FIRST BANCSHARES INC /MO/
Form 10KSB
September 29, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-KSB

[**X**] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2004 OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-22842

FIRST BANCSHARES, INC.

(Exact name of registrant as specified in its charter)

Missouri

43-1654695

(State or other jurisdiction of

(I.R.S. Employer

incorporation or organization)

Identification No.)

142 E. First Street

Mountain Grove, Missouri 65711

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (417) 926-5151

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, par value $0.01 per share

(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES x NO __

Indicate by check mark whether disclosure of delinquent filers pursuant to Item 405 of Regulation S-B is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or other information statements incorporated by reference in Part III of this Form 10-KSB or any amendments to this Form 10-KSB. / /

The registrant's revenues for the fiscal year ended June 30, 2004 were $15,583,000.

As of September 236, 20043, registrant had outstanding 1,620,619177 shares of Common Stock. The registrant's voting stock is traded over-the-counter and is listed on the Nasdaq Stock Market ("Nasdaq/NMS") under the symbol "FBSI." The aggregate market value of the voting stock held by nonaffiliates of the registrant, based on the closing sales price of the registrant's common stock as quoted on the Nasdaq/NMS on September 236, 20043, was $26.2 million7,000,000. For purposes of this calculation, officers and directors of the registrant and the Employee Stock Ownership Plan are considered affiliates of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Annual Report to Stockholders for the Fiscal Year Ended June 30, 2004. (Parts I and II)

2. Portions of the Proxy Statement for the 2004 Annual Meeting of Stockholders. (Part III)

Transitional Small Business Disclosure Format (check one)

Yes __ No X

PART I

Item 1. Business

General

First Bancshares, Inc. ("First Bancshares" or the "Company"), a Missouri corporation, was incorporated on September 30, 1993 for the purpose of becoming the holding company for First Home Savings Bank ("First Home" or the "Savings Bank") upon the Savings Bank's conversion from a state-chartered mutual to a state-chartered stock savings and loan association ("Conversion"). The Conversion was completed on December 22, 1993. At June 30, 2004, the Company had consolidated total assets of $265.0 million, total customer deposits of $207.2 million and stockholders' equity of $27.3 million. While the Company owned a title insurance agency through a subsidiary and some rental real estate, it is not engaged in any significant activity other than holding the stock of First Home. Accordingly, the information set forth in this report, including consolidated financial statements and related data, relates primarily to the Savings Bank.

The Savings Bank is a Missouri-chartered, federally insured stock savings and loan association organized in 1911. The Savings Bank conducts its business from its home office in Mountain Grove and nine full service branch facilities in Marshfield, Ava, Gainesville, Sparta, Theodosia, Crane, Galena, Kissee Mills and Rockaway Beach, Missouri. The deposits of the Savings Bank are insured up to applicable limits by the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC").

The Savings Bank provides its customers with a full array of community banking services. The Savings Bank is primarily engaged in the business of attracting deposits from the general public and using such deposits, together with other funding sources, to invest in one-to-four family residential mortgage loans along with multi-family residential, consumer, and commercial mortgage loans, including home equity loans, for its loan portfolio, as well as mortgage-backed and U.S. Government and agency securities and other assets. At June 30, 2004, the Savings Bank's net loans were $166.3 million, or 62.75% of consolidated total assets, including $95.3 million, or 56.21% of total loans, for one-to-four family properties, $53.1 million, or 31.31% of total loans, for other real estate and $21.2 million of consumer and commercial business loans, or 12.48% of total loans. Adjustable rate mortgage (ARM) loans account for approximately 96% of loans secured by real estate and 84% of the total loan portfolio. See -Lending Activities herein.

Market Area

The Savings Bank is headquartered in the town of Mountain Grove, in Wright County, Missouri. Wright County has a population of approximately 17,000 and its economy is highly diversified, with an emphasis on the beef and dairy industry. The Savings Bank's market area is predominantly rural in nature and its deposit taking and lending activities primarily encompass Wright, Webster, Douglas, Christian, Ozark, Stone and Taney counties. Companies in the area include Hutchens Steel, Life Time Lumber, Inc., Copeland Corporation, Dairy Farmers of America, WoodPro Cabinetry and Fordick Corporation. The Savings Bank also transacts a significant amount of business in Texas and Greene counties, Missouri. The area, especially Ozark County because of its proximity to Norfolk and Bull Shoals lakes, has experienced a rather slow but steady growth from retirees. Economic conditions in the Savings Bank's market area have been stable.

Selected Consolidated Financial Information

This information is incorporated by reference to pages 4 and 5 of the 2004 Annual Report to Stockholders ("Annual Report") attached hereto as Exhibit 13.

Yields Earned and Rates Paid

The earnings of the Savings Bank depend largely on the spread between the yield on interest-earning assets (primarily loans and investments) and the cost of interest-bearing liabilities (primarily deposit accounts and FHLB advances), as well as the relative size of the Savings Bank's interest-earning assets and interest-bearing liability portfolios.

The following table sets forth, for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin, and ratio of average interest-earning assets to average interest-bearing liabilities. Average balances for a period have been calculated using the average monthly balances for the period.

Years Ended June 30,

	2004			2003			2002		
	Average Balance(2)	Interest and Dividends	Yield/ Cost	Average Balance(2)	Interest and Dividends	Yield/ Cost	Average Balance(2)	Interest and Dividends	Yield/ Cost
	(Dollars in thousands)								
Interest-earning assets:									
Loans(1)	$ 170,140	$ 11,965	7.03 %	$ 184,052	$ 13,751	7.47 %	$ 190,119	$ 14,920	7.85 %
Mortgage-backed securities	9,890	288	2.91	5,860	152	2.59	684	50	7.31
Investment securities	42,724	1,327	3.11	36,003	1,363	3.79	11,498	548	4.77
Daily interest-bearing deposits	26,143	155	0.59	23,038	220	0.95	26,549	437	1.65
Total interest-earning assets	248,897	13,735	5.52	248,953	15,486	6.22	228,850	15,955	6.97
Non-interest earning assets									
Office properties and equipment, net	6,008			6,006			5,374		
Real estate, net	2,709			2,522			2,587		
Other non-interest earning assets	12,782			6,962			5,868		
Total assets	**$270,396**			**$264,443**			**$242,679**		
Interest-bearing liabilities:									
Passbook accounts	$ 16,309	133	0.82	$ 15,032	215	1.43	$ 12,318	341	2.77
NOW and Super Saver accounts	77,637	686	0.88	77,646	1,268	1.63	64,126	1,734	2.70
Certificates of deposit	109,087	3,256	2.98	107,051	3,941	3.68	101,851	4,854	4.77
Total deposits	203,033	4,075	2.01	199,729	5,424	2.72	178,295	6,929	3.89
Other interest-bearing liabilities	29,242	1,652	5.65	29,712	1,674	5.63	31,413	1,800	5.73
	232,275	5,727	2.47	229,441	7,098	3.09	209,708	8,729	4.16

Total interest-bearing liabilities			
Non-interest bearing liabilities:			
Other liabilities	10,484	9,159	7,830
Total liabilities	242,759	238,600	217,538
Stockholders' equity	27,637	25,843	25,141
Total liabilities and stockholders' equity	**$270,396**	**$264,443**	**$242,679**
Net interest income	**$ 8,008**	**$ 8,388**	**$ 7,226**
Interest rate spread	3.05 %	3.13 %	2.81 %
Net interest margin	3.22 %	3.37 %	3.16 %
Ratio of average interest-earning assets to average interest-bearing liabilities	107%	109%	109%

(1) Average balances include nonaccrual loans and loans 90 days or more past due. The corresponding interest up to the date of nonaccrual status has been included in the "Interest and Dividends" column.

(2) Average balances for a period have been calculated using the average monthly balances for the respective year.

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Yields Earned and Rates Paid

The following table sets forth (on a consolidated basis) for the periods and at the date indicated, the weighted average yields earned on the Company s and First Home's assets, the weighted average interest rates paid on First Home's liabilities, together with the net yield on interest-earning assets.

	At June 30,	Years Ended June 30,

	2004	2004	2003	2002
Weighted average yield on loan portfolio	6.97 %	7.03 %	7.47 %	7.85 %
Weighted average yield on mortgage-backed				
Securities	4.323.26	2.91	2.59	7.31
Weighted average yield on investment securities	3.033.17	3.11	3.79	4.77
Weighted average yield on interest-bearing deposits	1.110.91	0.59	0.95	1.65
Weighted average yield on federal funds sold	-	-	-	6.97
Weighted average yield on all interest-earning assets	5.536.01	5.52	6.22	6.97
Weighted average rate paid on total deposits	1.852.29	2.01	2.72	3.895.73
Weighted average rate paid on FHLB advances	5.555.56	5.65	5.63	5.73
Weighted average rate paid on all interest				4.16
-bearing liabilities	2.322.71	2.47	3.09	4.16
Interest rate spread (spread between weighted				
average rate on all interest-earning assets				2.81
And all interest-bearing liabilities)	3.213.30	3.05	3.13	2.81
Net interest margin (net interest income				
(expense) as a percentage of average				
interest-earning assets)	N/A	3.22	3.37	3.16

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Rate/Volume Analysis

The following table presents certain information regarding changes in interest income and interest expense of the Company and Savings Bank for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to (i) effects on interest income and interest expense attributable to changes in volume (changes in volume multiplied by prior rate); (ii) effects on interest income and interest expense attributable to changes in rate (changes in rate multiplied by prior volume); (iii) the net changes (the sum of the previous columns). The effects on interest income and interest expense attributable to changes in both rate and volume are allocated to the change in volume variance and the change in the rate variance on a pro rated basis.

	Years Ended June 30, 2004 Compared to 2003 Increase/(Decrease) Due to			Years Ended June 30, 2003 Compared to 2002 Increase/(Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
	(In thousands)					
Interest-earning assets:						
Loans (1)	$ (1,005)	$ (781)	$(1,786)	$ (468)	$ (701)	$(1,169)
Mortgage-backed securities	115	21	136	111	(9)	102
Investment securities	231	(267)	(36)	902	(87)	815
Daily interest-earning deposits	36	(101)	(65)	(52)	(165)	(217)
Federal funds sold	-	-	-	-	-	-
Total net change in income on interest-earnings assets	(623)	(1,128)	(1,751)	493	(962)	(469)
Interest-bearing liabilities:						
Interest-bearing deposits	90	(1,439)	(1,349)	1,000	(2,505)	(1,505)
FHLB advances	(25)	3	(22)	(98)	(28)	(126)
Total net change in expense on Interest-bearing deposits	65	(1,436)	(1,371)	902	(2,533)	(1,631)
Net increase/(decrease) in net interest income	**$ (688)**	**$ 308**	**$ (380)**	**$ (409)**	**$ 1,571**	**$ 1,162**

(1) Includes interest on loans 90 days or more past due not on nonaccrual status.

Interest Rate Sensitivity of Net Portfolio Value

In order to encourage institutions to reduce interest rate risk, the Office of Thrift Supervision (OTS) adopted a rule incorporating an interest rate risk component into the risk-based capital rules. Using data compiled by the OTS, the

Savings Bank receives a report that measures interest rate risk by modeling the change in net portfolio value over a variety of interest rate scenarios. The OTS developed this procedure for measuring interest rate risk to replace the "gap" analysis (the difference between interest-earning assets and interest-bearing liabilities that mature or reprice within a specific time period). Net portfolio value is the present value of expected cash flows from assets, liabilities and off-balance-sheet contracts. The calculation is intended to illustrate the change in net portfolio value that will occur upon an immediate change in interest rates of at least 200 basis points with no effect given to any steps that management might take to counter the effect of that interest rate movement. Under OTS regulations, an institution with a greater than normal level of interest rate risk takes a deduction from total capital for purposes of calculating its risk-based capital. The OTS, however, has delayed the implementation of this regulation. An institution with a normal level of interest rate risk is defined as one whose measured interest rate risk is less than 2.0%. Based on the Savings Bank s regulatory capital ratios at June 30, 2004, the Savings Bank believes that, if the proposed regulation had been implemented at that date, the Savings Bank s level of interest rate risk would not have caused it to be treated as an institution with greater than normal interest rate risk.

The following table illustrates the change in net portfolio value at June 30, 2004, based on OTS assumptions, that would occur in the event of an immediate change in interest rates, with no effect given to any steps which management might take to counter the effect of that interest rate movement.

	Net Portfolio Value			Net Portfolio as % of Portfolio Value of Assets	
Basis Point ("bp") Change in Rates	Dollar Amount	Dollar Change(1)	Percent Change	Net Portfolio Value Ratio(2)	Change(3)
	(Dollars in thousands)				
300 bp	$ 31,693	$ (647)	(2) %	11.81 %	(7) bp
200	32,958	6187	2	12.18	31
100	32,967	627	2	12.13	26
-	32,340	-		11.87	-
(100)	30,760	(1,580)	(5)	11.29	(58)

(1) Represents the increase (decrease) of the estimated net portfolio value at the indicated change in interest rates compared to the net portfolio value assuming no change in interest rates.

(2) Calculated as the estimated net portfolio value divided by the portfolio value of total assets.

(3) Calculated as the increase (decrease) of the net portfolio value ratio assuming the indicated change in interest rates over the estimated net portfolio value ratio assuming no change in interest rates.

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The above table illustrates, for example, that at June 30, 2004 an instantaneous 200 basis point increase in market interest rates would deincrease the Savings Bank s net portfolio value by approximately $33618,000, or 2%, and an instantaneous 100 basis point decrease in market interest rates would decrease the Savings Bank s net portfolio value by $1.6 million 31,000, or 5%.

The following summarizes key exposure measures for the dates indicated. They measure the change in net portfolio value ratio for a 200 basis point adverse change in interest rates.

	June 30, 2004	March 31 2004	June 30, 2003
Pre-shock net portfolio value ratio	11.87%	10.75%	10.22%
Post-shock net portfolio value ratio	11.29%	10.22%	9.58%
Decline in net portfolio value ratio	58 bp	53 bp	64 bp

The calculated risk exposure measures indicate the Savings Bank s interest rate risk at June 30, 2004 has decreased from the previous year end, in that the shock increase in market rates would have a relatively small negative effect on net portfolio value.

The OTS uses certain assumptions in assessing the interest rate risk of thrift institutions. These assumptions relate to interest rates, loan prepayment rates, deposits decay rates, and the market values of certain assets under differing interest rate scenarios, among others. As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or period to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market interest rates. Additionally, certain assets, such as adjustable rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the table.

Lending Activities

General. The principal lending activity of the Savings Bank is the origination of conventional mortgage loans for the purpose of purchasing, constructing or refinancing one-to-four family owner occupied homes within its primary market area. In an attempt to diversify its lending portfolio, however, the Savings Bank also originates nonresidential real estate loans, consumer loans, mobile home loans, home improvement loans, commercial loans, business loans, student loans and loans secured by savings accounts. The ratios of residential and commercial real estate loans to total loans has shifted gradually in recent years as a result of market conditions in the Savings Bank s lending area and the hiring of seasoned loan officers experienced in commercial or agricultural lending. The commercial and agricultural loans have been underwritten using the Savings Bank s historically cautious approach to collateral values. Additionally, the Savings Bank has extensively used the Small Business Administration s (SBA) guaranteed programs since September 2000.

In addition to loans within the Savings Bank s primary market area, the Savings Bank also has originated 13 one-to-four family home loans and 10 commercial real estate loans in Arkansas, California, Colorado, Kansas, Nebraska and Oregon. The aggregate balance of these 23 loans at June 30, 2004 was $5.8 million. These loans were performing according to the scheduled terms at June 30, 2004.

At June 30, 2004, the Savings Bank s net loans receivable totaled approximately $166.3 million representing approximately 62.8% of consolidated total assets. Since 1973, the Savings Bank has primarily originated ARM loan products. At June 30, 2004, ARM loans accounted for $142.7 million or 84.14% of the total loan portfolio and 96.14% of loans secured by real estate. The Savings Bank focuses on serving the needs of its local community and strongly believes in a lending philosophy that emphasizes individual customer service and flexibility in meeting the needs of its customers.

Loan Portfolio Analysis. The following table sets forth the composition of the Savings Bank s loan portfolio by type of loan and type of security as of the dates indicated. Construction loans are included in residential and commercial loans. Because of the nature and amount of its construction loans, the Savings Bank does not separately account for these types of loans.

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	At June 30,	2004		2003		2002		2001	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount
					(Dollars in thousands)				
Type of Loan:									
Residential	$ 95,339	56.21 %	$ 103,751	57.64 %	$ 114,092	59.14 %	$ 123,758	64.00 %	$ 118,929
Commercial or industrial real estate	40,196	23.70	41,158	22.87	41,179	21.34	30,839	15.95	28,575
Land	9,019	5.32	9,892	5.50	11,264	5.84	12,526	6.48	9,029
Second mortgage loans	3,882	2.29	4,679	2.60	5,195	2.69	5,076	2.62	5,082
Total mortgage loans	148,436	87.52	159,480	88.61	171,730	89.01	172,199	89.05	161,615

Other Loans:									
Automobile loans	5,314	3.13	5,972	3.32	6,860	3.56	7,772	4.02	6,517
Savings account loans	1,900	1.12	1,813	1.01	1,733	0.90	1,685	0.87	1,646
Mobile home loans	1,970	1.16	1,742	0.97	1,543	0.80	1,302	0.67	1,319
Other consumer	1,629	.97	1,805	1.00	1,553	0.80	2,080	1.08	2,317
Commercial business	10,350	6.1009	9,172	5.09	9,506	4.93	8,344	4.31	5,582
Total other loans	21,163	12.48	20,504	11.39	21,195	10.99	21,183	10.95	17,381
Total loans	169,599	**100.00** %	179,984	**100.00** %	192,925	**100.00** %	193,382	**100.00** %	178,996
Add:									
Unamortized deferred loan costs,									
net of origination fees	224		240		265		288		267
Less:									
Undisbursed loans in process	2,324		2,373		3,358		2,622		3,797
Allowance for possible loan									
Losses	1,240		1,144		881		696		597
Total loans receivable, net	**$166,259**		**$176,707**		**$188,951**		**$190,352**		**$174,869**

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At June 30,	2004	2003	2002	2001

	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amou
					(Dollars in thousands)				
Type of Security:									
Residential real estate									
Second mortgage loans	$ 2,265	1.34 %	$ 2,758	1.53 %	$ 3,055	1.58 %	$ 3,233	1.67 %	$ 3,3
One-to-four family	96,113	56.67	102,638	57.03	114,178	59.18	123,758	64.00	118,9
Multi-family	461	0.27	1,741	0.97	1,969	1.02	1,797	0.93	1,7
Commercial or industrial real									
Estate	41,556	24.50	42,213	23.45	41,397	21.46	30,734	15.89	28,3
Land	8,536	5.04	9,660	5.37	11,148	5.78	12,677	6.56	9,1
Commercial or industrial									
Assets	10,247	6.04	9,063	5.04	9,528	4.94	8,344	4.31	5,5
Automobile	4,693	2.77	5,478	3.04	6,810	3.53	7,772	4.02	6,5
Savings accounts	1,260	0.74	1,408	0.78	1,523	0.79	1,685	0.87	1,6
Mobile homes	1,681	0.99	1,564	0.87	1,518	0.79	1,302	0.67	1,3
Other consumer	2,787	1.64	3,461	1.92	1,799	0.93	2,080	1.08	2,3
Total	169,599	**100.00** %	179,984	**100.00** %	192,925	**100.00** %	193,382	**100.00** %	178,9
Add:									
Unamortized deferred loan costs,									
net of origination fees	224		240		265		288		2
Less:									
Undisbursed loans in process:									
Nonconstruction loans	-		165		1,360		937		6
Construction loans	2,324		2,208		1,998		1,685		3,1
Allowance for possible loan									
Losses	1,240		1,144		881		696		5
Total loans receivable, net	**$166,259**		**$176,707**		**$188,951**		**$190,352**		**$174,8**

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One-to-Four Family Residential Loans. The primary lending activity of the Savings Bank has been the origination of mortgage loans to enable borrowers to purchase existing homes, to construct new one-to-four family homes or refinance existing debt on their homes. Management believes that this policy of focusing on single-family residential mortgage loans has been successful in contributing to interest income while keeping delinquencies and losses at a minimum. At June 30, 2004, approximately $96.1 million, or 56.67% of the Savings Bank's gross loan portfolio, consisted of loans secured by one-to-four family residential real estate. The Savings Bank presently originates ARM loans secured by one-to-four family properties with loan terms of 10 to 30 years. Since 1973, the Savings Bank has originated almost exclusively ARM loan products. Initially, ARM loans were indexed to the Savings Bank's cost of funds. In 1979, the Savings Bank discontinued the use of the indexed ARM loans and changed to its current policy of non-indexed ARMs, which generally allows, but does not require, the Savings Bank to adjust the interest rate once a year, up or down, not to exceed 1% per year. Loans of this nature originated after 1988 generally are limited to a 6% maximum increase over the life of the loan.

The Savings Bank does not charge points on ARM loans and it does not charge appraisal fees. It quotes an interest rate, or base rate, with no points and gives the borrower the option, if desired, to pay a 1% fee, but obtain the loan at 1% below the Savings Bank's base rate for the first year of the loan. Construction loan borrowers can pay a 2% fee and receive a 2% reduction in the initial interest rate for the first year of the loan. There is a $135 origination fee for purchase or refinanced loans and a $500 origination fee for construction loans. The Savings Bank funds most of its loan commitments in a relatively short period of time. If a commitment expires, the Savings Bank will generally renew the commitment upon request.

The Savings Bank underwrites ARMs based on an assumed 1% per year interest rate increase. The Savings Bank's policy to adjust the interest rate once a year within 1% is a self-imposed limit. The Savings Bank's experience has been that most of its borrowers can manage an increased payment resulting from a 1% increase; however, an increase of over 1% may put a strain on the borrowers' ability to repay. As a result, the potential for a substantial increase in interest payments on the Savings Bank's ARM loans is lessened as is the likelihood of delinquencies and defaults.

The Savings Bank's lending policies generally limit the maximum loan-to-value ratio on adjustable rate residential mortgage loans to 85% of the lesser of the appraised value or purchase price of the underlying residential property. The Savings Bank requires title insurance or an abstract extension and attorney's opinion, fire and casualty coverage and a flood zone determination on all mortgage loans originated or purchased. All of the Savings Bank's real estate loans contain "due on sale" clauses. The Savings Bank s personnel prepare all property evaluations at no expense to the borrower unless the property is outside its normal lending territory or the loan exceeds $250,000, in which event, independent appraisers are utilized. At June 30, 2004 the maximum loan-to-value ratio on loans to local borrowers was generally 85%.

At June 30, 2004, the Savings Bank had $1.9 million in interim construction loans in its portfolio with maximum loan to value ratios of 80% to 85%. Typically, the Savings Bank limits its construction lending to individuals who are building their primary residences. Construction financing generally is considered to involve a higher degree of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan is dependent largely upon the accuracy of the initial estimate of the property s value at completion of construction or development and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, the borrower may be required to fund the cost overruns. The Savings Bank has sought to minimize this risk by limiting construction lending to qualified borrowers in the Savings Bank s market area and by limiting the aggregate amount of outstanding construction loans. At June 30, 2004, speculative construction loans amounted to $263,000, or .16% of the total loan portfolio and custom construction loans amounted to $1.6 million, or .94% of the total loan portfolio. All of these loans automatically convert into permanent residential real estate loans.

Multi-Family Residential Loans. At June 30, 2004, approximately $461,000, or 0.27% of the Savings Bank's gross loan portfolio consisted of 4 loans secured by multi-family residential real estate. Multi-family real estate loans are generally originated at 80% of the appraised value of the property or selling price, whichever is less, and carry adjustable rate mortgages with the principal amortized over 10 to 30 years. Loans secured by multi-family real estate are generally larger and involve a greater degree of risk than one-to-four family residential loans. In addition, multi-family real estate loans carry risks similar to those associated with commercial real estate lending. See " -- Consumer and Commercial Business Loans." At June 30, 2004, all of the loans were performing according to scheduled terms.

The Savings Bank's largest multi-family residential loan was a $239,000 loan made in early 1999 with a balance at June 30, 2004 of $209,000. The loan is secured by five separate properties with a total of 12 rental units in Harrison, Arkansas and a 400 acre farm in Douglas County, Missouri.

Land and Commercial Real Estate Loans. The Savings Bank had loans outstanding secured by land and commercial real estate of $50.1 million, or 29.54% of the Savings Bank s gross loan portfolio, at June 30, 2004. The commercial real estate loans originated by the Savings Bank amounted to $41.6 million, or 24.50%, and are primarily secured by commercial buildings. Land loans on property located primarily in the Savings Bank's primary market area amounted to $8.5 million or 5.04% of the total loan portfolio at June 30, 2004. The Savings Bank's land loans generally are secured by farm land used in beef or dairy operations and involve the risks associated with general agricultural conditions relative to those areas of agriculture.

The Savings Bank's largest commercial real estate loan at June 30, 2004 was a $2.1 million participation. The one-year term loan was to purchase 3,700 acres in northern Missouri. The loan is performing according to its scheduled terms.

Of primary concern in commercial real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the property. Loans secured by income properties are generally larger and involve greater risks than residential mortgage loans because payments on loans secured by income properties are often dependent on successful operation or management of the properties. As a result, repayment of such loans may be subject, to a greater extent than residential real estate loans, to supply and demand in the market in the type of property securing the loan and therefore, may be subject to adverse conditions in the real estate market or the economy. If the cash flow from the project is reduced, the borrowers ability to repay the loan may be impaired.

Consumer and Commercial Business Loans. The Savings Bank's consumer loans consist of car loans, appliance dealer loans, mobile home loans, savings account loans, and various other consumer loans. At June 30, 2004, the Savings Bank's consumer loans totaled approximately $10.4 million, or 6.14% of the Savings Bank's total loans. Subject to market conditions, management expects to continue to market and originate consumer loans as part of its strategy to provide a wide range of personal financial services to its depository customer base and as a means to enhance the interest rate sensitivity of the Savings Bank's interest-earning assets and its interest rate spread.

At June 30, 2004, the Savings Bank s loan portfolio secured by automobiles amounted to $4.7 million, or 2.77% of total loans. These loans are originated directly with the borrower. The maximum term is 60 months for these loans. The Savings Bank may lend up to 100% of the purchase price of a new automobile or up to the National Automobile Dealers Association published loan value for a used vehicle. The Savings Bank requires all borrowers to maintain automobile insurance, including collision, fire and theft, with the Savings Bank listed as loss payee.

The Savings Bank also purchases consumer loans from a local appliance dealer. The loans are made by the appliance dealer to the dealer s customers. At June 30, 2004, the loans amounted to $25,000. Reserves for losses on these loans are maintained by the dealer and at June 30, 2004 totaled $12,000. These loans are originated by the dealer and are assigned, with recourse, to the Savings Bank. Payments are made directly to the dealer by the borrower and any losses are borne by the dealer rather than the Savings Bank. The Savings Bank obtains and reviews regularly updated financial statements of the appliance dealer and monitors the individual loans purchased.

The Savings Bank's procedures for underwriting consumer loans include an assessment of the applicant's payment history on other debts and ability to meet existing obligations and payments on the proposed loan. Although the borrower's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, to the proposed loan amount.

Consumer loans entail greater risk than do residential mortgage loans, particularly in the case of consumer loans which are unsecured or secured by rapidly depreciating assets such as automobiles, mobile homes, boats and recreational vehicles. Any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. Such loans may also give rise to claims and defenses by a consumer loan borrower against an assignee of such loans such as the Savings Bank, and a borrower may be able to assert against such assignee claims and defenses that it has against the seller of the underlying collateral. The Savings Bank s delinquency levels for these types of loans are reflective of these risks. See"--Non-Performing Assets and Delinquencies." At June 30, 2004, only $57,000 of the Savings Bank's consumer loan portfolio was 90 days or more past due.

Commercial business loans consist of commercial loans with no real estate as security, such as business equipment loans, farm equipment loans and cattle loans. As of June 30, 2004, 2003 and 2002, these loans totaled $10.2 million, $9.1 million, and $9.5 million, respectively. The ratio of commercial loans as a percent of total loans increased during the three years ended June 30, 20043 to 6.04%, 5.04% and 4.94%, respectively. These ratios are an indication that the Savings Bank does not particularly emphasize loans of this type, but may make such loans for well qualified customers. There have been insignificant losses from loans originated by the Savings Bank and categorized as "other loans" in the past three fiscal years.

Commercial business loans are often larger and may involve greater risk than other types of lending. Because payments on such loans are often dependent on successful operation of the business involved, repayment of such loans may be subject to adverse conditions in the economy. The Savings Bank seeks to minimize these risks through its underwriting guidelines, which require that the loan be supported by adequate cash flow of the borrower, profitability of the business, collateral, and personal guarantees of the individuals in the business. In addition, the Savings Bank limits this type of lending to its market area and to borrowers with which it has prior experience or who are otherwise well known to the Savings Bank.

Second Mortgage Loans. The Savings Bank offers adjustable rate second mortgage loans that are usually made on the security of the borrower's residence. Loans normally do not exceed 80% to 85% of the appraised value of the residence, less the outstanding principal of the first mortgage, and have terms of up to 25 years requiring monthly payments of principal and interest. At June 30, 2004, second mortgage loans amounted to $2.3 million, or 1.34% of total loans of the Savings Bank.

Loan Maturity and Repricing

The following table sets forth certain information at June 30, 2004 regarding the dollar amount of loans maturing in the Savings Bank's portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. Demand loans, loans having no stated schedule of repayments and no stated maturity, are reported as due in one year or less. Mortgage loans which have adjustable rates are shown as maturing at their next repricing date. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income and allowance for loan losses.

	Within One Year	After One Year Through 3 Years	After 3 Years Through 5 Years	After 5 Years Through 10 Years	Beyond 10 Years	Total
			(In thousands)			
				$ 291	$ 36	

Real estate mortgage	$ 95,767	$ 695	$ 815			$ 97, 604
Commercial real estate	31,108	5,826	2,510	1,664	505	41,613
Land	8,907	134	-	17	161	9,219
Mobile home	1,323	94	92	198	263	1,970
Automobile	1,213	2,623	1,330	146	2	5,314
Savings account loans	1,735	125	40	-	-	1,900
Other consumer	901	597	46	60	25	1,629
Commercial business	7,384	1,171	1,209	578	8	10,350
Total loans	**$ 148,338**	**$ 11,265**	**$ 6,042**	**$ 2,954**	**$ 1,000**	**$ 169,599**

The following table sets forth the dollar amount of all loans due one year after June 30, 2004, all of which have fixed interest rates.

	Fixed Rates (In thousands)
Real estate mortgage	$ 383
Commercial real estate	621
Land	214
Mobile home	647
Automobile	4,101
Savings account loans	165
Other consumer	728
Commercial business	2,729
Total	**$ 9,588**

The following table sets forth scheduled contractual amortization of loans and mortgage-backed securities at June 30, 2004 and the dollar amount of such loans and mortgage-backed securities at that date which are scheduled to mature after one year and have fixed or adjustable interest rates. Demand loans, loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

	At June 30, 2004				
	Mortgage Loans	Consumer Loans	Commercial Business Loans	Total Loans	Mortgage-Backed Securities
			(In thousands)		
Amounts due:					
Within one year	$ 9,706	$ 3,815	$6,622	$ 20,143	$ -
After one year through three years	931	3,446	1,219	5,596	-
After three years through five years	2,041	1,610	1,303	4,954	60185
After five years	135,758	1,942	1,206	138,906	6,84612,092
Total	**$148,436**	**$10,813**	**$10,350**	**$169,599**	**$ 6,90612,277**
Interest rate terms on amounts due after one year:					
Fixed	$ 1,218	$ 5,640	$2,671	$ 9,529	$ 4,1522,547
Adjustable	137,512	1,358	1,057	139,927	2,7549,730
Total	**$138,730**	**$ 6,998**	**$3,728**	**$149,456**	**$ 6,90612,277**

Mortgage Loan Solicitation and Processing. The Savings Bank's main source of loans is from referrals from current or prior borrowers, limited walk-ins and contact and relationships with real estate agents. Once a mortgage loan application is received, a credit and property analysis is completed including obtaining a credit report from local reporting agencies, verification of income and deposits through mail or direct contact, asset and liability verification as required and an evaluation of the property offered as collateral. Real estate evaluations are completed by board approved staff personnel. The application is then submitted for underwriting by designated staff members and forwarded to a loan officer for review and action along with the underwriter's recommendations. Decisions are generally made within a week. Loans in excess of $500,000 are approved by the Board of Directors and loans less than that amount are approved by authorized officers or a loan officer of the Savings Bank.

Loan Originations, Purchases and Sales. Loans are originated to meet or exceed the applicable underwriting requirements of the Savings Bank. The Savings Bank has never sold loans in the secondary market.

The Savings Bank has occasionally purchased loans from other financial institutions or two local appliance dealers, as discussed above. See "-- Consumer and Commercial Business Loans."

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The following table shows total mortgage loans originated, purchased, sold and repaid during the periods indicated.

	Years Ended June 30,		
	2004	2003	2002
	(In thousands)		
Total mortgage loans at beginning of period	$ 159,480	$ 171,730	$ 172,199
Loans originated:			
One-to-four family residential	26,933	26,601	22,908
Multi-family residential and commercial real estate	11,367	10,047	15,777 10,435
Land	3,263	2,502	2,787
Total loans originated	41,563	39,150	41,472
Loans purchased:			
One-to-four family residential	-	-	-
Multi-family residential and commercial real estate	-	411	- -
Land	-	-	

			-
Participation loans-commercial real estate		-	
	2,100		-
Total loans purchased		411	
	2,100		-
Loans sold	-	-	
			-
Mortgage loan principal repayments	53,7265,826	51,083	41,359
Other-loans charged off or			
transferred to other real estate(1)	981	728	582
Total other activity	981	728	582
Total gross mortgage loans at end of period	**$ 148,436**	**$ 159,480**	**$ 171,730**
Total mortgage-backed certificates at beginning of			
Period	$ 12,278	$ 2,759	$ 376
Mortgage-backed purchased	2,550	13,330	2,454
Mortgage-backed sold	-	-	-
Principal repayments	(7,711)	(3,650)	(106)
Amortization of premiums	(153)	(133)	-
Adjustment to market value	(58)	(28)	35
Total mortgage-backed at end of period	**$ 6,906**	**$ 12,278**	**$**
			$ 2,759

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(1) Loans transferred to other real estate amounted to $823,000,$673,000 and $523,000 during fiscal 2004, 2003 and 2002, respectively. Mortgage loans charged off amounted to $158,000,$55,000 and $59,000 during fiscal 2004, 2003 and 2002, respectively.

Loan Commitments. The Savings Bank issues commitments for one-to-four family residential ARM loans that are honored for up to a maximum of 30 days from approval. If the commitment expires, it is generally renewed upon request without penalty or expense to the borrower at the current market rate. The Savings Bank had outstanding net loan commitments of approximately $2.5 million at June 30, 2004. See Note 16 of the Notes to the Consolidated Financial Statements contained in the Annual Report.

Loan Origination and Other Fees. The Savings Bank does not charge points on ARM loans. Instead, it quotes an interest rate, or base rate, with no points and gives the borrower the option, if desired, to pay a 1% fee, but obtain the loan at 1% below the Savings Bank's base rate at the time the loan is issued. Subsequent increases in the loan's interest rate are based upon the reduced rate rather than the base rate. Construction borrowers can pay a 2% fee and receive a 2% reduction in the initial rate. Current accounting standards require fees received by the Savings Bank (net of certain loan origination costs) for originating loans to be deferred and amortized into interest income over the contractual life of the loan. The Savings Bank had $224,000 net deferred loan costs at June 30, 2004.

Non-Performing Assets and Delinquencies. The Savings Bank generally institutes collection procedures when a monthly payment is two to four weeks delinquent. A first notice is generally mailed to the borrower, or a phone call made. If necessary, a second notice follows at the end of the next two week period. In most cases, delinquencies are cured promptly; however, if the Savings Bank is unable to make contact with the borrower to obtain full payment, or, full payment if that is not possible, and the Savings Bank cannot work out a repayment schedule, a notice to commence foreclosure may be mailed to the borrower. The Savings Bank makes every reasonable effort, however, to work with delinquent borrowers. Understanding that borrowers sometimes cannot make payments because of illness, loss of employment, etc., the Savings Bank will attempt to work with delinquent borrowers who are communicating and cooperating with the Savings Bank.

The Savings Bank institutes the same collection procedures for non-mortgage loans.

The Board of Directors is informed on a monthly basis as to the status of all mortgage and non-mortgage loans that are delinquent 90 days or more, as well as the status on all loans currently in foreclosure or owned by the Savings Bank through foreclosure.

The table below sets forth the amounts and categories of non-performing assets in the Savings Bank's loan portfolio at the dates indicated. Loans are placed on non-accrual status when it is determined that the payment of interest or principal is doubtful of collection, or when interest or principle is past 120 days or more. Any accrued but uncollected interest previously recorded on such loans is generally reversed in the current period and interest income is subsequently recognized upon collection. The Savings Bank has no reserves for uncollected interest and does not accrue interest on the non-accrual loans. The Savings Bank would have recorded interest income on non-accrual loans of $66,000, $13,700 and $16,300 during the years ended June 30, 2004, 2003 and 2002, respectively, if such loans had been performing during such periods. The Savings Bank did not recognize interest income on loans that were placed on a non-accrual basis during the years ended June 30, 2004, 2003 and 2002.

Accruing loans contractually past due 90 days or more have decreased during the year ended June 30, 2004 from $1.8 million to $710,000 for the year ended June 30, 2004. Three of those loans totaling $192,000 have been placed on nonaccrual status. The vast majority of the remaining past due loans are well secured, and the borrowers are making payments and working with Savings Bank personnel to bring their loans current**.**

Home loans which are 60 or more days but less than 91 days past due have decreased during the fiscal year 2004 as Savings Bank personnel have concentrated efforts on working with borrowers who were past due in the prior year. This process reduced the amount of residential loans past due 60 days or more and moved these loans into the current or less than 60 days delinquent category.

The following table sets forth information with respect to the Savings Bank's non-performing assets at the dates indicated. At the dates shown, the Savings Bank had no restructured loans within the meaning of SFAS 15.

	At June 30,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Loans accounted for on					
a nonaccrual basis					
Real estate:					
Residential	$158	$ -	$ -	$ -	$ -
Commercial	386	176	175	-	-
Commercial business	1,224	-	-	40	40
Consumer	44	-	-	9	9
Total	**$ 1,812**	**$ 176**	**$ 175**	**$ 49**	**$ 49**
Accruing loans which are contractually					
past due 90 days or more:					
Real estate:					
Residential	$ 555	$ 640	$ 666	$1,623	$1,536
Commercial	142	893	261	1,038	737
Commercial business	-	27	24	552	83
Consumer	13	214	146	275	333
Total	**$710**	**$1,774**	**$1,097**	**$3,488**	**$2,689**
Total of nonaccrual and					
90 days past due loans	$2,522	$1,950	$1,272	$3,537	$ 2,738
Real estate owned	174	282	399	193	-

Other non-performing assets					-
Impaired loans not past due	-	1,368	1,357	-	-
Slow home loans (60 to 90 days delinquent)	430	1,173	1,507	995	750
Total non-performing assets	**$3,126**	**$4,773**	**$4,535**	**$4,725**	**$ 3,488**
Total loans delinquent 90 days or more to net loans	1.52%	1.10%	0.67%	1.86%	1.57%
Total loans delinquent 90 days or more to total consolidated Assets	0.95%	0.73%	0.49%	1.60%	1.38%
Total non-performing assets to total consolidated Assets	1.18%	1.78%	1.76%	2.14%	1.75%

Asset Classification. The OTS has adopted various regulations regarding problem assets of savings institutions. The regulations require that each insured institution review and classify its assets on a regular basis. In addition, in connection with examinations of insured institutions, OTS examiners have authority to identify problem assets and, if appropriate, require them to be classified. There are three classifications for problem assets: substandard, doubtful and loss. Substandard assets must have one or more defined weaknesses and are characterized by the distinct possibility that the insured institution will sustain some loss if the deficiencies are not corrected. Doubtful assets have the weaknesses of substandard assets with the additional characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss. An asset classified loss is considered uncollectible and of such little value that continuance as an asset of the institution is not warranted. If an asset or portion thereof is classified loss, the insured institution must either establish specific allowances for loan losses for the full amount of the portion of the asset classified as loss or charge off such amount. All or a portion of general loan loss allowances established to cover possible losses related to assets classified substandard or doubtful may be included in determining an institution's regulatory capital, while specific valuation allowances for loan losses generally do not qualify as regulatory capital.

At June 30, 2004 and 2003 the aggregate amounts of the Savings Bank's classified assets as determined by the Savings Bank, and of the Savings Bank's general and specific loss allowances and charge-offs, were as follows:

	At June 30,	
	2004	2003
	(In thousands)	
Loss	$ -	$ -
Doubtful	2,141	790
Substandard assets	2,519	3,017
Total classified assets	**$4,660**	**$3,807**
General loss allowances	$ 772	$ 467
Specific loss allowances	468	677
Total loss allowances	**$1,240**	**$1,144**
Charge-offs	$ 346	$ 228

The Savings Bank does not use a special mention category in its loan classification process. Loans classified as substandard, therefore, include all loans for which any perceived weakness occurs even if no possibility has arisen that a loss will occur if the weakness is not corrected. The Savings Bank's policy is to classify as substandard, for example, any loan, irrespective of payment record or collateral value, when a bankruptcy filing occurs, a divorce petition is filed, the pay record becomes erratic (i.e., miss one monthly payment, but make a double payment the next month), a borrower moves from the area, a major illness occurs, or a loan becomes contractually delinquent by three monthly payments. The $1.4 million increase in doubtful assets to $2.1 million at June 30, 2004 from $800,000 at June 30, 2003 was the result of the increase in nonaccrual loans. This increase was attributable to commercial loans to one borrower and related companies that have filed for protection under Chapter 11 bankruptcy.

The Savings Bank also has a policy not to remove a loan from a substandard classification, again, irrespective of pay record or collateral value, until those perceived weaknesses are cured. Because of this stringent classification policy, the June 30, 2004 substandard classification totals included $372,000 of loans that were current in their payment obligations.

At June 30, 2004, the Savings Bank's largest substandard loans to one borrower consisted of four loans to a corporation and one of its stockholders with a collective outstanding balance of $457,000. Even though the loans were performing according to their respective contractual terms at June 30, 2004, the borrower had experienced cash flow difficulties several times in the last twelve months. The loans are collateralized by business assets and a third deed of trust on a personal residence.

Real Estate Owned. Real estate acquired by the Savings Bank as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until it is sold. When property is acquired, the unpaid principal balance of the related loan plus foreclosure costs are compared to the property's net realizable value. The property is then directly written down to the lower of cost or net realizable value. Subsequently, the property is carried at the lower of cost or net realizable value with any adjustments made through the establishment of a specific reserve. At June 30, 2004, five

properties were held as real estate owned with a total value of $174,000. At June 30, 20034, seven properties were held as real estate owned with a total value of $282,000.

Reserve for Loan Losses

The Savings Bank s Loan Classification Committee performs a monthly and quarterly review of the probable estimated losses in the loan portfolio. The Committee reviews the following information:

(i) All loans classified during the previous analysis Current information such as payment history, or actions taken to correct the deficiency are reviewed and, if justified, the classification level may be upgraded. If conditions have not improved, the loan classification is reviewed to ensure the appropriate action is being taken to mitigate loss.

(ii) Past due loans The committee reviews loans past due 60 days or more, taking into consideration the borrower, the nature of the collateral and its value, the circumstances that have caused the delinquency, and the likelihood of the borrower correcting the conditions that have resulted in the delinquent status. The committee may recommend more aggressive collection activity, inspection of the collateral, or no change in its classification.

(iii) Reports from Savings Bank s loan officers Loan officers may be aware of a borrower s circumstances that have not yet resulted in any past due payments but have the potential for problems in the immediate future. Each loan officer reviews their respective lending unit s loans and identifies any that may have developing weaknesses. This self identification process isn an important component of maintaining credit quality as each loan officer is accountable for monitoring as well as originating loans.

(iv) Current economic conditions The Savings Bank takes into consideration economic conditions in itst market area as well as national economic factors that could influence the quality of the loan portfolio in general.

Individual loans that were previously classified by the committee and/or new loans recently classified are evaluated for loss potential, and any specific estimates of impairment are added to the overall reserve amount. A detailed review of the classification list and/or specific loans are performed and documented quarterly.

In addition to adding specific estimates of impairment to the required reserve amounts, management applies a percentage, based on historical loss ratios and other economic factors, to the loan portfolio. This calculated amount is compared to the actual amount recorded in the allowance at the end of each quarter and a determination is made as to whether the allowance is adequate or needs to be increased. Management increases the amount of the allowance for loan losses by charges to income and decreases it by loans charged off (net of recoveries). The Savings Bank had reserves for loan losses at June 30, 2004, 2003 and 2002 of approximately $1.2 million, $1.1 million, and $881,000 respectively.

Management believes that loan loss reserves were adequate at June 30, 2004. However, if the underlying facts and circumstances of the loan portfolio change in the future, the adequacy of the allowance for loan losses will be addressed and, if need be, adjusted accordingly.

While the Savings Bank believes it has established its existing allowance for loan losses in accordance with GAAP, there can be no assurance that regulators, in reviewing the Savings Bank's loan portfolio, will not request the Savings Bank to significantly increase its allowance for loan losses. Any material increase in reserves may adversely affect the Savings Bank's financial condition and earnings.

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The following table sets forth an analysis of the Savings Bank's gross reserve for possible loan losses for the periods indicated. Where specific loan loss reserves have been established, any difference between the loss reserve and the amount of loss realized has been charged or credited to current income.

	At June 30,				
	2004	2003	2002	2001	2000
	(Dollars in thousands)				
Allowance at beginning of period	$1,144	$ 884	$ 698	$ 597	$ 540
Provision for loan losses	340	427	374	155	89
Recoveries:					
Residential real estate	9	7	-	5	-
Commercial real estate		-	-	-	-
Consumer	79	53	16	1	5
Commercial business	14	-	-	-	-
Total recoveries	102	60	16	6	5
Charge offs:					
Residential real estate	41	44	36	20	20
Commercial real estate	127	18	23	-	-
Consumer	147	165	143	37	17
Commercial business	31	-	2	3	-
Total charge offs	346	227	204	60	37

Net charge offs	244	167	188	54	32
Allowance at end of period	**$1,240**	**$1,144**	**$ 884**	**$ 698**	**$ 597**
Ratio of allowance to total loans outstanding at the end of the period	0.73%	0.63%	0.46%	0.36%	0.33%
Ratio of net charge offs to average loans Loans outstanding during the period	0.14%	0.09%	0.10%	0.03%	0.02%

Allowance for Loan Losses by Category

	At June 30,								
	2004			2003			2002		
	Amount	% of Out-Standing Loans in Category	% of Gross Loans in Category to Gross Loans	Amount	% of Out-standing Loans in Category	% of Gross Loans in Category to Gross Loans	Amount	% of Out-standing Loans in Category	% of Gro Loans Categ to Gro Loans
	(Dollars in thousands)								
Real estate -- mortgage:									
Residential	$ 283287	0.3028 %	56.2157.64 %	$ 287	0.28 %	57.64 %	$ 252	0.22 %	59
Commercial	337302	0.8473	23.7022.87	302	0.73	22.87	238	0.58	21
Land	3126	0.3426	5.325.50	26	0.26	5.50	22	0.20	5
Second mortgage loans	2033	0.5271	2.292.60	33	0.71	2.60	19	0.37	2
Consumer	240169	2.221.49	6.386.30	182	1.61	6.30	1385	1.186	6
Commercial business	329314	3.1843	6.105.09	314	3.43	5.09	215	2.27	4
Total allowance for		0.7363 %	**100.00** %	**$ 1,144**	0.64 %	**100.00** %	**$ 884**	0.46 %	**100**

loan losses	**$ 1,2401,131**

	At June 30,					
	2001			2000		
	Amount	% of Out-standing Loans in Category	% of Gross Loans in Category to Gross Loans	Amount	% of Out-standing Loans in Category	% of Gross Loans in Category to Gross Loans
	(Dollars in thousands)					
Real estate -- mortgage:						
Residential	$ 193	0.16 %	64.00 %	$ 195	0.16 %	66.44 %
Commercial	127	0.41	15.95	112	0.39	15.96
Land	23	0.18	6.48	17	0.18	5.05
Second mortgage loans	14	0.28	2.62	14	0.27	2.84
Consumer	203	1.58	6.64	170	1.45	6.59
Commercial business	136	1.63	4.31	89	1.59	3.12
Total allowance for loan losses	**$ 696**	0.36 %	**100.00** %	**$ 597**	0.33 %	**100.00** %

Investment Activities

Savings and loan associations have authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various Federal agencies and of state and municipal governments, deposits at the FHLB-Des Moines, certificates of deposit of federally insured institutions, certain bankers' acceptances and federal funds. Subject to various restrictions, savings institutions may also invest a portion of their assets in commercial paper, corporate debt securities and mutual funds, the assets of which conform to the investments that federally chartered savings institutions are otherwise authorized to make directly. Savings institutions are also required to maintain minimum levels of liquid assets which vary from time to time. See "REGULATION OF FIRST HOME -- Federal Home Loan Bank System." The Savings Bank may decide to increase its liquidity above the required levels depending upon the availability of funds and comparative yields on investments in relation to return on loans.

Routine short-term investment decisions, which are reported monthly to the Board of Directors, are made by the President and Chief Executive Officer and Chief Financial Officer, who act within policies established by the Board. Those investments include federally insured certificates of deposit, FHLB term time obligations, bankers acceptances, treasury obligations, U.S. Government agency obligations, mortgage-backed securities, bank qualifying municipal tax exempt bonds, and corporate bonds. Securities not within the parameters of the policies require prior Board approval. Securities are purchased for investment purposes. The goals of the Savings Bank's investment policy are to select investments based on safety first, flexibility second and diversification third. In addition, as a result of the concern with interest rate risk exposure, there has been a focus on short-term investments. At June 30, 2004, the Company's and the Savings Bank's securities investment portfolio totaled $35.0 million and consisted primarily of federal agency obligations securities, common and preferred stocks, and municipal bonds. For further information concerning the Savings Bank's investment and mortgage-backed securities portfolio, see Notes 2, 3 and 4 of the Notes to the Consolidated Financial Statements included in the Annual Report.

Investment Securities Analysis

The following table sets forth the Company's and the Savings Bank's investment securities portfolio at carrying value at the dates indicated.

	At June 30,					
	2004		2003		2002	
	Book Value(1)	Percent of Portfolio	Book Value(1)	Percent of Portfolio	Book Value(1)	Percent of Portfolio
	(Dollars in thousands)					

Debt securities:						
U.S. government treasury and						
obligations of U.S.						
government agencies	$31,701	81.51 %	$24,440	69.88 %	$29,060	85.32 %
Corporate bonds	-	-	636	1.82	-	-
Auto and student loan pools	-	-	-	-	11	0.03
Corporate Senior Notes	145	0.37	254	0.723	-	-
State and political subdivisions	2,685	6.90	4,658	13.32	1,558	4.57
Total debt securities	34,531	88.78	29,988	85.745	30,629	89.92
Equity securities:						
Federal Home Loan Bank						
stock	1,904	4.90	1,901	5.43	1,901	5.58
Other	2,460	6.32	3,086	8.832	1,532	4.50
Total equity securities	4,364	11.22	4,987	14.265	3,433	10.08
Total investment securities	**$38,895**	**100.00** %	**$34,975**	**100.00** %	**$34,062**	**100.00** %

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(1) The market value of the Company s and the Savings Bank's investment securities portfolio amounted to $38.7 million, $35.2 million, and $34.1 million at June 30, 2004, 2003 and 2002, respectively. At June 30, 2004, the market value of the principal component of the Company s and the Savings Bank investment securities portfolio which were obligations of U.S. government

agencies was $31.5 million.

The following table sets forth the maturities and weighted average yields of the debt securities in the Company s and the Savings Bank's investment securities portfolio at June 30, 2004.

	Less Than One Year		One to Five Years		Five to Ten Years		Over Ten Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(Dollars in thousands)							
U.S. government treasury and								
obligations of U.S. government agencies	$ 3,580 990	1.463.49 %	$ 18,20913,110	2.7991 %	$ 8,5026,750	3.273.28 %	$ 1,000	5.00
State and political subdivisions	5562,785	3.042.56	1,7411,649	3.464.93	389224	4.476.36	-	-
Total	**$ 4,5466,365**	1.653.08	**$ 19,95014,759**	2.853.13	**$ 8,8916,974**	3.328	**$ 1,000636**	5.0097

At June 30, 2004, the Savings Bank held no security which had an aggregate book value in excess of 10% of the Company s stockholders equity.

The corporate bonds totaling $636,000 at June 30, 2004 were an investment in trust preferred securities and senior notes. The underlying companies of these securities had adequate investment grade ratings by S&P ratings service. There was a $3.1 million increase in the investments in state and political subdivision during the year ended June 30, 2004 as the Savings Bank purchased municipal bonds through the initial offerings of political subdivisions within the Savings Bank s lending area. Other equity securities at June 30, 2004 was comprised of FNMA and FHLMC preferred stock totaling $12.91 million and common and preferred stock totaling $225,0001.2 million in other financial institutions in Missouri.

Mortgage-Backed Securities. To supplement lending activities in periods of deposit growth and/or declining loan demand, the Savings Bank has invested in residential mortgage-backed securities. Although such securities are held for investment, they can serve as collateral for borrowings and, through repayments, as a source of liquidity. For information regarding the carrying and market values of the Savings Bank's mortgage-backed securities portfolio, see Note 4 of the Notes to Consolidated Financial Statements included in the Annual Report. The Savings Bank has invested in federal agency securities issued by Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA) and Government National Mortgage Association (GNMA). As of June 30, 2004, 27.8658.63% of the outstanding balance of the mortgage-backed securities had adjustable rates of interest within the next two years. As of June 30, 2004, the Savings Bank's portfolio included $6.912.28 million of mortgage-backed securities purchased as investments to supplement the Savings Bank's mortgage lending activities.

The FHLMC, FNMA and GNMA certificates are modified pass-through mortgage-backed securities that represent undivided interests in underlying pools of fixed-rate, or certain types of adjustable-rate, single-family residential mortgages issued by these government-sponsored entities. As a result, the interest rate risk characteristics of the underlying pool of mortgages, such as fixed- or adjustable-rate, as well as prepayment risk, are passed on to the certificate holder. FHLMC and FNMA provide the certificate holder a guarantee of timely payments of interest and ultimate collection of principal, whether or not they have been collected. GNMA s guarantee to the holder of timely payments of principal and interest is backed by the full faith and credit of the U.S. government. Mortgage-backed securities generally yield less than the loans that underlie such securities, because of the cost of payment guarantees or credit enhancements that reduce credit risk. In addition, mortgage-backed securities are more liquid than individual mortgage loans and may be used to collateralize obligations of the Savings Bank.

The Savings Bank has incorporated into its investment policy the regulatory requirements set forth in the OTS Thrift Bulletin 52, which addresses the selection of securities dealers, securities policies, unsuitable investment practices and mortgage derivative products. At June 30, 2004, the Savings Bank owned no derivatives.

Deposit Activities and Other Sources of Funds

General. Deposits and loan repayments are the major source of the Savings Bank's funds for lending and other investment purposes. Loan repayments are a relatively stable source of funds, while deposit inflows and outflows and loan prepayments are significantly influenced by general interest rates and money market conditions. Borrowings may be used on a short-term basis to compensate for reductions in the availability of funds from other sources. They may also be used on a longer term basis for general business purposes.

Deposit Accounts. Deposits are attracted from within the Savings Bank's primary market area through the offering of a broad selection of deposit instruments, including negotiable order of withdrawal ("NOW") accounts, money market accounts, regular savings accounts, certificates of deposit and retirement savings plans. Deposit account terms vary according to the minimum balance required, the time periods the funds must remain on deposit and the interest rate, among other factors. In determining the terms of its deposit accounts, the Savings Bank considers the rates offered by its competition, profitability to the Savings Bank, matching deposit and loan products and its customer preferences and concerns. The Savings Bank generally reviews its deposit mix and pricing at least weekly, and adjusts it as necessitated by liquidity needs, the gap position and competition.

The Savings Bank did not experience a significant increase in any one type of deposit account during the year ended June 30, 2004. Management believes deposits will begin to gradually decrease, net of interest credited, during the remainder of calendar year 2004.

The following table sets forth information concerning the Savings Bank's time deposits and other interest-bearing deposits

at June 30, 2004.

Weighted Average Interest Rate	Term	Category	Minimum Amount	Balance	Percentage of Total Deposits
				(Dollars in thousands)	
0.00%	None	Non-interest bearing	$ -	$ 9,962	4.81 %
0.59%	None	NOW accounts	25	37,191	17.95

1.12%	None	Super Saver accounts	1	38,845	18.74
0.81%	None	Savings accounts	-	16,7521	8.08
		Certificates of deposit			
1.07%	3 months	Fixed term, fixed rate	500	2,810	1.36
1.40%	6 months	Fixed term, fixed rate	500	14,316	6.91
1.72%	12 months	Fixed term, fixed rate	500	17,295	8.35
2.05%	18 months	Fixed term, fixed rate	500	1,539	0.74
2.61%	24 months	Fixed term, fixed rate	500	3,975	1.92
2.97%	30 months	Fixed term, fixed rate	500	1,168	0.56
3.06%	36 months	Fixed term, fixed rate	500	1,561	0.75
4.04%	48 months	Fixed term, fixed rate	500	786	0.38
5.27%	60 months	Fixed term, fixed rate	500	5,684	2.74
3.68%	72 months	Fixed term, fixed rate	500	63	0.03
5.22%	120 months	Fixed term, fixed rate	500	21	0.01
various	Various	Fixed term, adjustable rate	500	24,869	12.00
various	Various	Jumbo certificates	100,000	30,4101	14.67
				$207,247	**100.00** %

The following table indicates the amount of the Savings Bank's jumbo certificates of deposit by time remaining until maturity as of June 30, 2004. Jumbo certificates of deposit require minimum deposits of $100,000 and rates paid on such accounts are negotiable.

Maturity Period	Jumbo Certificates of Deposit (In thousands)
Three months or less	$ 9,811
Three through six months	4,814
Six through twelve months	7,508
Over twelve months	8,2778
Total	**$30,4101**

Time Deposits by Rates

The following table sets forth the time deposits in the Savings Bank classified by rates as of the dates indicated.

	At June 30,		
	2004	2003	2002
		(In thousands)	
0.00 - 1.49%	$ 18,649	$ 4,351	$ 711
1.50 - 2.49%	47,126	38,405	-
2.50 - 3.49%	13,243	29,462	48,587
3.50 - 4.49%	10,260	15,328	20,582
4.50 - 5.49%	3,245	5,344	11,156
5.50 - 6.49%	10,036	15,264	19,734
6.50 - 7.49%	1,917	2,363	2,879
Over 7.49%	21	-	-
Total	**$104,497**	**$110,517**	**$103,649**

The following table sets forth the amount and maturities of time deposits at June 30, 2004.

	Amount Due						
	Less than One Year	1-2 Years	2-3 Years	3-4 Years	After 4 Years	Total	Percent of Total Certificate Accounts
	(In thousands)						
0.00 - 1.49%	$ 18,635	$ 10	$ -	$ 4	$ -	$ 18,649	17.85 %
1.50 - 2.49%	33,422	7,995	896	4,813	-	47,126	45.10
2.50 - 3.49%	8,675	818	2,237	488	1,025	13,243	12.67
3.50 - 4.49%	2,712	3,756	2,746	1,046	-	10,260	9.82
4.50 - 5.49%	1,217	1,055	311	641	21	3,245	3.11
5.50 - 6.49%	9,655	381	-	-	-	10,036	9.60
6.50 - 7.49%	1,493	424	-	-	-	1,917	1.83
Over 7.49%	-	-	-	21	-	21	0.02
Total	**$ 75,809**	**$14,439**	**$ 6,190525**	**$7,0135,112**	**$1,0462,140**	**$ 104,497**	**100.00 %**

Deposit Flow

The following table sets forth the balances of savings deposits in the various types of savings accounts offered by the Savings Bank at the dates indicated.

	At June 30,							
	2004			2003			2002	
	Amount	Percent Of Total	Increase (Decrease)	Amount	Percent Of Total	Increase (Decrease)	Amount	Perce Of Tota
	(Dollars in thousands)							
Non-interest bearing	$ 9,962	4.81 %	$ 1,075	$ 8,887	4.20 %	$ 1,356	$ 7,531	3.
NOW checking	37,191	17.95	1,987	35,204	16.63	4,404	30,800	15.
Regular savings accounts	16,7521	8.08	4210	16,331	7.72	1,839	14,492	7.
Super Saver accounts	38,845	18.74	(1,879)(1,880)	40,725	19.23	(727)	41,452	20.
Super NOW accounts	-	-0.00	-	-	-	(4,526)	4,526	2.
Fixed-rate certificates which								
mature (1):								
Within 1 year	58,402	28.18	(4,965)	63,367	29.94	(5,015)	68,382	33.
After 1 year, but within 2 years	5,342	2.58	(3,543)	8,885	4.20	677	8,208	4.
After 2 years, but within 5 years	5,392	2.60	(273)	5,665	2.68	(2,054)	7,719	3.

Thereafter	-	0.00	-	-	-	-	-	-
Adjustable-rate certificates	35,3612	17.06	2,761	32,600	15.40	13,260	19,340	9.
Total certificates	104,4978	50.42	(6,020)	110,517	52.22	6,868	103,649	51.
Total	**$ 207,247**	**100.00**	**$ (4,417)**	**$ 211,664**	**100.00 %**	**$ 9,214**	**$ 202,450**	**100.**

(1) At June 30, 2004, 2003 and 2002, jumbo certificates of deposit amounted to $30.4 million, $29.8 million and $26.6 million, respectively, and IRAs amounted to $25.5 million, $24.6 million, $20.8 million at those dates, respectively.

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The following table sets forth the savings activities of the Savings Bank for the periods indicated.

	Years Ended June 30,		
	2004	2003	2002
		(In thousands)	
Beginning balance	$ 211,664	$ 202,450	$162,438
Net increase (decrease) before interest credited	(8,087)	4,594	34,536
Interest credited	3,670	4,620	5,476
Net increase/(decrease) in savings deposits	(4,417)	9,214	40,012
Ending balance	**$ 207,247**	**$ 211,664**	**$202,450**

In the unlikely event the Savings Bank is liquidated, depositors will be entitled to full payment of their deposit accounts prior to any payment being made to the stockholders of the Savings Bank. Substantially all of the Savings Bank's depositors are residents of the State of Missouri.

Borrowings. Savings deposits are the primary source of funds for the Savings Bank's lending and investment activities and for its general business purposes. The Savings Bank also relies on advances from the FHLB-Des Moines to supplement its supply of lendable funds and to meet deposit withdrawal requirements. The FHLB-Des Moines has served as the Savings Bank's primary borrowing source. Advances from the FHLB-Des Moines are typically secured by the Savings Bank's first mortgage loans. These advances require monthly payments of interest only with principal due at maturity and have fixed rates. The short-term advances require interest payable at maturity. Threewo long-term advances require monthly payments of principal and interest. These advances were obtained in response to the Savings Bank's previous strong loan demand and limited deposit growth experienced during fiscal years 2001 and 2000. At June 30, 2004, the Savings Bank had $29.1 million in advances from the FHLB-Des Moines.

The following tables set forth certain information concerning the Savings Bank s borrowings at the dates and for the periods indicated.

	At June 30,	
	2004	2003
Weighted average rate paid on FHLB advances	5.55 %	5.56 %

	Years Ended June 30,	
	2004	2003
	(Dollars in thousands)	
Maximum amounts of FHLB advances outstanding at any month end	$29,352	$29,779
Approximate average FHLB advances Outstanding	29,242	29,712
Approximate weighted average rate paid on FHLB advances	5.65 %	5.64 %

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The FHLB-Des Moines functions as a central reserve bank providing credit for savings and loan associations and other member financial institutions. As a member, the Savings Bank is required to own capital stock in the FHLB-Des Moines and is authorized to apply for advances on the security of such stock and certain of its mortgage loans and other assets (principally securities which are obligations of, or guaranteed by, the United States) provided certain standards related to creditworthiness have been met. Advances are made pursuant to several different programs. Each credit program has its own interest rate and range of maturities. Depending on the program, limitations on the amount of advances are based either on a fixed percentage of an institution's retained earnings or on the FHLB's assessment of the institution's creditworthiness. The FHLB-Des Moines determines specific lines of credit for each member institution. Because of their prepayment penalties, it is not currently economical to prepay any of these advances prior to maturity.

Subsidiary Activities

Fybar Service Corporation ("Fybar") is a Missouri corporation wholly-owned by the Savings Bank. Fybar owns five rental properties. One is an office building in Mountain Grove, Missouri called "The Shannon Centre" which is adjacent to the Savings Bank's drive-in and is currently 88% occupied. The second is a single family residence in Gainesville, Missouri which is currently occupied. The third property is a commercial building in Mountain Grove, Missouri which is currently occupied. vacant. The fourth is a single family residence in Mountain Grove, Missouri which is currently occupied. The fifth is a commercial building in Sparta, Missouri which is fully occupied.

Fybar serves as Trustee on all the Savings Bank's deeds of trust, is a registered agent and receives limited income from credit life and accident and health policies written in conjunction with the Savings Bank's loans.

At June 30, 2004, the Savings Bank had an investment in Fybar of $576,000.

South Central Missouri Title, Inc., is a Missouri corporation wholly-owned by First Bancshares, Inc. South Central was a licensed agent for the purpose of selling title insurance and also providing real estate closing services. On June 22, 2004 an agreement was entered to sell the property and equipment of South Central Missouri Title Company, Inc. for $252,000. The transaction closed on July 16, 2004. As a result of this sale, the subsidiary will no longer offer sales of titles insurance or real estate closing services. See Note 18 of The Notes to Consolidated Financial Statements included in the Annual Report.

REGULATION OF FIRST HOME

As a Missouri-chartered and federally insured savings and loan association, First Home is subject to extensive regulation. Lending activities and other investments must comply with various statutory and regulatory capital requirements. The Savings Bank is regularly examined by its state and federal regulators and files periodic reports concerning the Savings Bank's activities and financial condition. The Savings Bank's relationship with its depositors and borrowers is also regulated to a great extent by federal and state laws, especially in such matters as the ownership of savings accounts and the form and content of the Savings Bank's mortgage documents.

Missouri Savings and Loan Law

General. As a Missouri-chartered savings and loan association, First Home derives its authority from, and is governed by, the provisions of the Missouri Savings and Loan Law ("Missouri Law") and regulations of the Missouri Division of Finance (Division). The Director of the Missouri Division of Finance (Director) proposes regulations which must then be approved, amended, modified or disapproved by the State Savings and Loan Commission (Commission). Missouri Law and the resulting regulations are administered by the Director.

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Investments and Accounts. Missouri Law and regulations impose restrictions on the types of investments and loans that may be made by a Missouri-chartered institution, generally bringing these restrictions into parity with the regulation of federally chartered institutions. The manner of establishing accounts and evidencing the same is prescribed, as are the obligations of the institution with respect to withdrawals from accounts and redemption of accounts. The Director may also impose or grant the same restrictions, duties and powers concerning deposits as are applicable to federal institutions under federal rules and regulations.

Branch Offices. Under Missouri Law, no institution may establish a branch office or agency without the prior written approval of the Director. The Director reviews the proposed location, the functions to be performed at the office, the estimated volume of business, the estimated annual expense of the office and the mode of payments. Decisions of the Director may be appealed to the Commission. The relocation or closing of any office is subject to additional regulation and in certain circumstances may require prior approval.

Merger or Consolidation. Missouri Law permits the merger or consolidation of savings institutions, subject to the approval by the Director, when the Director finds that such merger or consolidation is equitable to the members or account holders of the institutions and will not impair the usefulness and success of other properly conducted institutions in the community. Mergers or consolidations of mutual institutions must also be approved by a majority of the members of each institution. Stock institutions must obtain shareholder approval pursuant to the Missouri statutes relating to general and business corporations.

Holding Companies. Missouri Law requires a savings and loan holding company and its subsidiaries to register with the Director within 60 days of becoming a savings and loan holding company. Following registration it is subject to examination by the Division and thereafter must file certain reports with the Director. A savings and loan holding company may acquire control of an institution of another savings and loan holding company upon application and prior written approval of the Director. The Director, in reviewing the application, must determine if such acquisition is consistent with the interests of maintaining a sound financial system and that the acquisition does not afford a basis for supervisory objection.

Examination. Periodic reports to the Division must be made by each Missouri-chartered institution. The Division conducts and supervises the examination of state-chartered institutions.

Supervision. The Director has general supervisory authority over Missouri-chartered institutions and upon the Director's finding that an institution is violating the provisions of its articles of incorporation, its bylaws or any law of the state, or is conducting business in an unsafe or injurious manner, the Director may order the institution to discontinue such violation or practice, and to conform with all the requirements of law. The Director may demand and take possession of the institution, if the institution fails to comply with the Director's order, if the Director determines that the institution is insolvent, in an unsafe condition or conducting business in an unsafe manner, or if the institution refuses to submit to examination or inspection by the Division.

Federal Regulation of Savings Banks

Office of Thrift Supervision. The OTS is an office in the Department of the Treasury subject to the general oversight of the Secretary of the Treasury. Among other functions, the OTS issues and enforces regulations affecting federally-insured savings associations and regularly examines these institutions.

The OTS has extensive authority over the operations of all insured savings associations. As part of this authority, First Home is required to file periodic reports with the OTS District Director and is subject to periodic examinations by the OTS and the FDIC. The OTS and FDIC have extensive discretion in their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Any change in these policies, whether by the OTS, the FDIC or Congress, could have a material adverse impact on the Company.

The OTS has established a schedule for the assessment of fees upon all savings associations to fund the operations of the OTS. A schedule of fees has also been established for the various types of applications and filings made by savings associations with the OTS. The general assessment, to be paid on a semi-annual basis, is determined based upon the savings association's total assets, including consolidated subsidiaries, as reported in the association's latest quarterly thrift financial report. For the first half of 2004, the Savings Bank's assessment under the semi-annual assessment procedure was $35,000. Based on the current assessment rates published by the OTS and First Home s total assets of approximately $264.4 million at March 31, 2004, First Home will be required to pay a semi-annual assessment of approximately $34,000 for the second half of calendar year 2004.

In addition, the investment and lending authority of the Savings Bank is prescribed by federal laws and regulations, and the Savings Bank is prohibited from engaging in any activities not permitted by such laws and regulations. These laws and regulations generally are applicable to all federally chartered savings associations and many also apply to state-chartered savings associations.

Among other things, OTS regulations provide that no savings association may invest in corporate debt securities not rated in one of the four highest rating categories by a nationally recognized rating organization. In addition, the Home Owners Loan Act provides that loans secured by nonresidential real property may not exceed 400% of regulatory capital, subject to increase by the OTS on a case-by-case basis.

First Home is also subject to limitations on the aggregate amount of loans that it can make to any one borrower, including related entities. See Investment Rules herein for a discussion of loans-to-one borrower limitations. At June 30, 2004, First Home was in compliance with applicable loans-to-one borrower limitations.

Federal Deposit Insurance Corporation. The FDIC is an independent federal agency established originally to insure the deposits, up to prescribed statutory limits, of federally insured banks and to preserve the safety and soundness of the banking industry. The FDIC maintains two separate insurance funds: the BIF and the SAIF. The Savings Bank s accounts are insured by the FDIC under the SAIF to the maximum extent permitted by law. As insurer of the Savings Bank's deposits, the FDIC has examination, supervisory and enforcement authority over all savings associations.

As insurer, the FDIC imposes deposit insurance premiums and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. It also may prohibit any FDIC-insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious risk to the SAIF or the BIF. The FDIC also has the authority to initiate enforcement actions against savings institutions, after giving the OTS an opportunity to take such action, and may terminate the deposit insurance if it determines that the institution has engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The FDIC's deposit insurance premiums are assessed through a risk-based system under which all insured depository institutions are placed into one of nine categories and assessed insurance premiums based upon their level of capital and supervisory evaluation. Under the system, institutions classified as well capitalized (i.e., a core capital ratio of at least 5%, a ratio of Tier 1, or core capital, to risk-weighted assets ("Tier 1 risk-based capital") of at least 6% and a risk-based capital ratio of at least 10%) and considered healthy pay the lowest premium while institutions that are less than adequately capitalized (i.e., core or Tier 1 risk-based capital ratios of less than 4% or a risk-based capital ratio of less than 8%) and considered of substantial supervisory concern pay the highest premium. Risk classification of all insured institutions is made by the FDIC for each semi-annual assessment period.

The FDIC is authorized to increase assessment rates, on a semi-annual basis, if it determines that the reserve ratio of the SAIF will be less than the designated reserve ratio of 1.25% of SAIF insured deposits. In setting these increased assessments, the FDIC must seek to restore the reserve ratio to that designated reserve level, or such higher reserve ratio as established by the FDIC. The FDIC may also impose special assessments on SAIF members to repay amounts borrowed from the United States Treasury or for any other reason deemed necessary by the FDIC.

The premium schedule for BIF and SAIF insured institutions ranged from 0 to 27 basis points. However, SAIF insured institutions and BIF insured institutions are required to pay a Financing Corporation assessment in order to fund the interest on bonds issued to resolve thrift failures in the 1980s. This amount is currently equal to about 1.88 basis points for each $100 in domestic deposits for both BIF and SAIF members. These assessments, which may be revised based upon the level of BIF and SAIF deposits, will continue until the bonds mature in 2017 through 2019.

Under the FDIA, the FDIC may terminate insurance of deposits upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC or the OTS. Management of First Home does not know of any practice, condition or violation that might lead to termination of deposit insurance.

Federal Home Loan Bank System. The FHLB System, consisting of 12 FHLBs, is under the jurisdiction of the Federal Housing Finance Board (FHFB). The designated duties of the FHFB are to: supervise the FHLBs; ensure that the FHLBs carry out their housing finance mission; ensure that the FHLBs remain adequately capitalized and able to raise funds in the capital markets; and ensure that the FHLBs operate in a safe and sound manner.

First Home, as a member of the FHLB-Des Moines, is required to acquire and hold shares of capital stock in the FHLB-Des Moines equal to the greater of (i) 1.0% of the aggregate outstanding principal amount of residential mortgage loans, home purchase contracts and similar obligations at the beginning of each year, or (ii) 1/20 of its advances (borrowings) from the FHLB-Des Moines. First Home complied with this requirement with an investment in FHLB-Des Moines stock of $1.9 million at June 30, 2004.

Among other benefits, the FHLB provides a central credit facility primarily for member institutions. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes advances to members in accordance with policies and procedures established by the FHFB and the Board of Directors of the FHLB-Des Moines. At June 30, 2004, the Savings Bank had $29.1 million of advances from the FHLB-Des Moines.

The FHLBs are required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid in the past and could do so in the future. These contributions also could have an adverse effect on the value of FHLB stock in the future.

Prompt Corrective Action. The OTS is required to take certain supervisory actions against undercapitalized savings associations, the severity of which depends upon the institution's degree of undercapitalization. Generally, an institution that has a ratio of total capital to risk-weighted assets of less than 8%, a ratio of Tier I (core) capital to risk-weighted assets of less than 4%, or a ratio of core capital to total assets of less than 4% (3% or less for institutions with the highest examination rating) is considered to be "undercapitalized." An institution that has a total risk-based capital ratio less than 6%, a Tier I capital ratio of less than 3% or a leverage ratio that is less than 3% is considered to be "significantly undercapitalized" and an institution that has a tangible capital to assets ratio equal to or less than 2% is deemed to be "critically undercapitalized."

At June 30, 2004, First Home was a well capitalized institution under the prompt corrective action regulations of the OTS.

Standards for Safety and Soundness. The federal banking regulatory agencies have prescribed, by regulation, standards for all insured depository institutions relating to: (i) internal controls, information systems and internal audit systems; (ii) loan documentation; (iii) credit underwriting; (iv) interest rate risk exposure; (v) asset growth; (vi) asset quality; (vii) earnings; and (viii) compensation, fees and benefits ("Guidelines"). The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the OTS determines that the Savings Bank fails to meet any standard prescribed by the Guidelines, the agency may require the Savings Bank to submit to the agency an acceptable plan to achieve compliance with the standard. Management is aware of no conditions relating to these safety and soundness standards which would require submission of a plan of compliance.

Qualified Thrift Lender Test. All savings associations, including First Home, are required to meet a qualified thrift lender test to avoid certain restrictions on their operations. This test requires a savings association to have at least 65% of its portfolio asset, as defined by regulation, in qualified thrift investments on a monthly average for nine out of every 12 months on a rolling basis. As an alternative, the savings association may maintain 60% of its assets in those assets specified in Section 7701(a)(19) of the Code. Under either test, such assets primarily consist of residential housing related loans and investments. At June 30,2004, First Home met the test and its qualified thrift lender percentage was 73.24%.

Any savings association that fails to meet the qualified thrift lender test must convert to a national bank charter, unless it requalifies as a qualified thrift lender and thereafter remains a qualified thrift lender. If an association does not requalify and converts to a national bank charter, it must remain SAIF-insured until the FDIC permits it to transfer to the BIF. If such an association has not yet requalified or converted to a national bank, its new investments and activities are limited to those permissible for both a savings association and a national bank, and it is limited to national bank branching rights in its home state. In addition, First Home is immediately ineligible to receive any new FHLB borrowings and is subject to national bank limits for payment of dividends. If such association has not requalified or converted to a national bank within three years after the failure, it must divest of all investments and cease all activities not permissible for a national bank. In addition, it must repay promptly any outstanding FHLB borrowings, which may result in prepayment penalties. If any association that fails the qualified thrift lender test is controlled by a holding company, then within one year after the failure, the holding company must register as a bank holding company and become subject to all restrictions on bank holding companies.

Capital Requirements. Federally insured savings associations, such as the Savings Bank, are required to maintain a minimum level of regulatory capital. The OTS has established capital standards, including a tangible capital requirement, a leverage ratio (or core capital) requirement and a risk-based capital requirement applicable to such savings associations.

The capital regulations require tangible capital of at least 1.5% of adjusted total assets (as defined by regulation). At June 30, 2004, the Savings Bank had tangible capital of $22.2 million, or 8.6% of adjusted total assets, which is approximately $18.3 million above the minimum requirement of 1.5% of adjusted total assets in effect on that date. At June 30, 2004, the Savings Bank had $481,000 in intangible assets.

The capital standards also require core capital equal to at least 3% to 4% of adjusted total assets, depending on an institution's supervisory rating. Core capital generally consists of tangible capital. At June 30, 2004, the Savings Bank had core capital equal to $22.2 million, or 8.6% of adjusted total assets, which is $11.8 million above the minimum leverage ratio requirement of 4% in effect on that date.

The OTS risk-based requirement requires savings associations to have total capital of at least 8% of risk-weighted assets. Total capital consists of core capital, as defined above, and supplementary capital. Supplementary capital consists of certain permanent and maturing capital instruments that do not qualify as core capital and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only to the extent of core capital.

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In determining the amount of risk-weighted assets, all assets, including certain off-balance sheet items, are multiplied by a risk weight, ranging from 0% to 100%, based on the risk inherent in the type of asset. For example, the OTS has assigned a risk weight of 50% for prudently underwritten permanent one-to-four family first lien mortgage loans not more than 90 days delinquent and having a loan-to-value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by FNMA or FHLMC.

On June 30, 2004, the Savings Bank had total risk-based capital of an approximately $23.4 million, including $22.2 million in core capital and $1.2 million in qualifying supplementary capital, and risk-weighted assets of $163.0 million, or total capital of 14.4% of risk-weighted assets. This amount was $10.4 million above the 8% requirement in effect on that date.

The OTS is authorized to impose capital requirements in excess of these standards on individual associations on a case-by-case basis. The OTS and the FDIC are authorized and, under certain circumstances required, to take certain actions against savings associations that fail to meet their capital requirements. The OTS is generally required to take action to restrict the activities of an "undercapitalized association" (generally defined to be one with less than either a 4% core capital ratio, a 4% Tier 1 risked-based capital ratio or an 8% risk-based capital ratio). Any such association must submit a capital restoration plan and until such plan is approved by the OTS may not increase its assets, acquire another institution, establish a branch or engage in any new activities, and generally may not make capital distributions. The OTS is authorized to impose the additional restrictions that are applicable to significantly undercapitalized associations.

The OTS is also generally authorized to reclassify an association into a lower capital category and impose the restrictions applicable to such category if the institution is engaged in unsafe or unsound practices or is in an unsafe or unsound condition.

The imposition by the OTS or the FDIC of any of these measures on the Company or the Savings Bank may have a substantial adverse effect on their operations and profitability.

The following table presents the Savings Bank's capital levels as of June 30, 2004.

	At June 30, 2004	
		Percent of
	Amount	Assets
	(Dollars in thousands)	
Tangible capital	$22,237	8.6 %
Minimum required		
tangible capital	3,897	1.5
Excess	**$18,340**	**7.1** %
Core capital	$22,237	8.6 %
Minimum required core		

capital	10,393	4.0
Excess	**$11,844**	**4.6** %
Risk-based capital	$23,430	14.4 %
Minimum risk-based		
capital requirement	13,041	8.0
Excess	**$ 10,389**	**6.4** %

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Limitations on Capital Distributions. OTS regulations impose various restrictions on savings institutions with respect to their ability to make distributions of capital, which include dividends, stock redemptions or repurchases, cash-out mergers and other transactions charged to the capital account. Generally, savings institutions, such as the Savings Bank, that before and after the proposed distribution remain well-capitalized, may make capital distributions during any calendar year equal to the greater of 100% of net income for the year-to-date plus retained net income for the two preceding years. However, an institution deemed to be in need of more than normal supervision by the OTS may have its dividend authority restricted by the OTS. The Savings Bank may pay dividends in accordance with this general authority.

Savings institutions proposing to make any capital distribution need only submit written notice to the OTS 30 days prior to such distribution. Savings institutions that do not, or would not meet their current minimum capital requirements following a proposed capital distribution, however, must obtain OTS approval prior to making such distribution. The OTS may object to the distribution during that 30-day period based on safety and soundness concerns. See "-- Capital Requirements."

Loans to One Borrower. Federal law provides that savings institutions are generally subject to the national bank limit on loans to one borrower. Generally, this limit is 15% of the Savings Bank s unimpaired capital and surplus, plus an additional 10% of unimpaired capital and surplus, if such loan is secured by readily-marketable collateral, which is defined to include certain financial instruments and bullion. The OTS by regulation has amended the loans to one borrower rule to permit savings associations meeting certain requirements, including capital requirements, to extend loans to one borrower in additional amounts under circumstances limited essentially to loans to develop or complete residential housing units. At June 30, 2004, the Savings Bank s largest loan outstanding to any one borrower, including related entities, was $4.01 million. At June 30, 2004, that borrower had nine10 separate loans secured by nine10 different pieces of real estate. These loans were performing in accordance with their terms at that date.

Activities of Savings Associations and Their Subsidiaries. When a savings association establishes or acquires a subsidiary or elects to conduct any new activity through a subsidiary that the associations controls, the savings association shall notify the FDIC and the OTS 30 days in advance and provide the information each agency may, by regulation, require. Savings associations also must conduct the activities of subsidiaries in accordance with existing regulations and orders.

The OTS may determine that the continuation by a savings association of its ownership control of, or its relationship to, the subsidiary constitutes a serious risk to the safety, soundness or stability of the association or is inconsistent with sound banking practices or with the purposes of the FDIA. Based upon that determination, the FDIC or the OTS has the authority to order the savings association to divest itself of control of the subsidiary. The FDIC also may determine by regulation or order that any specific activity poses a serious threat to the SAIF. If so, it may require that no SAIF member engage in that activity directly.

Accounting and Regulatory Standards. An OTS policy statement applicable to all savings associations clarifies and re-emphasizes that the investment activities of a savings association must be in compliance with approved and documented investment policies and strategies, and must be accounted for in accordance with generally accepted accounting principles (GAAP). Under the policy statement, management must support its classification of an accounting for loans and securities (i.e., whether held for investment, sale or trading) with appropriate documentation. First Home is in compliance with these amended rules.

The OTS has adopted an amendment to its accounting regulations, which may be made more stringent than generally accepted accounting principles by the OTS, to require that transactions be reported in a manner that best reflects their underlying economic substance and inherent risk and that financial reports must incorporate any other accounting regulations or orders prescribed by the OTS.

Investment Portfolio Policy. OTS supervisory policy requires that securities owned by thrift institutions must be classified and reported in accordance with GAAP which establishes three classifications of investment securities: held-to-maturity, trading and available-for-sale. Trading securities are acquired principally for the purpose of near term sales. Such securities are reported at fair value and unrealized gains and losses are included in income.

Securities which are designated as held-to-maturity are designated as such because the investor has the ability to hold these securities to maturity. Such securities are reported at amortized cost.

All other securities are designated as available-for-sale, a designation which provides the investor with certain flexibility in managing its investment portfolio. Such securities are reported at fair value; net unrealized gains and losses are excluded from income and reported net of applicable income taxes as a separate component of stockholders' equity. The Savings Bank has adopted a reporting policy that complies with these OTS requirements.

Transactions with Affiliates. Savings associations must comply with Sections 23A and 23B of the Federal Reserve Act relative to transactions with affiliates in the same manner and to the same extent as if the savings association were a Federal Reserve member bank. Generally, transactions between a savings association or its subsidiaries and its affiliates are required to be on terms as favorable to the association as transactions with non-affiliates. In addition, certain of these transactions, such as loans to an affiliate, are restricted to a percentage of the association's capital. Affiliates of the Savings Bank include the Company and any company which is under common control with the Savings Bank. In addition, a savings association may not lend to any affiliate engaged in activities not permissible for a bank holding company or acquire the securities of most affiliates. The OTS has the discretion to treat subsidiaries of savings associations as affiliates on a case by case basis.

Certain transactions with directors, officers or controlling persons are also subject to conflict of interest regulations enforced by the OTS. These conflict of interest regulations and other statutes also impose restrictions on loans to such persons and their related interests. Among other things, such loans must be made on terms substantially the same as for loans to unaffiliated individuals.

REGULATION OF FIRST BANCSHARES

General

First Bancshares is a unitary savings and loan holding company subject to regulatory oversight of the OTS. Accordingly, the Company is registered with the OTS and subject to OTS regulations, examinations, supervision and reporting requirements. The Company is required to file certain reports with, and otherwise comply with the regulations of, the OTS and the Securities and Exchange Commission. As a subsidiary of a savings and loan holding company, the Savings Bank is subject to certain restrictions in its dealings with the Company and with other companies affiliated with the Company and also is subject to regulatory requirements and provisions as federal institutions.

New Legislation

The Gramm-Leach-Bliley Financial Services Modernization Act of 1999. On November 12, 1999, the Gramm-Leach-Bliley Financial Services Modernization Act of 1999 was signed into law. The purpose of this legislation was to modernize the financial services industry by establishing a comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms and other financial service providers. Generally, the Act:

(a)

repealed the historical restrictions and eliminated many federal and state law barriers to affiliations among banks, securities firms, insurance companies and other financial service providers;

(b)

broadend the activities that may be conducted by national banks, banking subsidiaries of bank holding companies and their financial subsidiaries;

(c)

provided an enhanced framework for protecting the privacy of consumer information; and

(d)

addressed a variety of other legal and regulatory issues affecting day-to-day operations and long-term activities of financial institutions.

The USA Patriot Act. In response to the events of September 11th, 2001, the President of the United States signed into law the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, or the USA PATRIOT Act, on October 26, 2001. The USA PATRIOT Act gives the federal government new powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. Title III of the USA PATRIOT Act takes measures intended to encourage information sharing among 27 bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III impose affirmative obligations on a broad range of financial institutions.

Among other requirements, Title III of the USA PATRIOT Act imposes the following requirements:

- All financial institutions must establish anti-money laundering programs.

- Financial institutions that establish, maintain, administer, or manage private banking accounts or correspondent accounts in the United States for non-United States persons or their representatives (including foreign individuals visiting the United States) to establish appropriate, specific, and, where necessary, enhanced due diligence policies, procedures, and controls designed to detect and report money laundering.

- Financial institutions are prohibited from establishing, maintaining, administering or managing correspondent accounts for foreign banks that do not have a physical presence in any country, and will be subject to certain recordkeeping obligations with respect to correspondent accounts of foreign banks.

- Bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications.

The Federal Crimes Enforcement Network (FinCEN), a bureau of the Department of Treasury, has issued proposed and interim regulations to implement the provisions of Sections 312 and 352 of the USA Patriot Act. To date, it has not been possible to predict the impact the USA PATRIOT ACT and its implementing regulations may have on the Company and the Savings Bank.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 was signed into law by President Bush on July 30, 2002 in response to public concerns regarding corporate accountability in connection with recent accounting scandals. The stated goals of the Sarbanes-Oxley Act are to increase corporate responsibility, to provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies and to protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws. The Sarbanes-Oxley Act generally applies to all companies that file or are required to file periodic reports with the Securities and Exchange Commission

("SEC"), under the Securities Exchange Act of 1934, including the Company.

The Sarbanes-Oxley Act includes very specific additional disclosure requirements and new corporate governance rules, requires the SEC and securities exchanges to adopt extensive additional disclosure, corporate governance and other related rules and mandates further studies of certain issues by the SEC and the Comptroller General. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees.

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Acquisitions

Federal law and OTS regulations issued thereunder generally prohibit a savings and loan holding company, without prior OTS approval, from acquiring more than 5% of the voting stock of any other savings association or savings and loan holding company or controlling the assets thereof. They also prohibit, among other things, any director or officer of a savings and loan holding company, or any individual who owns or controls more than 25% of the voting shares of such holding company, from acquiring control of any savings association not a subsidiary of such savings and loan holding company, unless the acquisition is approved by the OTS.

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Activities

As a unitary savings and loan holding company, the Company generally is not subject to activity restrictions. If the Company acquires control of another savings association as a separate subsidiary, it would become a multiple savings and loan holding company, and the activities of the Company and any of its subsidiaries (other than the Savings Bank or any other SAIF-insured savings association) generally become subject to additional restrictions. There generally are more restrictions on the activities of a multiple savings and loan holding company than on those of a unitary savings and loan holding company. Federal law provides that, among other things, no multiple savings and loan holding company or subsidiary thereof which is not an insured association shall commence or continue for more than two years after becoming a multiple savings and loan association holding company or subsidiary thereof, any business activity other than: (i) furnishing or performing management services for a subsidiary insured institution, (ii) conducting an insurance agency or escrow business, (iii) holding, managing, or liquidating assets owned by or acquired from a subsidiary insured institution, (iv) holding or managing properties used or occupied by a subsidiary insured institution, (v) acting as trustee under deeds of trust, (vi) those activities previously directly authorized by regulation as of March 5, 1987 to be engaged in by multiple holding companies or (vii) those activities authorized by the Federal Reserve Board as permissible for bank holding companies, unless the OTS by regulation, prohibits or limits such activities for savings and loan holding companies. Those activities described in (vii) above also must be approved by the OTS prior to being engaged in by a multiple savings and loan holding company.

Qualified Thrift Lender Test

If the Savings Bank fails the qualified thrift lender test, within one year the Company must register as a bank holding company, and will become subject to, the significant activity restrictions applicable to bank holding companies. See "Regulation of First Home -- Qualified Thrift Lender Test" for information regarding the Savings Bank s qualified thrift lender test.

TAXATION

Federal Taxation

General. The Corporation and the Savings Bank report their income on a fiscalcalendar year basis using the accrual method of accounting and will be subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Savings Bank s reserve for bad debts discussed below. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Savings Bank or the Corporation.

Bad Debt Reserve. Historically, savings institutions such as the Savings Bank which met certain definitional tests primarily related to their assets and the nature of their business (qualifying thrift) were permitted to establish a reserve for bad debts and to make annual additions thereto, which may have been deducted in arriving at their taxable income. The Savings Bank s deductions with respect to qualifying real property loans, which are generally loans secured by certain interest in real property, were computed using an amount based on the Savings Bank s actual loss experience, or a percentage equal to 8% of the Savings Bank s taxable income, computed with certain modifications and reduced by the amount of any permitted additions to the non-qualifying reserve. Due to the Savings Bank s loss experience, the Savings Bank generally recognized a bad debt deduction equal to 8% of taxable income.

In August 1996, the provisions repealing the current thrift bad debt rules were passed by Congress as part of The Small Business Job Protection Act of 1996. The new rules eliminate the 8% of taxable income method for deducting additions to the tax bad debt reserves for all thrifts for tax years beginning after December 31, 1995. These rules also require that all institutions recapture all or a portion of their bad debt reserves added since the base year (last taxable year beginning before January 1, 1988). The Savings Bank has previously recorded a deferred tax liability equal to the bad debt recapture and as such the new rules will have no effect on the net income or federal income tax expense. For taxable years beginning after December 31, 1995, the Savings Bank s bad debt deduction will be determined under the experience method using a formula based on actual bad debt experience over a period of years or, if the Savings Bank is a large association (assets in excess of $500 million) on the basis of net charge-offs during the taxable year. The new rules allow an institution to suspend bad debt reserve recapture for the 1996 and 1997 tax years if the institution s lending activity for those years is equal to or greater than the institutions average mortgage lending activity for the six taxable years preceding 1996 adjusted for inflation. For this purpose, only home purchase or home improvement loans are included and the institution can elect to have the tax years with the highest and lowest lending activity removed from the average calculation. If an institution is was permitted to postpone the reserve recapture, it must beginwould have began its six year recapture no later than the 1998 tax year. The unrecaptured base year reserves will not be subject to recapture as long as the institution continues to carry on the business of banking. In addition, the balance of the pre-1988 bad debt reserves continue to be subject to provisions of present law referred to below that require recapture in the case of certain excess distributions to shareholders.

Distributions. To the extent that the Savings Bank makes nondividend distributions to the Corporation that are considered as made: (i) from the reserve for losses on qualifying real property loans, to the extent the reserve for such losses exceeds the amount that would have been allowed under the experience method; or (ii) from the supplemental reserve for losses on loans (Excess Distributions), then an amount based on the amount distributed will be included in the Savings Bank s taxable income. Nondividend distributions include distributions in excess of the Savings Bank s current and accumulated earnings and profits, distributions in redemption of stock, and distributions in partial or complete liquidation. However, dividends paid out of the Savings Bank s current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Savings Bank s bad debt reserve. Thus, any dividends to the Corporations that would reduce amounts appropriated to the Savings Bank s bad debt reserve and deducted for federal income tax purposes would create a tax liability for the Savings Bank. The amount of additional taxable income attributable to an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if, the Savings Bank makes a nondividend distribution, then approximately one and one-half times the amount so used would be includable in gross income for federal income tax purposes, assuming a 35% corporate income tax rate (exclusive of state and local taxes).See REGULATION for limits on the payment of dividends by the Savings Bank. The Savings Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve.

Corporate Alternative Minimum Tax. The Code imposes a tax on alternative minimum taxable income (AMTI) at a rate of 20%. The excess of the tax bad debt reserve deduction using the percentage of taxable income method over the deduction that would have been allowable under the experience method is treated as a preference item for purposes of computing the AMTI. In addition, 100% of AMTI in tax years 2002 and 2001 and only 90% of the AMTI in tax year 2000 can be offset by net operating loss carryovers. AMTI is increased by an amount equal to 75% of the amount by which the Savings Bank s adjusted current earnings exceed its AMTI (determined without regard to this preference and prior to reduction for net operating losses).

Dividends-Received Deduction and Other Matters. The Corporation may exclude from its income 100% of dividends received from the Savings Bank as a member of the same affiliated group of corporations. The corporate dividends-received deduction is generally 70% in the case of dividends received from unaffiliated corporations with which the Corporation and the Savings Bank will not file a consolidated tax return, except that if the Corporation or the Savings Bank owns more than 20% of the stock of a corporation distributing a dividend, then 80% of any dividends received may be deducted.

Other Federal Tax Matter. Other changes in the federal tax system could also affect the business of the Savings Bank. These changes include limitations on the deduction for personal interest paid or accrued by individual taxpayers, limitations on the deductibility of losses attributable to investment in certain passive activities and limitations on the deductibility of contributions to individual retirement accounts. The Savings Bank does not believe these changes will have a material effect on its operations.

There have not been any IRS audits of the Savings Bank's Federal income tax returns during the past five years.

Missouri Taxation

Missouri-based thrift institutions, such as the Savings Bank, are subject to a special financial institutions tax, based on net income without regard to net operating loss carryforwards, at the rate of 7% of net income. This tax is in lieu of certain other state taxes on thrift institutions, on their property, capital or income, except taxes on tangible personal property owned by the Savings Bank and held for lease or rental to others and on real estate, contributions paid pursuant to the Unemployment Compensation Law of Missouri, social security taxes, sales taxes and use taxes. In addition, First Home is entitled to credit against this tax all taxes paid to the State of Missouri or any political subdivision except taxes on tangible personal property owned by the Savings Bank and held for lease or rental to others and on real estate, contributions paid pursuant to the Unemployment Compensation Law of Missouri, social security taxes, sales and use taxes, and taxes imposed by the Missouri Financial Institutions Tax Law. Missouri thrift institutions are not subject to the regular state corporate income tax.

There have not been any audits of the Savings Bank s state income tax returns during the past five years.

For additional information regarding taxation, see Notes 1 and 12 of the Notes to the Consolidated Financial Statements included in the Annual Report.

Competition

The Savings Bank has been, and continues to be, a community-oriented savings institution offering a variety of financial resources to meet the needs of Wright, Webster, Douglas, Ozark , Christian, Stone and Taney counties, Missouri. The Savings Bank also transacts a significant amount of business in Texas and Greene counties, Missouri. The Savings Bank's deposit gathering and lending activities are concentrated in these market areas. The Savings Bank's offices are located in Mountain Grove, Marshfield, Ava, Gainesville, Sparta, Theodosia, Crane, Galena, Kissee Mills and Rockaway Beach, Missouri.

The Savings Bank is the only thrift institution located in Wright County, Missouri. The Savings Bank faces strong competition in the attraction of savings deposits and in the origination of loans. Its most direct competition for savings deposits and loans has historically come from other thrift institutions and from commercial banks located in its primary market area, some with a state-wide or regional presence. The Savings Bank also competes with securities firms, credit unions, money market funds and mutual funds in raising deposits.

Management considers the Savings Bank's reputation for financial strength and customer service as its major competitive advantage in attracting and retaining customers in its market area. The Savings Bank also believes it benefits from its community orientation as well as its relatively high core deposit base.

Personnel

As of June 30, 2004, the Savings Bank had 90 full-time employees and 16 part-time employees. The Savings Bank believes that employees play a vital` role in the success of a service company and that the Savings Bank's relationship with its employees is good. The employees are not represented by a collective bargaining unit.

Item 2. Properties

The following table sets forth information regarding the Savings Bank's offices as of June 30, 2004.

Location	County	Year Opened	Net Book Value as of 6/30/04 (Dollars in thousands)	Land Owned/ Leased	Building Owned/ Leased	Square Footage
Main Office						
142 East First Street Mountain Grove, Missouri 65711	Wright	1911	$ 1,3181,318	Owned	Owned	10,700
Branch Offices						
1208 N. Jefferson Street Ava, Missouri 65608	Douglas	1978	336336	Owned	Owned	3,500
103 South Clay Street Marshfield, Missouri 65706	Webster	1974	3515	Owned	Owned	4,200
203 Elm Street Gainesville, Missouri 65655	Ozark	1992	60125	Owned	Owned	3,600
7164 Highway 14 East Sparta, Missouri 65753	Christian	1995	23348	Owned	Owned	3,000
Business Highway 160 Theodosia, Missouri 65761	Ozark	1997	4654	Leased	Leased	1,200
123 Main Street Crane, Missouri 65633 (1)	Stone	1998	2317	Owned	Owned	3,800

South Side of Square Galena, Missouri 65656 (1)	Stone	1998	5962	Owned	Owned	1,600
20377 US Highway 160 Forsyth, Missouri 65653	Taney	2000	90235	Owned	Owned	2,250
2536 State Highway 176 Rockaway Beach, Missouri 65740	Taney	2000	4528	Owned	Owned	2,500
Drive-in Facilities						
Route 60 and Oakland Mountain Grove, Missouri 65711	Wright	1986	1506	Owned	Owned	1,200
223 West Washington Marshfield, Missouri 65706	Webster	1993	1729	Owned	Owned	1,100

(1)

In March 1998, the Savings Bank purchased these branch offices from NationsBank. As part of the agreement, the Savings Bank assumed customer deposits of $17.4 million and other liabilities of $60,000 in exchange for loans of $4.8 million, premises and equipment of $300,000, cash of $11.3 million and other assets of $70,000. The Savings Bank paid a premium of $1.0 million for the loans purchased and the customer deposits assumed. The acquisition was recorded using the purchase method of accounting. At June 30, 2004, the premium paid for the branches was being amortized on a straight-line basis over 15 years. Results of operations of the branches acquired since the date of acquisition are included in the Consolidated Financial Statements contained in the Annual Report.

Item 3. Legal Proceedings

In the opinion of management, the Savings Bank is not a party to any pending claims or lawsuits that are expected to have a material adverse effect on the Savings Bank's financial condition or operations. Periodically, there have been various claims and lawsuits involving the Savings Bank mainly as a defendant, such as claims to enforce liens, condemnation proceedings on properties in which the Savings Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Savings Bank's business. Aside from such pending claims and lawsuits which are incident to the conduct of the Savings Bank's ordinary business, the Savings Bank is not a party to any material pending legal proceedings that would have a material adverse effect on the financial condition or operations of the Savings Bank.

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 the fiscal year ended June 30, 2004.

PART II

Item 5. Market for Common Equity, and Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities

The information contained in the section captioned "Common Stock Information" in the Annual Report is incorporated herein by reference.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that may yet be Purchased Under the Plan
April 1-30, 2004	600	$20.48	600	15,429
May 1-31, 2004	17,000	$20.52	17,000	162,765
June 1-30, 2004	12,500	$20.72	12,500	150,265
Total	**30,100**	$20.61	**30,100**	150,265

Item 6. Management's Discussion and Analysis or Plan of Operation

The information contained in the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Annual Report is incorporated herein by reference.

Item 7. Financial Statements

Independent Auditors Report*

(a) Consolidated Statements of Financial Condition as of June 30, 2004 and 2003*

(b) Consolidated Statements of Income for the Years Ended June 30, 2004, 2003 and 2002*

(c) Consolidated Statements of Stockholders Equity for the Years Ended June 30, 2004, 2003 and 2002*

(d) Consolidated Statements of Cash Flows for the Years Ended June 30, 2004, 2003 and 2002*

(e) Notes to Consolidated Financial Statements*

* Contained in the Annual Report to Stockholders filed as an exhibit hereto and incorporated herein by reference. All schedules have been omitted as the required information is either inapplicable or contained in the Consolidated Financial Statements or related Notes contained in the Annual Report to Stockholders.

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Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

No disagreement with the Company's independent accountants on accounting and financial disclosure has occurred during the past 24 months.

Item 8A. Controls and Procedures.

Rider for Item 8A

(a) Evaluation of Disclosure Controls and Procedures. The Company's management, with the participation of the chief executive officer/chief financial officer, carried out an evaluation of the effectiveness of the Company's "disclosure, controls and procedures" (as defined in the Securities Exchange Act of 1934 (the "Exchange Act") Rules 13a-15(3) and 15-d-15(3) as of the end of the period covered by this annual report (the "Evaluation Date"). Based upon that evaluation, the chief executive officer/chief financial officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective, providing them with material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b) (b) Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal controls over financial reporting, known to the chief executive officer/chief financial officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 8B. Other Information

Not applicable.

In the year ended June 30, 2004, we the company did not make any significant changes in, nor take any corrective actions regarding our internal controls or other factors that could significantly affect these controls. The Company We periodically review theour internal controls for effectiveness, and did conduct such a review during this period. In the future, the Companywe plans to conduct an evaluation of theour disclosure controls and procedures each quarter.

PART III

Item 9. Directors, and Executivetive Officers , Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Actof the Registrant

The information contained under the section captioned "Proposal I -- Election of Directors" in the Proxy Statement is incorporated herein by reference.

The following table sets forth certain information with respect to the executive officers of the Company and the Savings Bank.

Name	Age(1)	Position
Charles W. Schumacher	52	President and CEO, First Bancshares, Inc. President and Chief Executive Officer, First Home Savings Bank
Susan J. Uchtman	41	Chief Financial Officer, First Bancshares, Inc. and First Home Savings Bank

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(1) As of June 30, 2004.

The principal occupation of each executive officer of the Company is set forth below. All of the officers listed above have held positions with or been employed by the Company for at least five years unless otherwise stated. All executive officers reside in the Savings Bank s primary trade area in Missouri, unless otherwise stated. There are no family relationships among or between the executive officers, unless otherwise stated.

Charles W. Schumacher joined the Savings Bank in 2000 as the Senior Vice President and became President of the Savings Bank in January 2002 and President and CEO of First BancsharesBSI on June 30, 2004. Previously, Mr. Schumacher was the Executive Vice President and CEO of Northwoods State Bank in Iowa from 1992-2000.

Susan J. Uchtman has been employed by First Home since June of 1994. Mrs. Uchtman, a CPA, was previously employed by Kirkpatrick Phillips & Miller, CPAs, P.C., the Company s independent auditors, from September 1985 through May 1994.

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The information contained under the section captioned "Compliance with Section 16(a) of the Exchange Act" in the Proxy Statement is incorporated herein by reference.

Code of Ethics

First Bancshares, Inc. has adopted a Code of Ethics that applies to First

Bancshares directors, executive officers and all other employees. A copy of First

Bancshares Code of Ethics is available to any person without charge,

upon written request made to the Corporate Secretary at PO Box 777, Mountain Grove, Missouri 65711.

Item 10. Executive Compensation

The information contained under the section captioned "Proposal I -- Election of Directors" in the Proxy Statement is incorporated herein by reference.

Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Equity Compensation Plan Information. The following table summarizes share and exercise price information about the Company s equity compensation plans as of June 30, 2004.

Plan category	*(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights*	*(b) Weighted-average exercise price of outstanding options, warrants and rights*	*(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))*
Equity compensation plans approved by security holders:			
Option plan	6,000	$9.17	-
Restricted stock plan	-	-	-
Equity compensation plans not approved by security holders:	-	-	-
Total	**6,000**	**$9.17**	**-**

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(a) Security Ownership of Certain Beneficial Owners

Information required by this item is incorporated herein by reference to the section captioned "Voting Securities and Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement.

(b) Security Ownership of Management

Information required by this item is incorporated herein by reference to the sections captioned "Voting Securities and Security Ownership of Certain Beneficial Owners and Management" and "Proposal I - Election of Directors" of the Proxy Statement.

(c) Changes in Control

The Company is not aware of any arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

Item 12. Certain Relationships and Related Transactions

The information required by this item is incorporated herein by reference to the section captioned "Proposal I -- Election of Directors -- Certain Transactions."

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Articles of Incorporation of First Bancshares, Inc.*

3.2 Bylaws of First Bancshares, Inc.*

10.2 First Home Savings Bank 1994 Employee Stock Ownership Plan*

10.3 First Bancshares, Inc. 1993 Stock Option Plan**

10.4 First Home Savings Bank Management Recognition and Development Plan**

10.5 Employment Agreement with Charles W. Schumacher (incorporated by reference to the Form 10KSB filing for the fiscal year ended June 30, 2001)

13. Annual Report to Stockholders

21. Subsidiaries of the Registrant

23. Auditors Consent

331.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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(b) Report on Form 8-K

1) On May 12, 2004, First Bancshares, Inc. furnished a Form 8-K

reporting financial results for the fiscal quarter ended March

31, 2004 and announcing the retirement of President and Chief Executive Officer, Stephen H. Romines, effective June 30, 2004, and naming Charles W. Schumacher to succeed Mr. Romines.

(2) On June 21, 2004, First Bancshares, Inc. filed a Form 8-K announcing First Home Savings Bank, the wholly owned subsidiary of First Bancshares, Inc. had been informed its largest substandard borrower had filed for protection under Chapter 11 bankruptcy. No Forms 8-K were filed during the quarter ended June 30, 2004

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* Incorporated by reference to the Corporation s Registration Statement on Form S-1 File No. 33-69886.

** Incorporated by reference to the Corporation s 1994 Annual Meeting Proxy Statement dated September 14, 1994.

Item 14. Principal Accountant Fees and Service.

The information required by this item is incorporated by reference to page 11 of the 2004 Proxy Statement.

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SIGNATURES

Pursuant to the requirements of section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly

authorized.

FIRST BANCSHARES, INC.

Date: September 289, 2004

By: /s/ Charles W. Schumacher

Charles W. Schumacher

Chairman of the Board,

President and Chief

Executive Officer (Duly

Authorized Representative)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ Charles W. Schumacher

September 289, 2004

Charles W. Schumacher

Chairman of the Board, President, Chief

Executive Officer (Principal Executive Officer)

By:/s/ Susan J. Uchtman

September 288, 2004

Susan J. Uchtman

Chief Financial Officer

By: /s/ Harold F. Glass

September 289, 2004

Harold F. Glass

Director

By:/s/ Charles W. Schumacher

September 289, 2004

Charles W. Schumacher

Director

By:/s/ John G. Moody

September 289, 2004

John G. Moody

Director

By: /s/ Dr. James F. Moore

September 289, 2004

Dr. James F. Moore

Director

Exhibit 31.1

Certification of Chief Executive Officer

Pursuant to Section 906302 of the Sarbanes-Oxley Act of 2002

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Charles W. Schumacher, certify that:

1.

I have reviewed this Annual Report on Form 10-KSB of First Bancshares, 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 officer(s) 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)) 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.

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

c.

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 officer(s) 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 the 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: September 289, 2004

/s/ Charles W. Schumacher

Charles W. Schumacher

Chairman, President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer

Pursuant to Section 906302 of the Sarbanes-Oxley Act of 2002

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Susan J. Uchtman, certify that:

1.

I have reviewed this annual report on Form 10-KSB of First Bancshares, Inc.;

2.

Based on my knowledge, this annual 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 annual report;

3.

Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

4.

The registrant s other certifying officer(s) 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)) 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.

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

c.

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 officer(s) 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 the 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: September 289, 2004

/s/ Susan J. Uchtman

Susan J. Uchtman

Chief Financial Officer

Exhibit 13

Annual Report to Stockholders

(see separate file)

Exhibit 21

Subsidiaries of the Registrant

Exhibit 21

Subsidiaries of the Registrant

Parent

First Bancshares, Inc.

Percentage

Jurisdiction or

Subsidiaries (a)

of Ownership

State of Incorporation

First Home Savings Bank

100%

Missouri

South Central Missouri Title, Inc.

100%

Missouri

Fybar Service Corporation (b)

100%

Missouri

First Home Investments, Inc. (b)

100%

Missouri

(a) The operation of the Company's wholly owned subsidiaries are included in the Company's Consolidated Financial Statements contained in the Annual Report attached hereto as Exhibit 13.

(b) Wholly owned subsidiary of First Home Savings Bank.

Exhibit 23

Consent of Auditors

(On CPA firm letterhead)

CONSENT OF INDEPENDENT AUDITORS

We have issued our report dated July 31, 2004,August 9, 2004 accompanying the Consolidated Financial Statement incorporated by reference in the Annual Report of First Bancshares, Inc. on Form 10-KSB for the year ending June 30, 2004. We hereby consent to the incorporation by reference of said reports in the Registration Statement of First Bancshares, Inc. on Form S-8 (File No. 33-87234, effective December 9, 1994).

/s/Kirkpatrick, Phillips & Miller

KIRKPATRICK, PHILLIPS & MILLER, CPAs , P.C.

Springfield, Missouri

September 276, 2004

Exhibit 32

Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

OF FIRST BANCSHARES, INC.

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Annual Report on Form 10-KSB, that:

1.

the report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and

2.

the information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

Date: September 289, 2004

/s/ Charles W. Schumacher

Charles W. Schumacher

Chairman, President and Chief Executive Officer

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

OF FIRST BANCSHARES, INC.

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Annual Report on Form 10-KSB, that:

1.

the report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and

2.

the information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

Date: September 289, 2004

/s/ Susan J. Uchtman

Susan J. Uchtman

Chief Financial Officer

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