.

To date, we have used our line of banking products and services to address the churches’ loan and depository needs. We have gathered research among various-sized church congregations, and analyzed their financial systems and their current and future needs. This research has helped us develop a comprehensive, tailored product and service line.

Perhaps the most effective manner to judge how we approach and serve our customers is from the testimonies of our customers. Some of these are highlighted for your review.

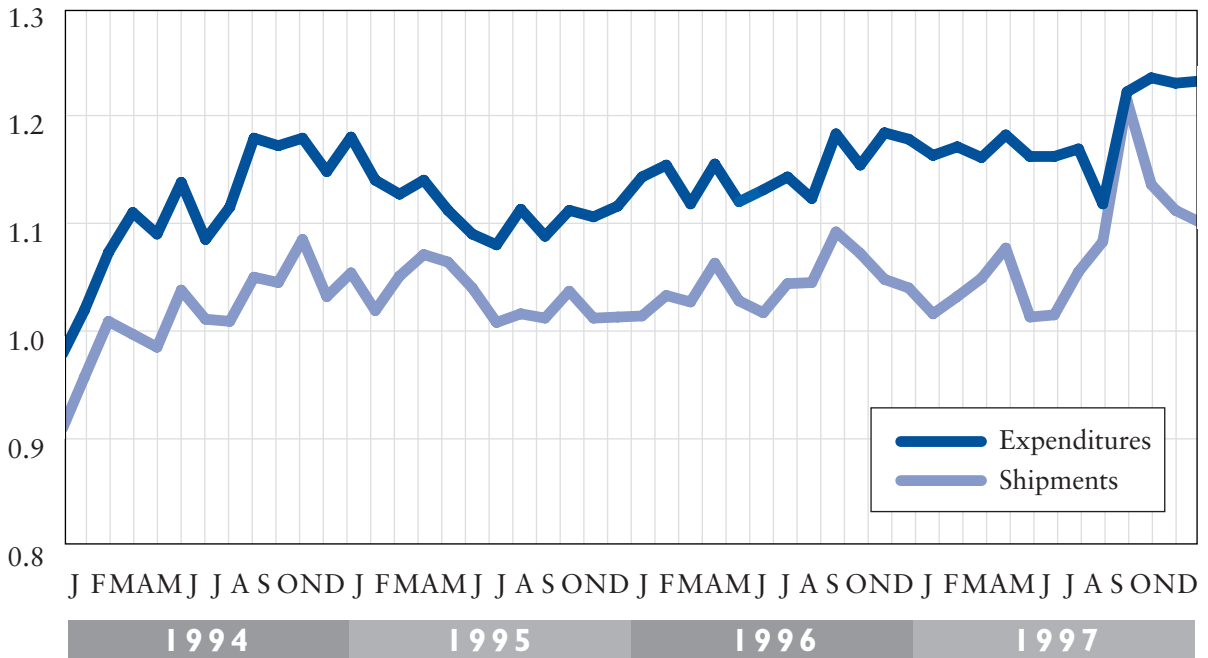
At Cass, we believe lending to churches is an excellent avenue for the restoration and renewal of both city and suburban communities. We believe it is an excellent opportunity to best use the gifts and resources God has entrusted to us. We are indeed thankful that we can play a small part in helping churches and ministries to successfully complete their important work.

**TRANSPORTATION/FREIGHT PAYMENT,
AUDIT AND INFORMATION SERVICES**

Cass Information Systems (CIS) continued to have outstanding success in 1997 selling freight bill payment, auditing, carrier rating and management information systems. When combined with the new business gained in 1996, growth has been at a record pace for the last two years. Processing volume surpassed last year's level and projections for 1998 indicate another record year. Electronic processing (Electronic Data Interchange) was expanded and now represents 45% of our invoice transactions.

Our market is comprised of companies seeking to outsource their freight bill payment and related support activities, and to install management and financial information systems that allow them to respond to the dynamics of the supply chain network. Our strategy is to implement systems that automate invoice payment processing and focus on enhancing imaging and information delivery systems, including the Internet. Access to invoice transactions on the Internet became available to our customers and the carriers they patronize in 1997. Cass now

FREIGHT INDEX FROM 1994 TO 1997



Cass is recognized as an authoritative resource for logistics information and trend analysis. For the last 5 years, Cass' Freight Index has been accepted as a leading indicator of the general economy. The index is a regular feature in Traffic World Magazine and is cited periodically by most major trade publications.



supports the most comprehensive invoice and shipment inquiry system in the industry and will continue to expand Internet applications to augment current information delivery systems.

Through CIS, we offer services and capabilities that allow customers to take advantage of comprehensive processing and information systems. This includes our Rate Management Systems that electronically apply the negotiated carrier cost to each shipment transaction. We also provide complete electronic processing of freight bills and associated invoices. Freight bills processed by Cass are automatically audited by an integrated electronic processing system. We integrate with

our customers' accounting systems, providing detail to the product and SKU level. Our customers' also have access to freight bill and shipment records using the Internet and an Interactive Voice Response System. Freight bills can be imaged for archival purposes. Management information is available in paper, data files and P/C service based systems.

Our customers are supported by the highest level of customer service, with service professionals assigned to each relationship to ensure high-quality performance and efficiency.

Cass' Rating Software offers the premier rating system in the industry. Cass continues to devote its efforts to enhance the delivery of rating and shipment costing information. This software is now integrated with Cass' processing services to provide more integrated capabilities for our customers.

Cass remains the only company in the industry that customizes its processing and information systems to meet customer-specific transportation and financial requirements. Our flexibility, commitment to providing the latest technology and customer focus distinguish Cass as a market leader.

The demand for our services has never been stronger. Companies continue to seek outsourcing solutions for non-core business activities such as invoice processing and payment. Our strategy is to introduce electronic commerce services and develop information delivery systems that meet the business requirements of this growing market.

UTILITIES PAYMENT PROCESSING AND INFORMATION SERVICES

On March 31, 1998, California will likely become the first state to fully deregulate retail electricity generation – power provided to commercial, industrial and residential customers. Virtually all remaining states are developing their own energy deregulation strategies. *Forbes* magazine recently reported on the potential industry consolidation:

“The numbers are awesome. Electric power is a \$215 billion industry. Natural gas is \$90 billion. They’re merging into one energy provided business that dwarfs both the local and long distance telephone business and airline business. And soon customers of all stripes will be able to vie for their customers.”

In 1995, at the request of several customers, Cass developed a utility payment and management information system. The characteristics of the impending deregulation of the energy industry are similar to those of other industries that have been deregulated in the past.

Prior to deregulation, accelerated utility payment schedules are mandated. As virtual monopolies in their franchised territories – wielding the threat of service interruption – utilities assess substantial late fees and interest penalties for delinquent payments.

“It is reasonable to expect that deregulation will cause the nation’s \$215 billion electric bill to drop by 20% - 30% or more in the next five to ten years.”

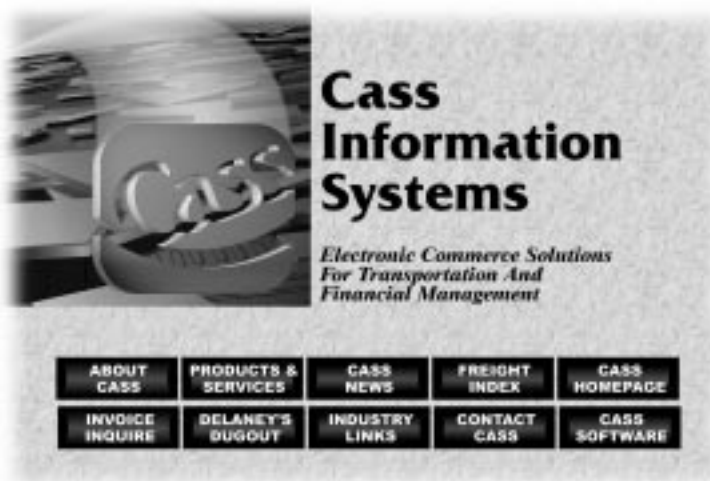
Fortune magazine

Utility invoice processing is a niche application. Familiarity with units of measure, prices, quantities and types of service requires a specialized expertise that differs from traditional accounts payable.

The processing of utility invoices for the purpose of avoiding disrupted energy service is very important but is not an activity to which companies are inclined to devote special resources.

The electric and natural gas industries are in the throes of a new, deregulated era in which information will be critical for companies to help take advantage of market-driven pricing and vendor selection. The source of this information will come from the utility invoice.

Cass Information Systems (CIS) has been in the business of processing payables for more than 40 years. We believe that the market for



outsourcing of utility payables and energy information is compelling. The business is an extension of our core business.

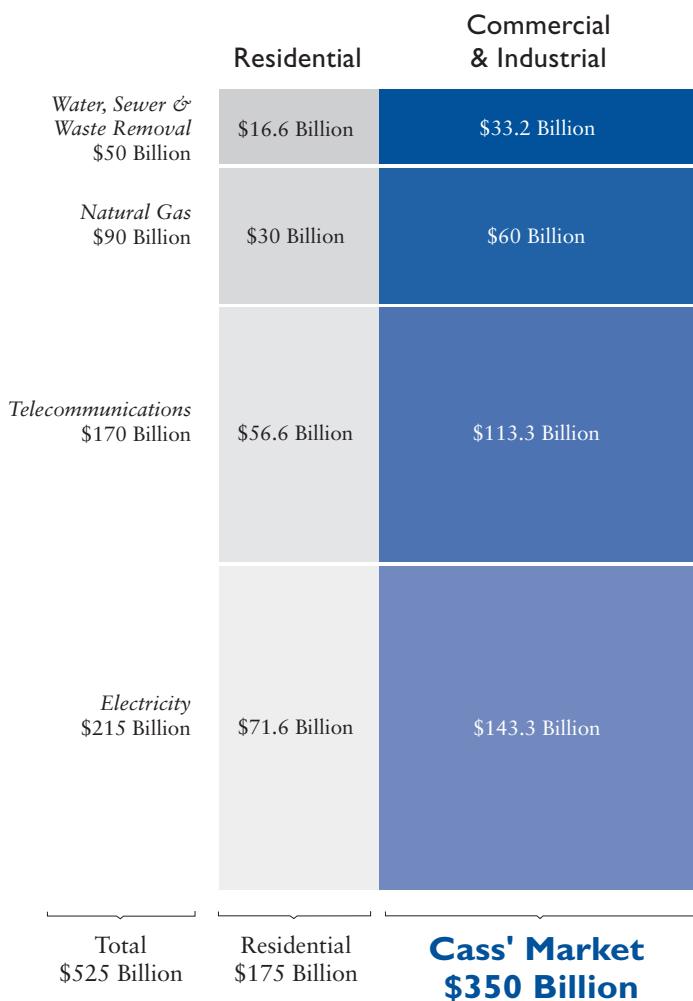
In late 1995 and in 1996, Cass piloted and implemented three national utility payables accounts. During 1997, a limited marketing program was initiated and eight more companies became customers. The pilot program and limited roll-out have been deliberate and methodical. Without exception, the success of each implementation exceeded our customers' expectations. We are now in the process of launching a national expansion of our Utility Payables and Energy Information Services.

The information needed to manage the demand (supply of energy) resource costs will require companies to rewrite their existing payables applications, integrating payables and energy-related data capture into a single process. They will also need a stand-alone energy information system to manage this significant cost center.

Outsourcing utility and energy information systems to Cass provides faster service at a lower cost than could be achieved internally. Cass has developed an integrated processing system that responds to the accelerated schedules inherent in the industry and provides for the extraction of data. This allows our customers to properly assess and analyze their energy costs and negotiate with an expanding market of energy suppliers.

As more companies outsource utility payables, we will take advantage of the economies of centralized billing and payment consolidation using Electronic Data Interchange (EDI) to automate the payment and information collection process. We will also leverage an information base that will be invaluable as companies seek to reduce their energy bills by 20% - 30%.

THE NATION'S UTILITY BILL



The nation's utility bill is estimated as shown in the chart above. Residential customers comprise one-third of this bill or \$175 billion.

Cass' potential market for utility payables and energy information is the \$350 billion annually paid by commercial and industrial customers.

C O N S O L I D A T E D B A L A N C E S H E E T S

Assets <i>(In Thousands of Dollars, Except per Share Data)</i>	December 31	
	1997	1996
Cash and due from banks	\$ 10,849	\$ 10,256
Federal funds sold and other short-term investments	88,275	56,900
Cash and cash equivalents	99,124	67,156
Investment in debt and equity securities:		
Held-to-maturity, estimated market value of \$90,389 and \$118,362 at December 31, 1997 and 1996, respectively	90,139	118,313
Available-for-sale, at estimated market value	36,112	41,354
Total investment in debt and equity securities	126,251	159,667
Loans, net of unearned income	196,478	197,775
Less: Allowance for loan losses	4,484	4,396
Loans, net	191,994	193,379
Premises and equipment, net	9,957	8,079
Accrued interest receivable	3,137	3,366
Other assets	7,864	6,675
Total assets	\$ 438,327	\$ 438,322
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Noninterest-bearing	\$ 61,958	\$ 62,244
Interest-bearing	103,899	115,261
Total deposits	165,857	177,505
Accounts and drafts payable	213,755	204,690
Short-term borrowings	406	2,476
Other liabilities	5,656	5,870
Total liabilities	385,674	390,541
Stockholders' 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 and 4,000,000 shares issued	2,000	2,000
Surplus	4,740	4,740
Retained earnings	46,879	42,376
Unrealized holding gain on investment in debt and equity securities available-for-sale, net of tax	364	105
Common shares in treasury, at cost (141,452 shares at December 31, 1997 and 1996)	(1,284)	(1,284)
Unamortized stock bonus awards	(46)	(156)
Total stockholders' equity	52,653	47,781
Total liabilities and stockholders' equity	\$ 438,327	\$ 438,322

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

<i>(In Thousands of Dollars, Except per Share Data)</i>	Year Ended December 31		
	1997	1996	1995
Interest income:			
Interest and fees on loans	\$ 16,951	\$ 16,193	\$ 14,042
Interest on debt securities:			
Taxable	9,074	9,729	9,741
Exempt from federal income taxes	77	72	46
Interest on federal funds sold and other short-term investments	3,181	2,132	2,972
Total interest income	<u>29,283</u>	<u>28,126</u>	<u>26,801</u>
Interest expense:			
Interest on deposits	4,181	4,503	4,036
Interest on short-term borrowings	67	139	92
Total interest expense	<u>4,248</u>	<u>4,642</u>	<u>4,128</u>
Net interest income	25,035	23,484	22,673
Provision for loan losses	300	—	(500)
Net interest income after provision for loan losses	<u>24,735</u>	<u>23,484</u>	<u>23,173</u>
Noninterest income:			
Information services revenue:			
Freight payment and processing revenue	17,863	17,698	18,886
Freight rating services income	2,564	3,297	3,726
Service charges on deposit accounts	524	532	431
Gain on sale of debt securities	216	—	—
Other	646	564	751
Total noninterest income	<u>21,813</u>	<u>22,091</u>	<u>23,794</u>
Noninterest expense:			
Salaries and employee benefits	23,983	23,887	24,701
Occupancy expense	1,619	2,115	2,122
Equipment expense	2,654	2,611	2,712
Other	7,655	7,198	7,831
Total noninterest expense	<u>35,911</u>	<u>35,811</u>	<u>37,366</u>
Income before income tax expense	10,637	9,764	9,601
Income tax expense	3,626	3,245	3,387
Net income	<u>\$ 7,011</u>	<u>\$ 6,519</u>	<u>\$ 6,214</u>
Earnings per share:			
Basic	\$ 1.82	\$ 1.69	\$ 1.62
Diluted	<u>\$ 1.79</u>	<u>\$ 1.66</u>	<u>\$ 1.61</u>

See accompanying notes to consolidated financial statements.

C O N S O L I D A T E D S T A T E M E N T S O F C A S H F L O W S

<i>(In Thousands of Dollars)</i>	Year Ended December 31		
	1997	1996	1995
Cash flows from operating activities:			
Net income	\$ 7,011	\$ 6,519	\$ 6,214
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,470	2,583	2,544
Amortization of stock bonus awards	110	110	64
Provision for loan losses	300	—	(500)
Deferred income tax expense (benefit)	271	854	(111)
Decrease (increase) in accrued interest receivable	229	(422)	72
Gain on sale of debt securities	(216)	—	—
Other operating activities, net	(1,884)	(82)	1,020
Net cash provided by operating activities	8,291	9,562	9,303
Cash flows from investing activities:			
Proceeds from sales of debt securities available-for-sale	14,235	—	—
Proceeds from prepayments and maturities of debt securities:			
Held-to-maturity	28,076	20,192	16,197
Available-for-sale	1,178	6,918	7,175
Purchases of debt and equity securities:			
Held-to-maturity	—	(8,608)	(347)
Available-for-sale	(9,835)	(30,632)	—
Net decrease (increase) in loans	1,085	(25,544)	(21,203)
Purchases of premises and equipment, net	(3,901)	(1,747)	(3,004)
Net cash provided by (used in) investing activities	30,838	(39,421)	(1,182)
Cash flows from financing activities:			
Net increase (decrease) in noninterest-bearing demand, interest-bearing demand and savings deposits	(10,878)	16,277	16,267
Net decrease in time deposits	(770)	(498)	(481)
Net increase (decrease) in accounts and drafts payable, net	9,065	(4,339)	(4,720)
Net increase (decrease) in short-term borrowings	(2,070)	(2,471)	2,435
Purchase of treasury stock	—	—	(24)
Cash dividends paid	(2,508)	(2,296)	(2,062)
Net cash provided by (used in) financing activities	(7,161)	6,673	11,415
Net increase (decrease) in cash and cash equivalents	31,968	(23,186)	19,536
Cash and cash equivalents at beginning of year	67,156	90,342	70,806
Cash and cash equivalents at end of year	\$99,124	\$67,156	\$90,342
Supplemental information:			
Interest paid	\$ 4,301	\$ 4,669	\$ 4,043
Income taxes paid	2,785	2,295	3,221
Debt securities transferred from held-to-maturity to available-for-sale	—	—	3,993

See accompanying notes to consolidated financial statements.

C O N S O L I D A T E D S T A T E M E N T S O F
S T O C K H O L D E R S ' E Q U I T Y

<i>(In Thousands of Dollars, Except per Share Data)</i>	Common Stock	Surplus	Retained Earnings	Unrealized Holding Gain (Loss) on Securities Available- for-Sale	Treasury Stock	Unamortized Stock Bonus Awards	Total
Balance, December 31, 1994	\$10,000	\$(3,300)	\$34,001	\$(405)	\$(1,550)	\$ —	\$38,746
Net income	—	—	6,214	—	—	—	6,214
Cash dividends (\$.54 per share)	—	—	(2,062)	—	—	—	(2,062)
Purchase of 2,266 common shares for Treasury	—	—	—	—	(24)	—	(24)
Change in unrealized holding gains and losses on investment in debt and equity securities available-for-sale	—	—	—	375	—	—	375
Issuance of 32,000 common shares pursuant to Stock Bonus Plan	—	40	—	—	290	(330)	—
Amortization of Stock Bonus Plan awards	—	—	—	—	—	64	64
Balance, December 31, 1995	10,000	(3,260)	38,153	(30)	(1,284)	(266)	43,313
Net income	—	—	6,519	—	—	—	6,519
Cash dividends (\$.60 per share)	—	—	(2,296)	—	—	—	(2,296)
Change in unrealized holding gains and losses on investment in debt and equity securities available-for-sale	—	—	—	135	—	—	135
Reduction in par value of common stock	(8,000)	8,000	—	—	—	—	—
Amortization of Stock Bonus Plan awards	—	—	—	—	—	110	110
Balance, December 31, 1996	2,000	4,740	42,376	105	(1,284)	(156)	47,781
Net income	—	—	7,011	—	—	—	7,011
Cash dividends (\$.65 per share)	—	—	(2,508)	—	—	—	(2,508)
Change in unrealized holding gains and losses on investment in debt and equity securities available-for-sale	—	—	—	259	—	—	259
Amortization of Stock Bonus Plan awards	—	—	—	—	—	110	110
Balance, December 31, 1997	<u>\$ 2,000</u>	<u>\$ 4,740</u>	<u>\$46,879</u>	<u>\$ 364</u>	<u>\$(1,284)</u>	<u>\$(46)</u>	<u>\$52,653</u>

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE ONE

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cass Commercial Corporation (the Company) provides a full range of banking services to individual, corporate and institutional customers through its wholly owned subsidiary bank, Cass Bank & Trust Company (the Bank). The Bank is subject to competition from other financial and nonfinancial institutions throughout the metropolitan St. Louis, Missouri, area. Additionally, the Company and the Bank are subject to the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory agencies.

The Company also provides information services through its wholly owned subsidiary, Cass Information Systems, Inc. (CIS). These logistics-related services include processing and payment of freight charges, preparation of transportation management reports, auditing of freight charges and rating of freight shipments. CIS is subject to competition from other commercial concerns providing similar services to companies throughout the United States and Canada. The consolidated balance sheet caption, "Accounts and Drafts Payable," consists of obligations related to freight bill payment services which are performed for customers.

The accounting and reporting policies of the Company and its subsidiaries conform to generally accepted accounting principles. The following is a description of the more significant of those policies:

Basis of Presentation The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries after elimination of intercompany transactions.

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.

Stock Split The company announced a two-for-one stock split in the form of a 100% stock dividend payable March 15, 1997, to stockholders of record as of March 5, 1997. All per share data for prior years has been restated to give effect to the stock split. As a result of the restatement, surplus in the years prior to 1996 reflected a negative balance.

Investment in Debt and Equity Securities

At the time of purchase, debt securities are classified into one of two categories: available-for-sale or held-to-maturity. Held-to-maturity securities are those securities which the Company has the ability and intent to hold until maturity. All equity securities, and debt securities not classified as held-to-maturity, are classified as available-for-sale.

Available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization of premiums or discounts. Unrealized gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and reported as a separate component of stockholders' equity until realized. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed other than temporary is charged to earnings and results in the establishment of a new cost basis for the security.

The Bank is required to maintain an investment in the capital stock of the Federal Reserve Bank.

The stock is recorded at cost, which represents redemption value.

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 collectibility of principal or interest. Subsequent payments received on such loans are applied to principal if there is any doubt as to the collectibility 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.

Information Services Revenue Revenue from logistics-related services is recognized when fees are billed to customers, generally monthly.

Allowance for Loan Losses The allowance for loan losses is increased by provisions charged to expense and reduced by net charge-offs. The provisions charged to expense are based on economic conditions, past losses, collection experience, risk characteristics of the portfolio and such other factors which, in management's judgment, deserve current recognition.

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 Bank's allowance for loan losses. Such agencies may require the Bank 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 are 31½ to 39 years for buildings, 8 to 10 years for leasehold improvements and 3 to 10 years for furniture, fixtures and equipment. Maintenance and repairs are charged to expense as incurred.

Intangible Assets Cost in excess of fair value of net assets acquired and fair value in excess of cost of net assets acquired have resulted from business acquisitions which were accounted for using the purchase method.

Cost in excess of fair value of net assets acquired and fair value in excess of cost of net assets acquired are amortized on a straight-line basis over 3 to 15 years.

Assets and liabilities acquired in business acquisitions accounted for by the purchase method were recorded at their estimated fair value at the date of acquisition. The premiums and discounts related to the fair value adjustments are amortized using the level-yield method.

Lines of Credit At December 31, 1997, the Bank has \$14,200,000 of unsecured federal funds lines of credit in place with unaffiliated financial institutions. Additionally, at December 31, 1997, the Bank and CIS have separate lines of credit of \$20,000,000 and \$30,000,000, respectively, under securities sold under repurchase agreements with an unaffiliated financial institution.

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. 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 The Company adopted the provisions of Statement of Financial Accounting Standards No. 128, "Earnings per

Share” (SFAS 128) on December 31, 1997. SFAS 128 replaced the previously reported primary earnings per share and fully-diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effect of stock options. Diluted earnings per share is very similar to fully-diluted earnings per share. All prior-period earnings per share amounts have been restated to conform with the requirements of SFAS 128.

Earnings per share is computed based upon the weighted average number of shares of common stock outstanding during each year. The weighted average number of shares was 3,858,548, 3,858,548 and 3,845,968 in 1997, 1996 and 1995, respectively.

The only dilutive instruments are stock options with a dilutive effect of 59,000, 46,938 and 9,822 in 1997, 1996 and 1995, respectively, which result in weighted average shares and dilutive potential common shares of 3,917,548, 3,905,486 and 3,855,790 in 1997, 1996 and 1995, respectively.

Cash Flows For purposes of the consolidated statements of cash flows, the Company considers due from banks, federal funds sold and other short-term investments to be cash equivalents.

Reclassifications Certain amounts in the 1996 and 1995 consolidated financial statements have

been reclassified to conform with the 1997 presentation. Such reclassifications have no effect on previously reported net income.

NOTE TWO CAPITAL REQUIREMENTS

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 initiate 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 (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets

The Company and the Bank’s actual and required capital amounts and ratios as of December 31, 1997, 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
Total capital (to risk-weighted assets):						
Cass Commercial Corporation	\$54,751	22.76%	\$19,246	8.00%	\$ N/A	N/A%
Cass Bank & Trust Company	25,140	16.23	12,392	8.00	15,491	10.00
Tier I capital (to risk-weighted assets):						
Cass Commercial Corporation	\$51,686	21.48%	\$ 9,623	4.00%	\$ N/A	N/A%
Cass Bank & Trust Company	23,199	14.98	6,196	4.00	9,294	6.00
Tier I capital (to average assets):						
Cass Commercial Corporation	\$51,686	11.72%	\$17,643	4.00%	\$ N/A	N/A%
Cass Bank & Trust Company	23,199	11.67	7,950	4.00	9,938	5.00

(as defined). Management as of December 31, 1997, the Company and the Bank meet all capital adequacy requirements to which they are subject.

The Bank is also subject to the regulatory framework for prompt corrective action. The most recent notification from the regulatory agencies, dated February 10, 1997, 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. There are no conditions or events since that notification that management believes have changed the Bank's category.

NOTE THREE

INVESTMENT IN DEBT AND EQUITY SECURITIES

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent.

The amortized cost and estimated market values of debt securities classified as held-to-maturity at December 31, 1997 and 1996, are as follows:

(In Thousands)	1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government				
Treasury securities	\$66,473	\$443	\$ (32)	\$66,884
Obligations of				
U.S. Government corporations and agencies	22,174	17	(221)	21,970
States and political subdivisions	1,492	46	(3)	1,535
	<u>\$90,139</u>	<u>\$506</u>	<u>\$(256)</u>	<u>\$90,389</u>

(In Thousands)	1996			Estimated Market Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government				
Treasury securities	\$ 90,646	\$761	\$(218)	\$ 91,189
Obligations of				
U.S. Government corporations and agencies	26,175	—	(520)	25,655
States and political subdivisions	1,492	33	(7)	1,518
	<u>\$118,313</u>	<u>\$794</u>	<u>\$(745)</u>	<u>\$118,362</u>

The amortized cost and estimated market value of debt securities classified as held-to-maturity at December 31, 1997, by contractual maturity, are as follows. Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

(In Thousands)	1997	
	Amortized Cost	Estimated Market Value
Due in 1 year or less	\$28,086	\$ 28,164
Due after 1 year through		
5 years	55,194	55,313
Due after 5 years through		
10 years	1,776	1,812
Due after 10 years	5,083	5,100
	<u>\$90,139</u>	<u>\$90,389</u>

NOTE THREE continued

The amortized cost and estimated market values of debt and equity securities classified as available-for-sale at December 31, 1997 and 1996, are summarized as follows:

(In Thousands)	1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government				
Treasury securities	\$26,271	\$404	\$ —	\$26,675
Obligations of U.S. Government corporations and agencies	9,089	178	(31)	9,236
Total debt securities	35,360	582	(31)	35,911
Stock of the Federal Reserve Bank	201	—	—	201
	<u>\$35,561</u>	<u>\$582</u>	<u>\$(31)</u>	<u>\$36,112</u>

(In Thousands)	1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government				
Treasury securities	\$30,558	\$287	\$(30)	\$30,815
Obligations of U.S. Government corporations and agencies	10,437	40	(139)	10,338
Total debt securities	40,995	327	(169)	41,153
Stock of the Federal Reserve Bank	201	—	—	201
	<u>\$41,196</u>	<u>\$327</u>	<u>\$(169)</u>	<u>\$41,354</u>

The amortized cost and estimated market value of debt securities classified as available-for-sale at December 31, 1997, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers have the right to prepay obligations with or without prepayment penalties.

(In Thousands)	1997	
	Amortized Cost	Estimated Market Value
Due in 1 year or less	\$ 140	\$ 140
Due after 1 year through 5 years	26,271	26,675
Due after 5 years through 10 years	3,065	3,116
Due after 10 years	5,884	5,980
	<u>\$35,360</u>	<u>\$35,911</u>

The amortized cost of debt securities pledged to secure public deposits, securities sold under agreements to repurchase and for other purposes was approximately \$13,048,000 and \$18,026,000 at December 31, 1997 and 1996, respectively.

Proceeds from the sales of debt securities classified as available-for-sale during 1997 were \$14,235,000. Gross gains of \$216,000 were realized on those sales. No debt or equity securities were sold in 1996 or 1995.

NOTE FOUR
LOANS

A summary of loan categories at December 31, 1997 and 1996, is as follows:

(In Thousands)	1997	1996
Commercial and industrial	\$ 93,633	\$ 94,962
Real estate:		
Mortgage	87,573	85,360
Construction	7,893	9,164
Industrial revenue bonds	2,520	2,851
Installment, net	3,066	3,794
Other	1,793	1,644
	<u>\$196,478</u>	<u>\$197,775</u>

The Company grants commercial, industrial, residential and consumer loans to customers throughout the metropolitan St. Louis area. 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 small- and medium-sized, closely held commercial companies in this market area, and are generally secured by the assets of the business. Such loans are subject to the economic changes inherent in the St. Louis marketplace.

Aggregate loan transactions involving executive officers and directors of the Company and its subsidiaries and loans to associates of executive officers and directors for the year ended December 31, 1997, 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 collectibility.

<u>(In Thousands)</u>	
Aggregate balance, January 1, 1997	\$2,637
New loans	6
Payments	(430)
Aggregate balance, December 31, 1997	<u>\$2,213</u>

A summary of the activity in the allowance for loan losses for 1997, 1996 and 1995 is as follows:

<u>(In Thousands)</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Balance, January 1	\$4,396	\$6,358	\$6,334
Provision charged to expense	300	—	(500)
Loans charged off	(412)	(2,121)	(186)
Recoveries of loans previously charged off	200	159	710
Net loan recoveries (charge offs)	(212)	(1,962)	524
Balance, December 31	<u>\$4,484</u>	<u>\$4,396</u>	<u>\$6,358</u>

A summary of impaired loans at December 31, 1997 and 1996, is as follows:

<u>(In Thousands)</u>	<u>1997</u>	<u>1996</u>
Nonaccrual loans	\$ 285	\$ 480
Impaired loans continuing to accrue interest	1,046	2,746
Total impaired loans	<u>\$1,331</u>	<u>\$3,226</u>

The allowance for loan losses on impaired loans was \$643,000 and \$892,000 at December 31, 1997 and 1996, respectively. Impaired loans with no related allowance for loan losses totaled \$71,000 and \$2,243,000 at December 31, 1997 and 1996, respectively. The average balance of impaired loans during 1997 and 1996 was \$1,362,000 and \$1,157,000, respectively.

A summary of interest income on impaired loans for 1997, 1996 and 1995 is as follows:

<u>(In Thousands)</u>	<u>1997</u>		
	<u>Nonaccrual Loans</u>	<u>Impaired Loans Continuing to Accrue Interest</u>	<u>Total</u>
Income recognized	\$ 1	\$ 45	\$ 46
Interest income if interest had accrued	27	53	80
<u>(In Thousands)</u>	<u>1996</u>		
	<u>Nonaccrual Loans</u>	<u>Impaired Loans Continuing to Accrue Interest</u>	<u>Total</u>
Income recognized	\$221	\$260	\$481
Interest income if interest had accrued	299	279	578
<u>(In Thousands)</u>	<u>1995</u>		
	<u>Nonaccrual Loans</u>	<u>Impaired Loans Continuing to Accrue Interest</u>	<u>Total</u>
Income recognized	\$ 4	\$109	\$113
Interest income if interest had accrued	18	112	130

NOTE FIVE**PREMISES AND EQUIPMENT**

A summary of premises and equipment at December 31, 1997 and 1996, is as follows:

(In Thousands)	1997	1996
Land	\$ 367	\$ 367
Buildings	6,264	3,082
Leasehold improvements	1,278	2,025
Furniture, fixtures and equipment	16,591	15,709
Construction in progress	—	435
	<u>24,500</u>	<u>21,618</u>
Less accumulated depreciation and amortization	14,543	13,539
	<u>\$ 9,957</u>	<u>\$ 8,079</u>

Depreciation charged to expense in 1997, 1996 and 1995 amounted to \$1,932,000, \$1,913,000 and \$1,960,000, respectively.

The Company's subsidiaries lease various premises and equipment under operating lease agreements which expire at various dates through 2005. 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, 1997:

(In Thousands)	
1998	\$ 676
1999	670
2000	670
2001	378
2002	343
2003 and thereafter	861
	<u>\$3,598</u>

Rental expense for 1997, 1996 and 1995 was as follows:

(In Thousands)	1997	1996	1995
Minimum rentals	\$1,205	\$1,712	\$1,725
Less sublease rentals	—	—	(16)
Net rental expense	<u>\$1,205</u>	<u>\$1,712</u>	<u>\$1,709</u>

NOTE SIX**INTEREST-BEARING DEPOSITS**

Interest-bearing deposits consist of the following at December 31, 1997 and 1996:

(In Thousands)	1997	1996
NOW and Money Market		
Demand Accounts	\$ 32,616	\$ 33,279
Savings deposits	62,660	72,589
Time deposits:		
Less than \$100,000	5,112	5,599
\$100,000 and more	3,511	3,794
	<u>\$103,899</u>	<u>\$115,261</u>

Interest on deposits consists of the following for 1997, 1996 and 1995:

(In Thousands)	1997	1996	1995
NOW and Money Market			
Demand Accounts	\$1,130	\$ 826	\$ 639
Savings deposits	2,562	3,139	2,858
Time deposits:			
Less than \$100,000	267	296	272
\$100,000 and more	222	242	267
	<u>\$4,181</u>	<u>\$4,503</u>	<u>\$4,036</u>

The scheduled maturities of certificates of deposit are summarized as follows:

	December 31			
	1997		1996	
	Amount	Percent of Total	Amount	Percent of Total
Due within:				
One year	\$7,043	81.7%	\$7,903	84.1%
Two years	1,320	15.3	893	9.5
Three years	242	2.8	413	4.4
Four years	14	0.1	184	2.0
Five years	4	0.1	—	—
	<u>\$8,623</u>	<u>100.0%</u>	<u>\$9,393</u>	<u>100.0%</u>

NOTE SEVEN**EMPLOYEE BENEFITS**

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

The pension cost for 1997, 1996 and 1995 was \$538,000, \$478,000 and \$616,000, respectively, and included the following components:

<u>(In Thousands)</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
Service cost – benefits earned during the year	\$ 706	\$ 682	\$ 675
Interest cost on projected benefit obligations	544	492	432
Actual return on plan assets	(622)	(656)	(1,076)
Net amortization and deferral	(90)	(40)	585
Net periodic pension cost	<u>\$538</u>	<u>\$478</u>	<u>\$ 616</u>

The plan's funded status and amounts recognized in the Company's consolidated balance sheets at December 31, 1997 and 1996 are as follows:

<u>(In Thousands)</u>	<u>1997</u>	<u>1996</u>
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of \$6,139 in 1997 and \$4,818 in 1996	\$(6,284)	\$(4,942)
Effect of increase in compensation levels	(2,686)	(3,034)
Projected benefit obligation for service rendered through December 31	(8,970)	(7,976)
Plan assets at fair value	9,232	7,487
Plan assets greater (less) than projected benefit obligation	<u>262</u>	<u>(489)</u>
Unfunded projected benefit obligation	262	(489)
Unrecognized prior service cost	148	155
Unrecognized net gains	(1,861)	(1,354)
Accrued pension cost	<u>\$(1,451)</u>	<u>\$(1,688)</u>

The weighted-average discount rate and the rate of increase in future compensation levels used in determining the actuarial present value of the projected benefit obligation were 7.25% and 4.00% in 1997, 7.50% and 5.00% in 1996 and 8.00% and 5.00% in 1995. The expected long-term rate of return on assets was 8.00% in 1997, 1996 and 1995.

The Company maintains a noncontributory profit sharing plan which covers substantially all 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 1997, 1996 and 1995 was \$1,564,000, \$1,433,000 and \$1,377,000, 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 1997, 1996 and 1995 were \$220,000, \$227,000 and \$220,000, respectively.

NOTE SEVEN continued

During May 1995, the Company implemented a restricted stock bonus plan which provides for the issuance of up to 100,000 shares of the Company's common stock. During 1995, 32,000 shares of common stock were awarded to five officers of the Company. At the time of the awards, the price per share of Company common stock was \$10.32, which resulted in the establishment of a contra stockholders' equity account with a balance of \$330,000. Amortization of the restricted stock bonus awards totaled \$110,000, \$110,000 and \$64,000 for 1997, 1996 and 1995, respectively. The shares of common stock awarded vest over a three-year period.

Also during May 1995, the Company implemented a performance-based stock option plan which provides for the granting of options on up to 400,000 shares of Company common stock. These options vest over a period not to exceed seven years, but the vesting period can be less based on the Company's attainment of certain financial operating performance criteria. The Company's original grant of stock options occurred during May 1995. At that time, options to purchase 120,000 shares were granted at an exercise price of \$10.32. The table below summarizes all subsequent activity.

	Shares	Weighted Average Exercise Price
Balance at December 31, 1996	120,000	\$10.32
Granted	14,500	23.34
Forfeited	<u>16,000</u>	10.32
Balance at December 31, 1997	<u>118,500</u>	<u>11.91</u>

No options have vested or been exercised at December 31, 1997. At December 31, 1997, 104,000, 6,000 and 8,500 options were outstanding at exercise prices of \$10.32, \$20.36 and \$25.45, respectively.

The Company accounts for stock-based compensation under the stock option plan in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and, accordingly, recognizes no compensation expense as the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). The Company elected not to adopt the recognition provisions of SFAS 123. However, under the provisions of SFAS 123, an entity that continues to apply APB 25 shall 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 pro forma effects were calculated and are immaterial to the results of operations of the Company.

NOTE EIGHT
OTHER NONINTEREST EXPENSE

Details of other noninterest expense for 1997, 1996 and 1995 are as follows:

(In Thousands)	1997	1996	1995
Postage, printing and supplies	\$2,129	\$2,114	\$2,340
Advertising and business development	1,437	1,441	1,392
Professional fees	1,320	903	918
Data processing services	652	655	741
FDIC insurance premiums	21	2	155
Other	<u>2,096</u>	<u>2,083</u>	<u>2,285</u>
Total other noninterest expense	<u>\$7,655</u>	<u>\$7,198</u>	<u>\$7,831</u>

NOTE NINE

REGULATORY RESTRICTIONS

Subsidiary dividends are the principal source of funds for payment of dividends by the Company to its stockholders. The Company's subsidiary bank is subject to regulations which require the maintenance of minimum capital levels. At December 31, 1997, unappropriated retained earnings of \$12,878,000 were available for the declaration of dividends to the Company without prior approval from regulatory authorities.

Restricted funds on deposit used to meet regulatory reserve requirements amounted to approximately \$3,504,000 and \$2,719,000 at December 31, 1997 and 1996, respectively.

NOTE TEN

INCOME TAXES

The components of income tax expense for 1997, 1996 and 1995 are as follows:

(In Thousands)	1997	1996	1995
Current:			
Federal	\$3,114	\$2,238	\$3,171
State	241	153	327
Deferred	271	854	(111)
	<u>\$3,626</u>	<u>\$3,245</u>	<u>\$3,387</u>

A reconciliation of expected income tax expense, computed by applying the effective federal statutory rate of 34% for 1997, 1996 and 1995 to income before income tax expense, to reported income tax expense, is as follows:

(In Thousands)	1997	1996	1995
Expected income tax expense	\$3,617	\$3,320	\$3,264
(Reductions) increases resulting from:			
Tax-exempt interest	(78)	(53)	(43)
State taxes, net of federal benefit	159	101	216
Amortization of intangibles	(98)	(98)	(98)
Other, net	26	(25)	48
Income tax expense	<u>\$3,626</u>	<u>\$3,245</u>	<u>\$3,387</u>

The tax effects of temporary differences which give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1997 and 1996, are presented below:

(In Thousands)	1997	1996
Deferred tax assets:		
Allowance for loan losses	\$ 993	\$1,011
Accrued pension cost	500	581
Premises and equipment	51	123
Other	206	141
Total deferred tax assets	<u>1,750</u>	<u>1,856</u>
Deferred tax liabilities:		
Unrealized gain on investment in debt and equity securities available-for-sale	(187)	(53)
Discount accretion	(355)	(271)
Other	(137)	(56)
Total deferred tax liabilities	<u>(679)</u>	<u>(380)</u>
Net deferred tax asset	<u>\$1,071</u>	<u>\$1,476</u>

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, 1997 or 1996, 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.

NOTE ELEVEN

CONTINGENCIES

The Company's 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 TWELVE

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 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.

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. 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.

Conditional commitments to extend credit, commercial letters of credit and standby letters of credit totaled approximately \$96,709,000, \$13,000 and \$2,164,000, respectively, at December 31, 1997.

Following is a summary of the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 1997 and 1996:

(In Thousands)	1997	
	Carrying Amount	Estimated Fair Value
Balance sheet assets:		
Cash and cash equivalents	\$ 99,124	\$ 99,124
Investment in debt and equity securities	126,251	126,501
Loans, net	191,994	192,531
Accrued interest receivable	3,137	3,137
	<u>\$420,506</u>	<u>\$421,293</u>

Balance sheet liabilities:		
Deposits	\$165,857	\$165,880
Accounts and drafts payable	213,755	213,755
Short-term borrowings	406	406
Accrued interest payable	93	93
	<u>\$380,111</u>	<u>\$380,134</u>

(In Thousands)	1996	
	Carrying Amount	Estimated Fair Value
Balance sheet assets:		
Cash and cash equivalents	\$ 67,156	\$ 67,156
Investment in debt and equity securities	159,667	159,716
Loans, net	193,379	193,726
Accrued interest receivable	3,366	3,366
	<u>\$423,568</u>	<u>\$423,964</u>

Balance sheet liabilities:		
Deposits	\$177,505	\$177,509
Accounts and drafts payable	204,690	204,690
Short-term borrowings	2,476	2,476
Accrued interest payable	146	146
	<u>\$384,817</u>	<u>\$384,821</u>

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

Cash and Other Short-Term Instruments

For cash and due from banks, federal funds sold, short-term investments, accrued interest

receivable, short-term borrowings, accounts and drafts payable 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 accounts 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.

Commitments to Extend Credit and Standby Letters of Credit

The fair value of commitments to extend credit and standby letters of credit are 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 and, accordingly, the Company has not assigned a value to such instruments for purposes of this disclosure.

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.

Management is concerned that reasonable comparability between financial institutions may not be likely due to the wide range of permitted valuation techniques and numerous estimates which must be made given the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

Fair value estimates are made as of a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. 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 THIRTEEN INDUSTRY SEGMENT INFORMATION

The services provided by the Company are classified into two industry segments: Information Services and Banking Services which are more

NOTE THIRTEEN continued

fully discussed in Note One. Total net revenue is comprised of total interest income and total noninterest income, less provision for loan losses. Intersegment revenues or transfers were not significant.

Summarized information about the Company's operations in each industry as of and for the years ended December 31, 1997, 1996 and 1995, is as follows:

(In Thousands)	Total Net Revenue		
	1997	1996	1995
Information Services	\$ 35,918	\$ 35,501	\$ 37,226
Banking Services	15,035	14,823	13,995
Eliminations	(157)	(107)	(126)
Total	<u>\$ 50,796</u>	<u>\$ 50,217</u>	<u>\$ 51,095</u>

(In Thousands)	Income (Loss) Before Income Tax		
	1997	1996	1995
Information Services	\$ 6,352	\$ 6,069	\$ 6,369
Banking Services	4,464	3,868	3,372
Corporate Items	(179)	(173)	(140)
Total	<u>\$ 10,637</u>	<u>\$ 9,764</u>	<u>\$ 9,601</u>

(In Thousands)	Identifiable Assets		
	1997	1996	1995
Information Services	\$246,488	\$237,963	\$238,762
Banking Services	209,485	212,776	195,562
Corporate Items	52,882	47,909	43,505
Eliminations	(70,528)	(60,326)	(49,771)
Total	<u>\$438,327</u>	<u>\$438,322</u>	<u>\$428,058</u>

(In Thousands)	Depreciation and Amortization Expense		
	1997	1996	1995
Information Services	\$ 2,024	\$ 2,057	\$ 2,120
Banking Services	420	494	395
Corporate Items	26	32	29
Total	<u>\$ 2,470</u>	<u>\$ 2,583</u>	<u>\$ 2,544</u>

(In Thousands)	Capital Expenditures		
	1997	1996	1995
Information Services	\$ 3,427	\$ 1,509	\$ 2,888
Banking Services	468	249	251
Corporate Items	6	21	56
Total	<u>\$ 3,901</u>	<u>\$ 1,779</u>	<u>\$ 3,195</u>

NOTE FOURTEEN
CONDENSED FINANCIAL INFORMATION OF PARENT COMPANY

Following are the condensed balance sheets of the Company (parent company only) as of December 31, 1997 and 1996, and the related condensed schedules of income and cash flows for each of the years in the three-year period ended December 31, 1997.

(In Thousands)	Condensed Balance Sheets	
	December 31	
	1997	1996
Assets:		
Cash	\$ 471	\$ 130
Investment in Cass Bank & Trust Company	23,271	21,612
Investment in Cass Information Systems, Inc.	28,666	25,617
Other assets	474	550
Total assets	<u>\$52,882</u>	<u>\$47,909</u>
Liabilities and Stockholders' Equity:		
Total liabilities	\$ 229	\$ 128
Total stockholders' equity	52,653	47,781
Total liabilities and stockholders' equity	<u>\$52,882</u>	<u>\$47,909</u>

(In Thousands)	Condensed Schedules of Income		
	December 31		
	1997	1996	1995
Income:			
Dividends received from subsidiaries	\$2,680	\$2,380	\$2,140
Management fees from subsidiaries	1,282	954	949
Total income	<u>3,962</u>	<u>3,334</u>	<u>3,089</u>
Expenses:			
Salaries and employee benefits	1,130	835	883
Other expenses	331	292	206
Total expenses	<u>1,461</u>	<u>1,127</u>	<u>1,089</u>
Income before income taxes and equity in undistributed income of subsidiaries	2,501	2,207	2,000
Income tax benefit	(61)	(59)	(48)
	<u>2,562</u>	<u>2,266</u>	<u>2,048</u>
Equity in undistributed income of subsidiaries	4,449	4,253	4,166
Net income	<u>\$7,011</u>	<u>\$6,519</u>	<u>\$6,214</u>

(In Thousands)	Condensed Schedules of Cash Flows		
	December 31		
	1996	1995	1994
Cash flows from			
operating activities:			
Net income	\$ 7,011	\$ 6,519	\$ 6,214
Adjustments to reconcile net income to net cash provided by operating activities:			
Net income of subsidiaries exclusive of management fees	(8,410)	(7,587)	(7,255)
Dividends from subsidiaries	2,680	2,380	2,140
Management fees from subsidiaries	1,282	954	949
Amortization of stock bonus plan	110	110	64
Other, net	176	(200)	(192)
Net cash provided by operating activities	<u>2,849</u>	<u>2,176</u>	<u>1,920</u>
Cash flows from financing activities:			
Cash dividends paid	(2,508)	(2,296)	(2,062)
Purchases of treasury stock	—	—	(24)
Net cash used in financing activities	<u>(2,508)</u>	<u>(2,296)</u>	<u>(2,086)</u>
Net increase (decrease) in cash and cash equivalents	341	(120)	(166)
Cash and cash equivalents at beginning of year	<u>130</u>	<u>250</u>	<u>416</u>
Cash and cash equivalents at end of year	<u>\$ 471</u>	<u>\$ 130</u>	<u>\$ 250</u>

**INDEPENDENT AUDITORS
REPORT
THE BOARD OF DIRECTORS AND STOCKHOLDERS
CASS COMMERCIAL CORPORATION:**

We have audited the accompanying consolidated balance sheets of Cass Commercial Corporation and subsidiaries (the Company) as of December 31, 1997 and 1996, and the related consolidated statements of income, cash flows and stockholders' equity for each of the years in the three-year period ended December 31, 1997. 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 generally accepted auditing standards. 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 Commercial Corporation and subsidiaries as of December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

St. Louis, Missouri
January 29, 1998

**BOARD OF DIRECTORS AND
SHAREHOLDER INFORMATION**

DIRECTORS

Cass Commercial Corporation, Cass Bank & Trust Company and Cass Information Systems, Inc.

Lawrence A. Collett
Chairman of the Board, Chief Executive Officer, Cass Commercial Corporation

John J. Vallina
President, Cass Bank & Trust Company

Robert J. Bodine
Chairman Emeritus, Bodine Aluminum, Inc.

Thomas J. Fucoloro
Consultant

Harry J. Krieg
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Jake Nania
Investor

Irving A. Shepard
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A. J. Signorelli
Founder, Andrews Educational & Research Center and Hope Educational & Research Center

Bruce E. Woodruff
Attorney; of counsel to Armstrong, Teasdale, Schlafly & Davis

OFFICERS

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Eric H. Brunngraber
Vice President, Secretary, & Chief Financial Officer

William C. Bouchein
Vice President, Treasurer

Marla A. Fusz
Controller

Wayne D. Muskopf
Vice President, Human Resources

LOCATIONS

Cass Commercial Corporation

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(314) 506-5500

Cass Bank & Trust Company

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Bridgeton, Missouri 63044
(314) 506-5500

Chesterfield Facility

702 Spirit 40 Park Drive
Suite 100
Chesterfield,
Missouri 63005
(314) 506-5595

Downtown Facilities

1015 Locust Street
St. Louis, Missouri 63101
(314) 506-5585

1420 N. 13th Street
St. Louis, Missouri 63106
(314) 506-5580

Fenton Facility

509 Rudder Road
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(314) 506-5590

West Port Facility

11657 Adie Road
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Missouri 63043
(314) 506-5575

Cass Information Systems Inc.

Payment Systems Group

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(314) 506-5500

2545 Farmers Drive
Columbus, Ohio 43235
(614) 766-2277

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Lowell, Massachusetts
01051
(978) 446-0101

Software Systems Group

Hartford Plaza
150 South Wacker Drive
Suite 2600
Chicago, Illinois 60606
(312) 782-6694

I O - K

A copy of the Company's 1997 Annual Report filed with the Securities and Exchange Commission on Form 10-K is available to stockholders without charge. To obtain a copy, direct your request to Investor Relations, 13001 Hollenberg Drive, Bridgeton, Missouri 63044.

BUSINESS UNIT OFFICERS

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Kenneth A. Witbrodt, Jr.
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Theodore F. Winters
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Assistant Vice President

CASS INFORMATION SYSTEMS, INC.

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Manager,
Columbus Facility*
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Manager,
Boston Facility*
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Manager,
Chicago Facility*

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Steven M. Hanner
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Gregg R. Klein
Louis V. Nowak
Mary A. Shaw
Brian D. Thornsbury
Thomas M. Zygmunt

From the fullness of His grace, we have all received one blessing after another.



CASS COMMERCIAL CORPORATION

13001 Hollenberg Drive

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