

Securities Filing Desk
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FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from _____ to _____

Commission File No. 15525

Magna Bank

(Exact name of registrant as specified in its charter)

Federal Charter
(State of incorporation)



62-1760666
(IRS Employer Identification No.)

MAGNA BANK

6525 Quail Hollow Suite 513
Memphis, Tennessee 38120

Registrant's telephone number, including area code: (901) 259-5600

(Former name, former address and former fiscal quarter, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 requirement for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class
Common Stock, par
value \$1 per share

Outstanding at May 6, 2011
5,503,026



MAGNA BANK
March 31, 2011 Form 10-Q
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Forward Looking Statements

A cautionary note about forward-looking statements. Magna Bank ("Magna") from time to time makes forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements about estimated cost savings, plans and objectives for future operations, and expectations about performance and economic and market conditions and trends. They often can be identified by the use of words like "expect," "may," "could," "intend," "project", "estimate," "believe" or "anticipate."

By their nature, forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from those contained in the forward-looking statement. The discussion in the "Management's Discussion and Analysis of Financial Condition and Results of Operations," lists some of the factors which could cause Magna's actual results to vary materially from those in the forward-looking statements. Other uncertainties which could affect Magna's future performance include the effects of competition, technological changes and regulatory developments; changes in fiscal monetary and tax policies; changes in business conditions and inflation; changes in general economic conditions, either nationally or regionally, resulting in, among other things, credit quality deterioration; and changes in the securities markets.

Part 1
Item 1. Financial Statements

Consolidated Balance Sheet
March 31, 2011 and December 31, 2010



	(Unaudited)	
	<u>March 31, 2011</u>	<u>December 31, 2010</u>
<u>ASSETS</u>		
Cash and due from banks	\$ 3,558,173	\$ 4,268,219
Interest-bearing deposits at other financial institutions	1,799,057	2,392,777
Federal funds sold	4,592,219	8,015,876
Securities available-for-sale, at fair value (amortized cost of \$42,132,932 and \$39,885,422, respectively)	42,792,280	39,920,360
Loans held for sale, at lower of cost or fair value	15,095,718	23,105,481
Loans, less allowance for loan losses of \$5,972,394 and \$9,630,180, respectively	305,426,260	313,389,395
Accrued interest receivable - securities	128,491	135,257
- loans	1,479,220	1,702,898
Premises and equipment, net	4,566,107	4,648,173
Mortgage servicing rights, net	9,737,048	9,898,444
Foreclosed real estate, net	8,825,274	3,460,890
Investment in Federal Home Loan Bank, at cost	3,981,400	3,981,400
Other assets	10,313,655	10,689,793
TOTAL ASSETS	<u>\$ 412,294,902</u>	<u>\$ 425,608,963</u>
 <u>LIABILITIES</u>		
Deposits		
Non-interest-bearing transaction accounts	\$ 19,016,209	\$ 19,790,569
Servicing escrow accounts	14,311,562	11,909,818
Interest-bearing transaction accounts	85,147,303	89,148,628
Savings accounts	85,176,516	85,712,474
Time deposits	99,993,147	114,088,487
Total deposits	303,644,737	320,649,976
Federal funds purchased and short-term borrowings	7,000,000	-
Long-term Federal Home Loan Bank borrowings	45,000,000	49,000,000
Accrued interest payable	700,656	938,301
Accounts payable	1,575,474	1,354,524
Other liabilities	1,640,152	1,917,610
TOTAL LIABILITIES	<u>359,561,019</u>	<u>373,860,411</u>
 Commitments and contingencies		
<u>SHAREHOLDERS' EQUITY</u>		
Preferred stock (\$1 par value (liquidation preference \$1,000); 10,000,000 shares authorized; 11,030 shares issued and outstanding)	10,764,926	10,740,828
Common stock (\$1 par value; 10,000,000 shares authorized; 5,529,135 issued and 5,503,026 shares outstanding)	5,529,135	5,529,135
Treasury stock, 26,109 shares at cost	(200,374)	(200,374)
Additional paid-in capital	31,687,344	31,658,147
Retained earnings	5,677,254	5,157,056
Accumulated other comprehensive loss, net of taxes	(724,402)	(1,136,240)
TOTAL SHAREHOLDERS' EQUITY	<u>52,733,883</u>	<u>51,748,552</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 412,294,902</u>	<u>\$ 425,608,963</u>

The accompanying notes are an integral part of these financial statements.

Consolidated Income Statement (Unaudited)
Three Months Ended March 31, 2011 and 2010



	Three months ended March 31,	
	<u>2011</u>	<u>2010</u>
INTEREST INCOME:		
Short-term investments	\$ 4,723	\$ 11,477
Securities: Available-for-sale	391,312	555,786
Held-to-maturity	-	103,968
Loans held for sale	161,432	164,770
Loans, including fees and discounts	<u>4,061,633</u>	<u>4,374,613</u>
TOTAL INTEREST INCOME	4,619,100	5,210,614
INTEREST EXPENSE:		
Deposits	846,542	1,278,700
Borrowings	<u>343,946</u>	<u>545,814</u>
TOTAL INTEREST EXPENSE	1,190,488	1,824,514
NET INTEREST INCOME BEFORE		
PROVISION FOR LOAN LOSSES	3,428,612	3,386,100
Provision for loan losses	<u>(165,000)</u>	<u>261,000</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,593,612	3,125,100
NON-INTEREST INCOME:		
Service charges and other branch income	84,895	65,980
Servicing fee income	921,234	944,268
Loan brokerage fees	538,415	86,250
Gain on sale of mortgage loans, net	1,206,970	1,499,469
Other-than-temporary impairment on securities	-	(19,000)
Other income	<u>135,915</u>	<u>68,417</u>
TOTAL NON-INTEREST INCOME	2,887,429	2,645,384
NON-INTEREST EXPENSE:		
Salary, wages and commission	2,449,786	2,335,628
Benefits and taxes	488,683	450,245
Professional services	122,822	127,640
Occupancy and equipment	688,383	687,897
Amortization of servicing rights	423,885	444,783
Marketing and business development	147,957	122,845
Regulatory fees and deposit insurance assessments	149,660	154,227
Other	<u>884,301</u>	<u>911,364</u>
TOTAL NON-INTEREST EXPENSE	<u>5,355,477</u>	<u>5,234,629</u>
INCOME BEFORE TAXES	1,125,564	535,855
Income tax expense	<u>436,493</u>	<u>211,389</u>
NET INCOME	689,071	324,466
LESS: DIVIDENDS AND ACCRETION OF PREFERRED STOCK	<u>168,873</u>	<u>168,873</u>
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ 520,198</u>	<u>\$ 155,593</u>
Net income per common share:		
Basic	<u>\$ 0.09</u>	<u>\$ 0.03</u>
Diluted	<u>\$ 0.09</u>	<u>\$ 0.03</u>
Comprehensive income		
NET INCOME	\$ 689,071	\$ 324,466
Change in net unrealized loss on securities, net of taxes	<u>411,838</u>	<u>389,012</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 1,100,909</u>	<u>\$ 713,478</u>

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows (Unaudited)
Three Months Ended March 31, 2011 and 2010



	Three months ended March 31,	
	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Net income	\$ 689,071	\$ 324,466
<i>Reconciliation of net income to cash used in operating activities:</i>		
Provision for loan losses	(165,000)	\$ 261,000
Provision for foreclosure and mortgage origination losses	69,000	152,500
Charges for other-than-temporary impairment of securities	-	19,000
Depreciation of premises and equipment	141,970	152,103
Stock-based compensation expense	29,197	19,095
Capitalization of mortgage servicing rights	(262,489)	(287,699)
Amortization of mortgage servicing rights	423,884	444,782
Net discount accretion on securities	(17,187)	(20,432)
Net premium amortization on loans	7,608	10,155
Provision (benefit) for deferred income tax	852,372	(54,202)
(Increase) decrease in other assets	(1,109,830)	200,070
Decrease (increase) in accounts payable and other liabilities	244,781	(322,381)
Proceeds from sales and repayments of loans held-for-sale	52,916,607	55,575,431
Gain on sale of mortgage loans	(1,206,970)	(1,499,469)
Origination of loans held-for-sale	(47,880,616)	(55,703,946)
Decrease (increase) in accrued interest receivable	230,444	(131,575)
Decrease in accrued interest payable	(237,645)	(70,359)
Net (gain) loss on sale of foreclosed real estate	(23,107)	6,977
Net cash provided by (used in) operating activities	<u>4,702,090</u>	<u>(924,484)</u>
Cash flows from investing activities:		
Purchases of available-for-sale securities	(1,998,000)	(1,000,625)
Principal repayment of available-for-sale securities	3,999,157	3,813,919
Principal repayment of held-to-maturity securities	-	292,009
Net decrease (increase) in loans	1,246,387	(8,117,864)
Proceeds from sale of foreclosed real estate	1,532,863	125,076
Purchases of premises and equipment, net	(59,906)	(65,660)
Net cash provided by (used in) investing activities	<u>4,720,501</u>	<u>(4,953,145)</u>
Cash flows from financing activities:		
Net (decrease) increase in deposits	(17,005,240)	11,966,031
Net increase in short-term borrowings	7,000,000	-
Repayment of long-term debt	(4,000,000)	-
Dividends on preferred stock	(144,774)	(144,774)
Net cash (used in) provided by financing activities	<u>(14,150,014)</u>	<u>11,821,257</u>
Net (decrease) increase in cash and cash equivalents	(4,727,423)	5,943,628
Cash and equivalents at beginning of year	<u>14,676,872</u>	<u>6,450,197</u>
Cash and equivalents at end of period	<u>\$ 9,949,449</u>	<u>\$ 12,393,825</u>
Cash paid during the period for:		
Interest	\$ 1,428,133	\$ 1,894,873
Loans transferred to other real estate	10,310,632	782,701
Loans held for sale transferred to loans	4,118,940	1,921,600

The accompanying notes are an integral part of these financial statements.

1. **Basis of Presentation.** The consolidated balance sheet at December 31, 2010, has been derived from the audited consolidated financial statements at that date. The accompanying unaudited interim consolidated financial statements reflect all adjustments (consisting only of normally recurring accruals) that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the rules of the Securities and Exchange Commission. The condensed consolidated financial statements of the Company as of March 31, 2011, and for the three months ended March 31, 2011 and 2010 are unaudited. Results of operations for the three months ended March 31, 2011 and 2010 are not necessarily indicative of the results that may be achieved for the full year or for any future period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010.

Recent Accounting Pronouncements. In January 2011, the FASB issued Accounting Standards Update 2011-01, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20” (“ASU 2011-01”) over concerns that the introduction of new disclosure requirements (paragraphs 310-10-50-31 through 50-34 of the FASB Accounting Standards Codification) about troubled debt restructurings in one reporting period followed by a change in what constitutes a troubled debt restructuring shortly thereafter would be burdensome for preparers and may not provide financial statement users with useful information. The amendments in ASU 2011-01 temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The deferral in ASU 2011-01 is expected to result in more consistent disclosures about troubled debt restructurings, and is anticipated to be effective for interim and annual periods ending after June 15, 2011. This amendment does not defer the effective date of the other disclosure requirements in ASU 2010-20. The adoption of ASU 2011-01 is not expected to have a material impact on the Company's financial statements.

In April 2011, the FASB issued Accounting Standards Update 2011-02, “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring” (“ASU 2011-02”) because there is currently diversity in practice in identifying restructurings of receivables that constitute troubled debt restructurings for a creditor. The clarifying guidance in this update should result in more consistent application of U.S. GAAP for debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: the restructuring constitutes a concession and the debtor is experiencing financial difficulties. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. An entity should disclose the total amount of receivables and the allowance for credit losses as of the end of the period of adoption related to those receivables that are newly considered impaired under Section 310-10-35 for which impairment was previously measured under Subtopic 450-20, Contingencies—Loss Contingencies. An entity should disclose the information required by paragraphs 310-10-50-33 through 50-34, which was deferred by ASU 2011-01 discussed above, for interim and annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Early adoption is permitted for public and nonpublic entities. The Company is currently evaluating the impact of adopting ASU 2011-02 on its financial statements.

2. **Earnings Per Share.** Earnings per share is computed by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding for each period. Diluted earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares resulting from outstanding share-based awards had been issued utilizing the treasury stock method. Stock options outstanding as of March 31, 2011 and 2010 have no intrinsic value; therefore, the options have no dilutive impact (antidilutive) and are not included in the earnings per share calculations.

The following table sets forth the computation of basic and diluted earnings per share:

	<u>2011</u>	<u>2010</u>
Numerator - Net income	\$ 689,071	\$ 324,466
Less: Dividends and accretion of preferred stock	(168,873)	(168,873)
Numerator: Net income available to common shareholders	<u>\$ 520,198</u>	<u>\$ 155,593</u>
Denominator for basic earnings per share:		
Weighted average common shares outstanding	5,503,026	5,485,987
Add dilutive common shares:		
Share-based awards	<u>-</u>	<u>-</u>
Denominator for diluted earnings per share	<u>5,503,026</u>	<u>5,485,987</u>
Basic income per common share	<u>\$ 0.09</u>	<u>\$ 0.03</u>
Diluted income per common share	<u>\$ 0.09</u>	<u>\$ 0.03</u>

3. **Securities Portfolio.** The following table summarizes the investment securities portfolio as of March 31, 2011 and December 31, 2010:

	<u>Amortized</u>	<u>Unrealized</u>		<u>Fair</u>
	<u>Cost</u>	<u>Gain</u>	<u>Loss</u>	<u>Value</u>
March 31, 2011:				
Corporate Debt Obligations	\$ 2,029,991	\$ 565,589	\$ -	\$ 2,595,580
U.S. Agency securities	4,501,640	47,910	1,304	4,548,246
Collateralized mortgage obligations	11,367,348	244,463	802,764	10,809,047
Commercial mortgage-backed securities	196,425	768	983	196,210
Agency Mortgage-backed securities	<u>24,037,528</u>	<u>731,899</u>	<u>126,230</u>	<u>24,643,197</u>
Total at March 31, 2011	<u>\$ 42,132,932</u>	<u>\$ 1,590,629</u>	<u>\$ 931,281</u>	<u>\$ 42,792,280</u>
December 31, 2010:				
Corporate Debt Obligations	\$ 2,003,047	\$ 118,779	\$ 122,636	\$ 1,999,190
U.S. Agency securities	2,748,547	42,056	112	2,790,491
Collateralized mortgage obligations	12,371,613	257,341	912,952	11,716,002
Commercial mortgage-backed securities	1,904,493	467	3,157	1,901,803
Agency Mortgage-backed securities	<u>20,857,722</u>	<u>719,707</u>	<u>64,555</u>	<u>21,512,874</u>
Total at December 31, 2010	<u>\$ 39,885,422</u>	<u>\$ 1,138,350</u>	<u>\$ 1,103,412</u>	<u>\$ 39,920,360</u>

Notes to Unaudited Consolidated Financial Statements
Three Months Ended March 31, 2011



The following table summarizes the components of unrealized loss by reference to the period of time such unrealized losses have been incurred for the period indicated:

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
March 31, 2011:						
U.S. Agency	\$ 996,850	\$ 1,215	\$ 17,490	\$ 89	\$ 1,014,340	\$ 1,304
Collateralized mortgage obligations	1,711,460	20,698	3,603,392	782,065	5,314,852	802,764
Commercial mortgage-backed securities	-	-	60,842	983	60,842	983
Agency Mortgage-backed securities	6,346,032	126,230	-	-	6,346,032	126,230
	<u>\$ 9,054,342</u>	<u>\$ 148,144</u>	<u>\$ 3,681,724</u>	<u>\$ 783,137</u>	<u>\$ 12,736,066</u>	<u>\$ 931,281</u>
December 31, 2010:						
U.S. Agency	-	-	17,799	112	17,799	112
Corporate Debt Obligations	-	-	1,149,190	122,636	1,149,190	122,636
Collateralized mortgage obligations	1,798,391	103,631	4,488,199	809,321	6,286,590	912,952
Commercial mortgage-backed securities	1,786,219	1,379	102,378	1,778	1,888,597	3,157
Agency Mortgage-backed securities	5,486,312	64,555	-	-	5,486,312	64,555
	<u>\$ 9,070,922</u>	<u>\$ 169,565</u>	<u>\$ 5,757,566</u>	<u>\$ 933,847</u>	<u>\$ 14,828,488</u>	<u>\$ 1,103,412</u>

The losses which have existed for more than twelve months are primarily related to the Company's investment in non-agency residential mortgage backed securities. Management does not intend to sell the investments, and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity.

The unrealized loss in non-agency collateralized mortgage obligations ("CMO") is primarily attributable to default concerns caused by the economic recession which began in 2008. These securities are collateralized by residential mortgages that were originated during a period of reduced credit underwriting standards (2004 – 2007) and, in some cases, are secured by real estate that has seen significant declines in value due to oversupply and high levels of foreclosure. The nationally recognized rating agencies have revised their rating methodologies for this class of asset to introduce more severe loss scenario outcomes when collateral performance metrics (i.e. default rate, foreclosure frequency and loss severity) are stressed, resulting in a significant number of tranches within these securities being either downgraded outright or placed on watch list for possible downgrade.

The following table summarizes the components of the non-agency residential mortgage backed securities by reference to their current quality rating:

	<u>Amortized</u>	<u>Unrealized</u>		<u>Fair</u>
	<u>Cost</u>	<u>Gain</u>	<u>Loss</u>	<u>Value</u>
Investment grade	\$ 5,748,745	\$ 95,831	\$ 120,532	\$ 5,724,044
Non-investment grade	5,618,603	148,632	682,232	5,085,003
Total	<u>\$ 11,367,348</u>	<u>\$ 244,463</u>	<u>\$ 802,764</u>	<u>\$ 10,809,047</u>

Accounting standards require us to evaluate our securities portfolio periodically for evidence of "other-than-temporary" impairment. The guidance provides for significant amounts of judgment to be applied in this process. Magna follows what we consider to be a conservative yet appropriate approach to the evaluation process and uses a third-party analytics firm to also evaluate the possibility of credit loss in these securities. In the first quarter of 2010, we identified securities that we deemed to be other than temporarily impaired, which resulted in an OTTI credit related charge totaling \$19,000.

Notes to Unaudited Consolidated Financial Statements
Three Months Ended March 31, 2011



The components of accumulated other comprehensive loss, which is presented net of tax in the consolidated statements of financial condition, are presented in the following table. The components of net unrealized gain on available-for-sale securities at March 31, 2011 and December 31, 2010 are as follows:

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Pretax gain	\$ 659,348	\$ 34,937
Income tax expense	<u>(257,144)</u>	<u>(13,625)</u>
Net of tax gain	<u>\$ 402,204</u>	<u>\$ 21,312</u>

The non-credit components of other-than-temporary impairment on securities as of March 31, 2011 and December 31, 2010 are as follows:

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Pretax loss	\$ (1,846,894)	\$ (1,897,626)
Income tax benefit	<u>720,288</u>	<u>740,074</u>
Net of tax loss	<u>\$ (1,126,606)</u>	<u>\$ (1,157,552)</u>

The amortized cost and estimated fair value of securities at March 31, 2011 by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ -	\$ -
Due after one year through five years	3,835,068	4,175,509
Due after five years through ten years	3,649,579	3,673,348
Due after ten years	<u>34,648,285</u>	<u>34,943,423</u>
	<u>\$ 42,132,932</u>	<u>\$ 42,792,280</u>

All eligible investment securities have been pledged to the Federal Home Loan Bank of Cincinnati as collateral for current or future borrowings. The carrying value of these securities as of March 31, 2011 and December 31, 2010 totaled \$21.4 million and \$20.7 million, respectively.

4. Loans. Major categories of loans at March 31, 2011 and December 31, 2010 are summarized as follows:

	<u>March 31, 2011</u>		<u>December 31, 2010</u>		<u>Change</u>	
Consumer Loans:						
Single family residential first mortgage	\$ 90,038,632	29.5%	\$ 85,191,206	27.2%	\$ 4,847,425	5.7%
Single family residential junior mortgage	44,194,187	14.5%	48,468,866	15.5%	(4,274,679)	-8.8%
Non-mortgage consumer loans	<u>3,657,583</u>	<u>1.2%</u>	<u>5,499,983</u>	<u>1.8%</u>	<u>(1,842,400)</u>	<u>-33.5%</u>
Subtotal Consumer Loans	137,890,402	45.2%	139,160,055	44.4%	(1,269,654)	-0.9%
Commercial Loans:						
Commercial & industrial	26,874,640	8.8%	28,852,226	9.2%	(1,977,586)	-6.9%
Commercial real estate	113,961,587	37.3%	112,656,426	35.9%	1,305,160	1.2%
Construction, land & development	<u>32,672,025</u>	<u>10.7%</u>	<u>42,350,868</u>	<u>13.5%</u>	<u>(9,678,842)</u>	<u>-22.9%</u>
Subtotal Commercial Loans	<u>173,508,252</u>	<u>56.8%</u>	<u>183,859,520</u>	<u>58.7%</u>	<u>(10,351,268)</u>	<u>-5.6%</u>
Total loans	311,398,654	102.0%	323,019,575	103.1%	(11,620,922)	-3.6%
Allowance for loan losses	<u>(5,972,394)</u>	<u>-2.0%</u>	<u>(9,630,180)</u>	<u>-3.1%</u>	3,657,786	-38.0%
Net loans	<u>\$ 305,426,260</u>	<u>100.0%</u>	<u>\$ 313,389,395</u>	<u>100.0%</u>	<u>\$ (7,963,136)</u>	<u>-2.5%</u>

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The following table summarizes the loan portfolio by timeliness of payment as of March 31, 2011:

	Current	Past Due Loans (days)			Non-accruing	Total unpaid balance	Carrying value adjustments	Total loans
		30-59	60-89	90 or more				
Consumer loans:								
<i>Single family residential first mortgage:</i>								
FHA insured/VA Guaranteed, closed end	\$ 5,917,831	\$ 1,433,072	\$ 1,209,175	\$ 2,354,748	\$ 300,221	\$ 11,215,047	\$ 38,217	\$ 11,253,264
Private mortgage insurance, closed end	2,244,747	12,435	-	118,218	892,873	3,268,273	-	3,268,273
Uninsured, closed end	61,970,005	1,956,013	455,758	27,094	2,094,694	66,503,564	(228,081)	66,275,484
Revolving	9,241,612	-	-	-	-	9,241,612	-	9,241,612
Subtotal first mortgage	79,374,195	3,401,520	1,664,933	2,500,060	3,287,788	90,228,496	(189,864)	90,038,632
<i>Single family residential junior mortgage:</i>								
Closed end amortizing	18,842,987	-	47,221	-	214,833	19,105,041	-	19,105,041
Revolving	24,939,164	149,982	-	-	-	25,089,146	-	25,089,146
Subtotal junior mortgage	43,782,151	149,982	47,221	-	214,833	44,194,187	-	44,194,187
<i>Non-mortgage consumer loans</i>								
Loans secured by deposits	495,867	-	-	-	-	495,867	-	495,867
Automobile loans	110,741	-	-	-	-	110,741	-	110,741
Other secured loans	2,104,565	-	-	-	-	2,104,565	-	2,104,565
Unsecured loans	946,410	-	-	-	-	946,410	-	946,410
Subtotal non-mortgage	3,657,583	-	-	-	-	3,657,583	-	3,657,583
Total consumer loans	126,813,929	3,551,502	1,712,154	2,500,060	3,502,621	138,080,266	(189,864)	137,890,402
Commercial loans:								
<i>Commercial & industrial:</i>								
Secured - real estate	550,500	-	-	-	-	550,500	-	550,500
Secured - non real estate	23,828,476	-	-	-	117,724	23,946,200	-	23,946,200
Unsecured	2,377,940	-	-	-	-	2,377,940	-	2,377,940
Subtotal commercial & industrial	26,756,916	-	-	-	117,724	26,874,640	-	26,874,640
<i>Commercial real estate:</i>								
Multi-family residential	23,142,861	-	-	-	73,067	23,215,928	35,853	23,251,781
Non-residential	90,709,806	-	-	-	-	90,709,806	-	90,709,806
Subtotal commercial real estate	113,852,667	-	-	-	73,067	113,925,734	35,853	113,961,587
<i>Construction, land & development:</i>								
Single family residential	9,859,633	-	-	-	138,362	9,997,995	-	9,997,995
Land & land development	21,918,040	-	-	-	755,990	22,674,030	-	22,674,030
Subtotal construction, land & development	31,777,673	-	-	-	894,352	32,672,025	-	32,672,025
Subtotal commercial loans	172,387,256	-	-	-	1,085,143	173,472,399	35,853	173,508,252
Grand total	\$ 299,201,185	\$ 3,551,502	\$ 1,712,154	\$ 2,500,060	\$ 4,587,763	\$ 311,552,664	\$ (154,010)	\$ 311,398,654
Percent of unpaid balance	<u>96.0%</u>	<u>1.1%</u>	<u>0.5%</u>	<u>0.8%</u>	<u>1.5%</u>	<u>100.0%</u>		

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Impaired loans outstanding as of March 31, 2011, including the average investment therein during the quarter then ended, together with the related allowance for loss, are summarized as follows:

	<u>Recorded Investment</u>	<u>Unpaid Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>
<i>Single family residential first mortgage:</i>				
FHA insured/VA Guaranteed, closed end	\$ 2,732,955	\$ 2,722,045	\$ -	\$ 2,877,244
Uninsured, closed end	3,043,470	3,202,400	122,000	3,652,699
<i>Single family residential junior mortgage:</i>				
Revolving	29,668	29,668	30,000	278,876
Subtotal - Consumer loans	5,806,093	5,954,113	152,000	6,808,819
<i>Commercial & industrial:</i>				
Secured - non real estate	117,724	117,724	-	212,385
<i>Commercial real estate:</i>				
Multi-family residential	743,672	743,672	266,530	711,332
<i>Construction, land & development:</i>				
Single family residential	138,362	138,362	-	1,012,116
Land & land development	755,990	755,990	-	4,769,021
Subtotal - Commercial loans	1,755,748	1,755,748	266,530	6,704,854
Grand Total	\$ 7,561,841	\$ 7,709,861	\$ 418,530	\$ 13,513,673

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Total non-performing loans	\$ 7,561,841	\$ 23,161,702
Non-performing loans to total loans	<u>2.43%</u>	<u>7.17%</u>
Non-performing assets	\$ 16,387,115	\$ 26,622,592
Non-performing assets to total assets	<u>3.97%</u>	<u>6.26%</u>

Non-accrual loans outstanding as of March 31, 2011 and December 31, 2010 totaled \$4.6 million and \$15.8 million, respectively. There were no commitments to lend additional funds to debtors whose loans were classified as non-performing at March 31, 2011. The Company had 19 loans which qualified as restructured troubled debts at March 31, 2011 as summarized in the following table:

	<u>Balance</u>	<u>Related Allowance</u>	<u>Weighted Average Rate</u>
Performing	\$ 2,927,014	\$ -	4.63%
Non-performing	384,596	-	4.75%
Total	<u>\$ 3,311,609</u>	<u>\$ -</u>	<u>4.64%</u>

5. **Allowance for Loan Losses.** The allowance for loan loss consists of expected losses specifically related to non-performing loans (the “specific allowance”) and losses that are not related to any loan in particular (the “general allowance”). The amount of the general allowance is management’s estimate of losses that will be incurred given the probability that a percentage of the loans in portfolio will default using assumptions as to the severity of loss given a default. Probability of default can be estimated by reference to a borrower’s employment status, credit score, financial condition, cash flow and net worth. Loss severity is dependent upon collateral value, holding period, selling concessions and guarantor strength. The general allowance also includes a subjective environmental assessment. The environmental factor is based on trends in economic data such as the unemployment rate, consumer confidence, bankruptcy filings, home sales, etc. The environmental factor is calculated on a scale of 1.0 (positive economic environment), which decreases the general allowance by 15%, to 7.0 (negative economic environment), which increases the general allowance by 20%. The general allowance for loan losses maintained an environmental factor rating of 6.5 or 17.5% at March 31, 2011.

Segmenting the loan portfolio for loss estimate. For purposes of estimating the allowance for loan loss, the loan portfolio is divided into two groups, homogenous consumer loans and non-homogenous commercial loans. Because of the standardized origination process for homogenous loans, evaluation for collectability (by segment) is performed on an aggregated basis primarily by reference to credit score and loan to value ratios. Magna’s current origination standards generally preclude making loans in cases where an applicant’s credit score is below 680, although there are exceptions to these standards. The following table summarizes the homogenous loan portfolio components by credit score:

	Credit Score range						Unavailable	Total
	760+	720 - 759	680 - 719	640 - 679	600 - 639	< 600		
Single family residential first mortgage:								
FHA insured/VA Guaranteed, closed end	\$ 165,988	\$ -	\$ -	\$ 58,404	\$ -	\$ 176,571	\$ 10,814,084	\$ 11,215,047
Private mortgage insurance, closed end	664,802	590,839	189,585	255,495	253,465	1,195,870	118,218	3,268,273
Uninsured, closed end	20,753,274	15,503,059	7,772,626	4,669,042	2,386,915	7,894,990	7,523,658	66,503,564
Revolving	5,642,352	696,255	1,277,515	1,362,888	248,731	13,870	-	9,241,612
Subtotal first mortgage	27,226,416	16,790,153	9,239,726	6,345,829	2,889,111	9,281,301	18,455,960	90,228,495
Single family residential junior mortgage:								
Closed end amortizing	8,466,562	4,462,878	2,916,047	2,343,498	196,307	364,635	355,114	19,105,041
Revolving	12,264,250	6,478,410	3,888,393	1,136,937	574,149	715,497	31,510	25,089,146
Subtotal junior mortgage	20,730,812	10,941,288	6,804,440	3,480,435	770,456	1,080,132	386,624	44,194,187
Non-mortgage consumer loans								
Loans secured by deposits	241,639	66,594	105,901	12,510	40,076	25,856	3,291	495,867
Automobile loans	52,546	18,832	35,501	-	-	-	3,861	110,741
Other secured loans	1,620,439	229,699	3,521	56,717	7,985	53,189	133,015	2,104,565
Unsecured loans	239,092	627,147	-	-	-	80,171	-	946,410
Subtotal non-mortgage	2,153,716	942,272	144,923	69,227	48,061	159,216	140,167	3,657,583
Total consumer loans	\$ 50,110,946	\$ 28,673,715	\$ 16,189,089	\$ 9,895,491	\$ 3,707,628	\$ 10,520,649	\$ 18,982,751	\$ 138,080,266
Prior quarter end	\$ 49,346,949	\$ 29,089,053	\$ 14,465,047	\$ 9,506,420	\$ 4,695,798	\$ 12,938,708	\$ 19,313,231	\$ 139,355,206

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In contrast, non-homogenous loans are evaluated for collectability on a disaggregated (loan level) basis. This is accomplished by periodic individual loan review conducted using updated borrower financial data which results in the assignment of a numerical risk rating. Loans receiving a rating of 1-4 are considered good loans (referred to as “Pass” credits) requiring no heightened monitoring. Loans receiving a rating of 5 or 6 receive special attention, and loans rated 7 or greater require an additional level of risk mitigation.

The following table summarizes the perceived risk in the non-homogenous loan portfolio by segment:

	<u>Pass</u>	<u>Watch List</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
Commercial & industrial:							
Secured - real estate	\$ 201,291	\$ 349,209	\$ -	\$ -	\$ -	\$ -	\$ 550,500
Secured - non real estate	23,200,684	178,000	449,792	-	117,724	-	23,946,200
Unsecured	1,977,682	131,211	269,047	-	-	-	2,377,940
Subtotal commercial & industrial	25,379,657	658,419	718,838	-	117,724	-	26,874,640
Commercial real estate:							
Multi-family residential	21,227,376	1,244,880	-	477,142	-	266,530	23,215,928
Non-residential	72,773,682	4,192,364	7,926,499	5,817,261	-	-	90,709,806
Subtotal commercial real estate	94,001,058	5,437,245	7,926,499	6,294,403	-	266,530	113,925,734
Construction, land & development:							
Single family residential	6,690,061	2,196,973	575,754	535,207	-	-	9,997,995
Land & land development	13,736,395	7,562,527	619,118	755,990	-	-	22,674,030
Subtotal construction, land & development	20,426,456	9,759,500	1,194,872	1,291,198	-	-	32,672,025
Total commercial loans	<u>\$ 139,807,171</u>	<u>\$ 15,855,164</u>	<u>\$ 9,840,210</u>	<u>\$ 7,585,600</u>	<u>\$ 117,724</u>	<u>\$ 266,530</u>	<u>\$ 173,472,399</u>
Prior quarter end	<u>\$ 134,509,668</u>	<u>\$ 18,658,471</u>	<u>\$ 13,145,618</u>	<u>\$ 12,831,169</u>	<u>\$ 977,973</u>	<u>\$ 3,736,621</u>	<u>\$ 183,859,520</u>

The following table summarizes the changes in the allowance for loan losses for the quarter ended March 31, 2011:

	<u>Single family residential</u>		<u>Non-mortgage consumer loans</u>	<u>Commercial & Industrial</u>	<u>Commercial Real Estate</u>	<u>Construction, land & development</u>	<u>Total</u>
	<u>First mortgage</u>	<u>Junior mortgage</u>					
Balance December 31, 2010	\$ 531,017	\$ 836,833	\$ 54,188	\$ 444,822	\$ 3,331,306	\$ 4,432,014	\$ 9,630,180
Provision for loan losses	91,000	(8,000)	(2,000)	(66,000)	(242,000)	62,000	(165,000)
Charge-off of uncollectible loans	(130,196)	(68,795)	-	-	-	(3,390,100)	(3,589,091)
Recovery of loans previously charged-off	-	3,320	1,380	-	-	91,605	96,305
Net charge-offs	<u>(130,196)</u>	<u>(65,475)</u>	<u>1,380</u>	<u>-</u>	<u>-</u>	<u>(3,298,495)</u>	<u>(3,492,786)</u>
Balance March 31, 2011	<u>\$ 491,821</u>	<u>\$ 763,358</u>	<u>\$ 53,568</u>	<u>\$ 378,822</u>	<u>\$ 3,089,306</u>	<u>\$ 1,195,519</u>	<u>\$ 5,972,394</u>

6. **Mortgage Servicing Rights.** The Company’s Mortgage Division owns the rights to service mortgage loans for third party investors as a fee-based business. These mortgage servicing rights (“MSRs”), which are reported at the lower of cost or fair value in the accompanying balance sheet, are amortized over the period of, and in proportion to, the estimated future net servicing income of the mortgage loans serviced, using actual prepayments, foreclosures, cost to service and escrow balances.

Using discounted cash flow methodology, the Company evaluates its investment in MSRs quarterly for evidence of impairment resulting from changes in the projected rate of prepayment, cost to service, market discount rates and other factors provided by third party brokers knowledgeable in the execution of MSR sales. In doing so, the underlying mortgages are divided into tranches based upon term and interest rate and the discounted cash flow expected from each is compared to the remaining carrying value of each tranche. If it is determined that the fair value is less than the remaining book value, a valuation allowance is established through a charge to earnings. There was no valuation impairment or recovery recorded during the quarter ended March 31, 2011.

7. **Foreclosed Real Estate.** The amount reported as real estate acquired through foreclosure is carried at the lower of the recorded investment in the loan or fair value less estimated cost to sell the property. The following table summarizes changes in foreclosed real estate for the quarters ended March 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 3,460,890	\$ 3,166,008
Transfer from loans	10,310,632	782,701
Foreclosed property sold	(1,516,974)	(97,622)
Writedowns and partial liquidations	(3,429,274)	(34,431)
Ending balance	<u>\$ 8,825,274</u>	<u>\$ 3,816,656</u>

8. **Segment Information.** The Bank operates two divisions: banking and mortgage. The banking division focuses on originating loans for its portfolio. These include first and second residential mortgages, revolving home equity loans, residential and commercial construction loans, commercial real estate loans and non-real estate commercial loans. The banking division funds its operations by gathering customer savings and transactional deposits and through wholesale brokered deposits and borrowings. The mortgage division originates residential first mortgages to investors (including, in certain instances, to the banking division) and services residential mortgage loans for others. Transactions between business segments are conducted at fair value and are eliminated for consolidated reporting purposes. Expenses for centrally provided services such as corporate compliance, legal representation, human resources, accounting and information technology are allocated to each segment based upon usage or per-unit-of-production. Corporate governance costs, including the chairman of the board and the board of directors, are borne by the banking segment. Each segment bears its own loan losses and other ancillary business expenses. Additionally, the mortgage division incurs interest transfer charges/credits for the assets and liabilities it employs in the conduct of its operations. The net amount of these transfer charges/credits has been eliminated from the banking segment in the following tables, which present condensed statements of operations and average assets for each reportable segment.

	Three Months Ended March 31,					
	2011			2010		
	Banking	Mortgage Banking	Total	Banking	Mortgage Banking	Total
Net interest income	\$ 3,223,046	\$ 205,566	\$ 3,428,612	\$ 3,139,201	\$ 246,899	\$ 3,386,100
Provision for loan losses	66,000	99,000	165,000	(261,000)	-	(261,000)
Net interest income after provision for loan loss	3,289,046	304,566	3,593,612	2,878,201	246,899	3,125,100
Non-interest income	784,731	2,102,698	2,887,429	250,292	2,414,092	2,664,384
Impairment charges	-	-	-	19,000	-	19,000
Non-interest expense	<u>2,830,137</u>	<u>2,525,340</u>	<u>5,355,477</u>	<u>2,721,951</u>	<u>2,512,678</u>	<u>5,234,629</u>
Income (loss) before taxes	1,243,640	(118,076)	1,125,564	387,542	148,313	535,855
Income taxes	483,861	(47,368)	436,493	154,525	56,864	211,389
Net income (loss)	<u>\$ 759,779</u>	<u>\$ (70,708)</u>	<u>\$ 689,071</u>	<u>\$ 233,017</u>	<u>\$ 91,449</u>	<u>\$ 324,466</u>
Total Average Assets	<u>\$372,947,216</u>	<u>\$38,976,876</u>	<u>\$ 411,924,092</u>	<u>\$ 400,171,762</u>	<u>\$ 42,193,772</u>	<u>\$ 442,365,534</u>
Operating efficiency:	70.6%	109.4%	84.8%	80.3%	94.4%	86.5%

9. **Fair Value Disclosures.** ASC 820.10 establishes a framework for measuring the fair value of assets and liabilities according to a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that are derived from assumptions based on management's estimate of assumptions that market participants would use in pricing the asset or liability based on the best information available under the circumstances.

The hierarchy is broken down into the following three levels, based on the reliability of inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs for assets or liabilities that are derived from assumptions based on management's estimate of assumptions that market participants would use in pricing the assets or liabilities.

The Company estimates the fair values of financial assets and liabilities using the following methods and assumptions:

Securities available-for-sale: Available-for-sale securities are recorded at fair value on a recurring basis. Fair values for securities are based on quoted market prices, where available. If quoted prices are not available, fair values are based on quoted market prices of similar instruments or are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the pricing relationship or correlation among other benchmark quoted securities. Where no active market exists for a security or other benchmark securities, fair value is estimated by the Company with reference to discount margins for other high risk securities. Available-for-sale securities valued using quoted market prices of similar instruments or that are valued using matrix pricing are classified as Level 2.

Mortgage servicing rights: The Company records MSR's at the lower of cost or estimated fair value. The Company reviews the portfolio of MSR's each quarter end for evidence of impairment using discounted cash flow techniques that utilize assumptions from brokers, when available, about factors such as mortgage interest rates, discount rates, mortgage loan prepayment speeds, market trends and demand. The Company's MSR portfolio is subject to non-recurring fair value adjustments that are classified as Level 3.

Loans held for sale: Loans held for sale are carried at the lower of cost or estimated fair value on a loan level basis and are subject to non-recurring fair value adjustments. Estimated fair value is determined based on posted market prices for uncommitted loans and on firm purchase commitments from third party investors for committed loans. Loans held for sale were carried at cost on the consolidated balance sheet at March 31, 2010 and December 31, 2009, respectively.

Foreclosed real estate: Foreclosed real estate ("REO") is comprised of commercial and residential real estate obtained in partial or total satisfaction of loan obligations. REO acquired in settlement of indebtedness is recorded at the lower of the carrying amount of the loan or the fair value of the real estate less costs to sell. Fair value is determined based on appraisals by qualified licensed appraisers and is adjusted for management's estimates of costs to sell and holding period discounts. Subsequently, it may be necessary to record non-recurring fair value adjustments, which are classified as Level 3. The Company recorded gain on the sale of REO of \$23,107 for the three months ended March 31, 2011.

Impaired loans: Loans considered impaired under FASB ASC 310, Receivables, are loans for which, based on current information and events, it is probable that Magna will be unable to collect all amounts due according to the contractual terms of the loan agreement. Fair value adjustments for impaired loans are recorded as either partial write downs based on observable market prices or current appraisal of the collateral or full charge-off of the loan carrying value. Impaired loans are subject to non-recurring fair value adjustments, and all impaired loans are classified as Level 3.

The balances and levels of the assets measured at fair value on both a recurring and non-recurring basis as of March 31, 2011 are presented in the following table.

	At March 31, 2011			
	Level 1	Level 2	Level 3	Total
Recurring valuation:				
Securities available-for-sale	\$ -	\$ 42,792,280	\$ -	\$ 42,792,280
Non-recurring valuation:				
Mortgage servicing rights	\$ -	\$ -	\$ 9,148,512	\$ 9,148,512
Foreclosed real estate			8,825,274	8,825,274
Loans held for sale		15,095,718	-	15,095,718
Impaired loans	-	-	7,561,842	7,561,842
Total Non-recurring	\$ -	\$ 15,095,718	\$ 25,535,628	\$ 40,631,346

The Company had no level 3 assets measured at fair value on a recurring basis for the three month period ended March 31, 2011.

10. **Fair Value of Financial Instruments.** “Fair value” is a point in time estimate of the amount at which a financial instrument can be settled based on relevant market conditions and current interest rates. Fair value estimates are subjective in nature and involve uncertainties and matters of significant judgment. While financial instruments, including loans and deposits, are frequently traded, most such exchanges occur in negotiated transactions at prices that are heavily influenced by concentrated due diligence, geographic dispersion, seasoning and other factors that simple discounted cash flow valuations cannot replicate.

The reported carrying value of cash, due from banks, short- term borrowings, accrued interest receivable and payable approximate their fair value based upon the short term until expected realization. Securities available for sale are reported at fair value based upon market quotes. The fair value of securities held to maturity, as disclosed elsewhere herein, is also based on quoted market prices. Loans held for sale are likewise reported at fair value based upon contractual delivery value expected to occur within thirty days of the balance sheet date.

The following methods and assumptions were used to estimate fair value for the remaining financial instruments. Market conditions remain particularly unsettled and obtaining a reliable estimate of fair value is extremely difficult. The use of discounted cash flow techniques to calculate value does not take into consideration the thinly traded market.

Loans. Magna uses an instrument-level discounted cash flow model to estimate the fair value of all loans. The model takes into account prepayment rates on loans containing such options using OTS prepayment tables. The discount rate on each loan is based on the yield curve observed by reference to the fixed rate term advance rates posted by the FHLB of Cincinnati, which approximates the swap curve. All loans are discounted at 2.50% over this hypothetical funding rate.

Mortgage servicing rights. The fair value of mortgage servicing rights is estimated using discounted present value analysis, adjusting cash flows for assumed prepayments, and applying assumptions for cost to service, differentials in discount rates for various types of loans and escrow balances collected.

Deposits. The fair value of retail deposits having no stated term to maturity (i.e., checking accounts, savings accounts, money market deposit accounts, and NOW accounts) is calculated using discounted cash flows which incorporate expected decay rates as estimated by the OTS. The fair value of deposits with a stated maturity (i.e. certificates of deposit) is estimated by discounting the future cash flows related to these instruments using the current offering rates on time deposits with the same remaining maturity (i.e. a “cost-of-funds” curve).

Borrowings. Fair value of term advances is estimated using discounted cash flow calculations applying interest rates currently being offered on these instruments to a schedule of aggregated expected monthly maturities plus or minus the value of the conversion options held by the lender.

The use of assumptions and estimates in the valuation techniques, combined with the absence of an established secondary market for most of our assets and liabilities, reduces the comparability of fair value disclosures among financial institutions.

The book value and estimated fair value of the Company's financial instruments are summarized as follows:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Securities available-for-sale	\$ 42,792,280	\$ 42,792,280	\$ 39,920,360	\$ 39,920,360
Loans	311,398,654	276,744,619	323,019,575	283,550,855
Mortgage loans held for sale	15,095,718	15,095,718	23,105,481	23,105,481
Mortgage servicing rights	9,737,048	10,034,609	9,898,444	10,198,312
Financial Liabilities				
Non interest-bearing deposits	33,327,771	28,878,594	31,700,387	27,121,963
Interest-bearing deposits with no stated maturity	155,443,030	132,116,882	160,375,279	137,333,239
Interest-bearing deposits with a stated maturity	99,993,147	99,256,584	114,088,487	113,736,061
Brokered deposits	14,880,789	14,879,933	14,485,822	14,484,715
Federal Home Loan Bank advances	45,000,000	47,612,103	49,000,000	52,023,904

Commitments to extend credit are off-balance sheet agreements to lend to a customer as long as there is no violation of any condition established in the contract. Construction loan commitments generally expire within one year, and home equity lines expire in five or ten years. The terms of these commitments call for interest to be charged at the then current prevailing rate, resulting in parity between the notional amount and the fair value of the commitment.

11. **Contingencies.** Contingent liabilities arise in the ordinary course of business, including those related to litigation. Various claims and lawsuits are pending against the Company, and although management cannot predict the outcome of these lawsuits, after consulting with counsel, management is of the opinion that when resolved, these lawsuits will not have a material adverse effect on the consolidated financial statements.

Selected Quarterly Data (Unaudited)
Five Consecutive Quarters



	Quarter Ended				
	March-11	December-10	September-10	June-10	March-10
Operating data:					
Net interest income	\$ 3,428,612	\$ 3,524,309	\$ 3,613,762	\$ 3,545,401	\$ 3,386,100
Provision for loan losses	(165,000)	1,629,400	1,708,000	1,883,000	261,000
Net interest income after provision for loan losses	3,593,612	1,894,909	1,905,762	1,662,401	3,125,100
Non-interest income	2,887,429	3,489,165	4,047,293	3,747,352	2,664,384
Impairment charges	-	296,030	-	600,000	19,000
Non-interest expense	5,355,477	7,007,901	6,177,764	5,816,656	5,234,629
Income (loss) before taxes	1,125,564	(1,919,857)	(224,709)	(1,006,903)	535,855
Income tax expense (benefit)	436,493	(726,011)	(63,945)	(396,009)	211,389
Net income (loss)	\$ 689,071	\$ (1,193,846)	\$ (160,764)	\$ (610,894)	\$ 324,466
Other comprehensive income	411,838	(22,187)	85,481	101,946	389,012
Total comprehensive (loss) income	\$ 1,100,909	\$ (1,216,033)	\$ (75,283)	\$ (508,948)	\$ 713,478
Net income (loss) available to common shareholders	\$ 520,198	\$ (1,362,719)	\$ (329,637)	\$ (779,767)	\$ 155,593
Per share data:					
Income (loss) per share - diluted	\$ 0.09	\$ (0.25)	\$ (0.06)	\$ (0.14)	\$ 0.03
Weighted average shares outstanding - diluted	5,503,026	5,489,899	5,488,116	5,488,116	5,485,987
Income (Loss) per share - basic	\$ -	\$ (0.25)	\$ (0.06)	\$ (0.14)	\$ 0.03
Weighted average shares outstanding - basic	5,503,026	5,489,899	5,488,116	5,488,116	5,485,987
Book value per common share (at period end)	\$ 7.63	\$ 7.47	\$ 7.72	\$ 7.76	\$ 7.88
Balance sheet data (at period end):					
Total assets	\$ 412,294,902	\$ 425,608,963	\$ 460,212,818	\$ 462,299,410	\$ 448,109,998
Cash and short-term investments	9,949,449	14,676,872	24,624,200	25,992,243	12,393,825
Total securities	42,792,280	39,920,360	39,036,435	44,645,654	51,930,032
Loans held for sale	15,095,718	23,105,481	38,469,103	25,577,089	22,789,267
Total loans	311,398,654	323,019,575	331,661,935	339,952,982	334,198,506
Allowance for loan losses	5,972,394	9,630,180	8,569,901	7,284,550	5,478,804
Mortgage servicing rights, net	9,737,048	9,898,444	9,476,309	9,575,349	10,258,251
Foreclosed real estate, net	8,825,274	3,460,890	4,132,579	3,120,166	3,816,656
Total deposits	303,644,737	320,649,976	340,758,866	340,935,548	327,670,643
Borrowings	45,000,000	49,000,000	63,000,000	63,000,000	63,000,000
Total equity	52,733,883	51,748,552	53,087,821	53,285,802	53,912,740
Common equity	41,968,957	41,007,724	42,371,090	42,593,169	43,244,205
Preferred equity	10,764,926	10,740,828	10,716,731	10,692,633	10,668,535
Financial ratios:					
Equity to assets	12.79%	12.16%	11.54%	11.53%	12.03%
Common equity to assets	10.18%	9.64%	9.21%	9.21%	9.65%
Total loans to deposits	102.55%	100.74%	97.33%	99.71%	101.99%
Allowance for loan losses to loans	1.92%	2.98%	2.58%	2.14%	1.64%
Allowance for loan losses to non-performing loans	78.98%	41.58%	50.34%	44.58%	84.92%
Non-performing loans to loans	2.43%	7.17%	5.13%	4.81%	1.93%
Non-performing assets to total assets	3.97%	6.26%	4.60%	4.21%	2.29%
Operating efficiency	84.8%	99.9%	80.6%	79.8%	86.5%
Return on average assets	0.67%	-1.05%	-0.14%	-0.54%	0.29%
Return on average equity	5.29%	-9.03%	-1.20%	-4.48%	2.42%
Net interest spread	3.27%	2.97%	3.10%	3.08%	3.06%
Net interest margin	3.49%	3.26%	3.39%	3.37%	3.33%

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion analyzes major factors and trends regarding the consolidated financial condition of Magna Bank (the "Company," "Magna," "Bank," "We" or "Us") as of March 31, 2011 and December 31, 2010, and the consolidated results of operations for the three month periods ended March 31, 2011 and 2010. The discussion should be read in conjunction with the unaudited consolidated financial statements and the notes thereto as of and for the quarters then ended.

EXECUTIVE OVERVIEW

Net income available to common shareholders for the first quarter of 2011 was \$520,198 compared to \$155,593 in the same quarter of 2010. Net interest income before provision for loan losses improved by 1.2% year over year. The first quarter of 2011 saw a credit of \$165,000 to the provision for loan losses on lower balances of both total loans and non-performing loans and as a result of recoveries from loans previously charged off. The quarter's credit compares to a charge of \$261,000 in the first quarter of 2010. Non-interest income improved by \$242,045 over 2010's total, primarily from the operation of our commercial and small business administration brokerage units. Residential mortgage banking revenue declined 19.5% for the first quarter of 2011 compared to the year ago period due to lower levels of home purchase activity in 2011, and the closure of our Chattanooga and Little Rock offices in the third quarter of 2010. Non-interest expenses increased by \$120,848 (2.3%) from the year earlier period as wages and benefits increased \$152,596 year over year due to the addition of staff in our commercial real estate and small business administration departments. As part of our expense control, we implemented a reduction in force affecting fourteen employees through April of 2011. We continue to exert tight expense controls on every area of the Bank.

Total assets at March 31, 2011 were \$412.3 million, decreasing \$13.3 million (3.1%) from the end of 2010, as both net loans and loans held for sale each fell by approximately \$8.0 million during the quarter. The decline in net loans was attributable to foreclosures totaling \$10.3 million combined with charge-offs to the allowance for loan losses of \$3.6 million, all of which was anticipated as we described in our annual report for 2010. This burst of foreclosure activity resulted in an increase in the carrying amount of foreclosed real estate totaling \$5.4 million. The decline in loans held for sale is somewhat typical of the seasonal cycle of the residential mortgage banking business. However, we have not yet seen evidence of a robust spring and summer home sale market returning, which will dampen loan originations. Total deposits fell by \$17.0 million during the quarter as we adjusted our deposit pricing to less aggressive levels; net interest margin grew by 23 basis points as a result.

The asset quality focus that has been our primary concern for the past two years is beginning to show results, as follows:

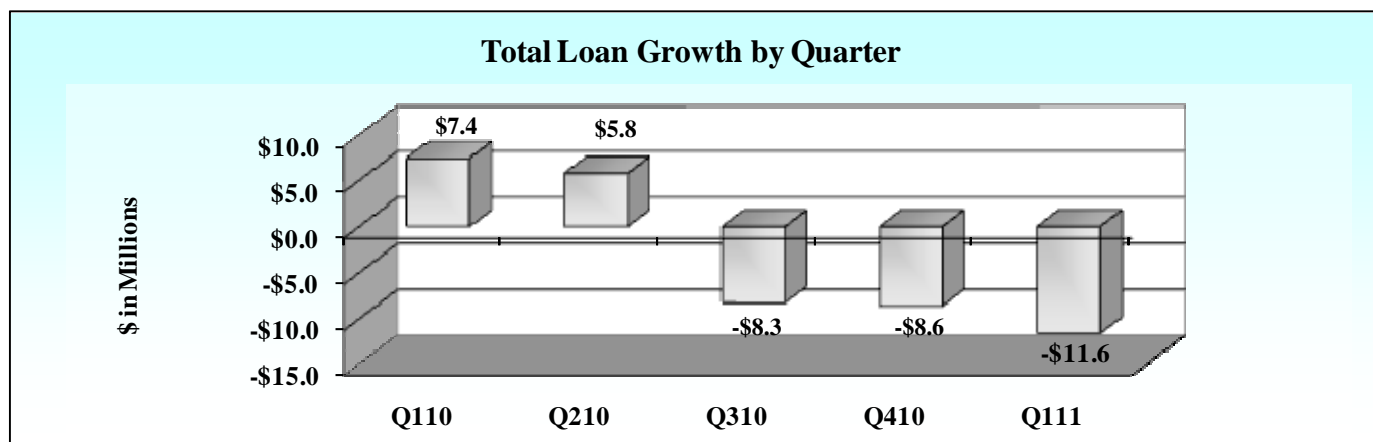
- The ratio of non-performing loans declined from 7.17% at December 31, 2010 to 2.43% at March 31, 2011,
- The ratio of non-performing assets declined from 6.26% at December 31, 2010 to 3.97% at March 31, 2011,
- The percent of loans that are current rose from 91.2% at December 31, 2010 to 96.0% at March 31, 2011,
- The percent of commercial loans rated "Pass" increased from 73.2% of total commercial loans at December 31, 2010 to 80.6% at March 31, 2011, and
- We disposed of \$1.5 million of foreclosed real estate properties during the quarter at a net pre-tax gain of \$23,107.

The allowance for loan losses as a percentage of outstanding loans decreased from 2.98% at December 31, 2010 to 1.92% at March 31, 2011, resulting from the charge-off of loans, losses for which were specifically identified at December 31, 2010, and which were foreclosed upon during the first quarter of 2011. The general allowance for loan losses as a percent of outstanding loans (exclusive of FHA/VA loans) was 1.84% at March 31, 2011, compared to 1.70% at December 31, 2010. Net charge-offs totaled \$3.5 million during the first quarter of 2011, an annualized rate of 4.52% of average loans outstanding. Net recoveries of previously charged-off loans totaled \$96,308 during the quarter, an annualized rate of .12% of average loans outstanding.

Magna's net interest margin improved during the quarter ended March 31, 2011, to 3.49%, up from 3.26% for the fourth quarter of 2010 and from 3.33% in the year ago quarter. The improvement in margin is attributable to aggressively re-pricing deposits to lower rates. Quarter over quarter, the cost of interest bearing liabilities fell from 1.78% to 1.46% while the yield on interest earning assets remained flat.

Non-interest expense in the first quarter declined \$1.7 million (23.6%) from the prior quarter but increased by \$120,848 from the first quarter of 2010. The quarter over quarter decline was attributable to (i) reduced loan originator commission, (ii) lower servicing amortization expense from loan prepayments, (iii) fourth quarter 2010 charges for writing down the carrying value of foreclosed real estate, and (iv) early debt prepayment at the FHLB.

The following chart shows sequential changes in the amount of total loans outstanding since the end of the first quarter of 2010:

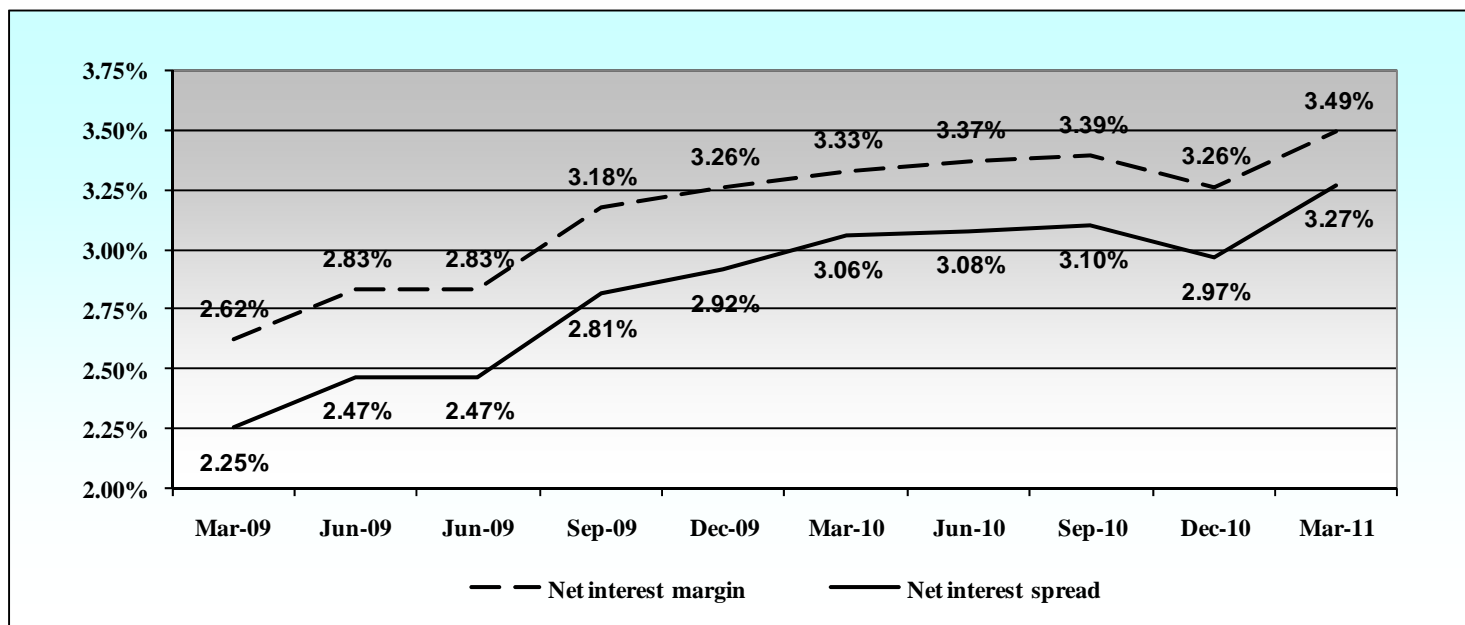


Non-performing loans totaled \$7.6 million at March 31, 2011, a decrease of \$15.6 million (67.4%) from the preceding year end. This decline is largely attributable to the finalization of negotiated deed-in-lieu of foreclosure proceedings against one of the Bank's largest debtors, which resulted in a transfer of \$9.8 million of non-performing loans to foreclosed real estate. The remaining improvement resulted from an upgrade in the credit outlook for a commercial real estate loan which totaled \$3.7 million at December 31, 2010.

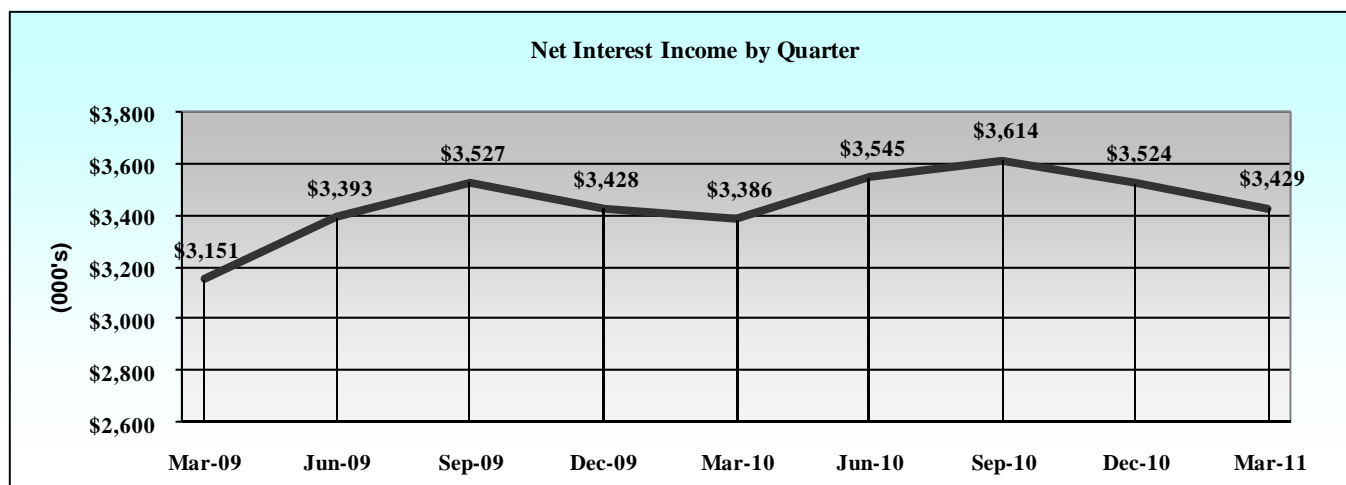
The ratio of non-performing loans to total loans decreased from 7.17% at December 31, 2010, to 2.43% at March 31, 2011. The ratio of non-performing assets (which includes non-performing loans and foreclosed real estate) also declined from 6.26% in the prior quarter to 3.97% at March 31, 2011. The non-performing loan and asset ratios at March 31, 2011 are reduced to 1.60% and 3.39%, respectively, when deducting the component of non-performers represented by loans backed by the full faith and credit of the United States, which management does for purposes of peer comparison. The allowance for loan losses was 1.92% of total loans outstanding at March 31, 2011, compared to 2.98% at December 31, 2010. Excluding full-faith and credit FHA/VA loans, the allowance for loan losses was 1.98% of total loans outstanding at March 31, 2011, compared to 3.09% at December 31, 2010.

Net interest income totaled \$3.4 million for the first quarter of both 2011 and 2010. Net interest spread and net interest margin improved from 2.97% and 3.26%, respectively, in the fourth quarter of 2010 to 3.27% and 3.49%, respectively, for the quarter ended March 31, 2011. We do not expect significant improvement in these two metrics over the remainder of 2011 if the general level of market interest rates remains unchanged.

The improvement in our net interest margin and net interest spread is detailed in the following chart:



The following chart shows the changes in quarterly net interest income over the past two years:



On a fully-diluted basis, income per common share for the quarter totaled \$0.09 compared to \$0.03 for 2010. To our knowledge, there were 9,300 shares of Magna stock traded during the quarter ended March 31, 2011 at a price \$5.40 per share. At March 31, 2011 the last trade price of Magna stock was \$5.40 per share.

Economic trends. Consensus forecasts of leading economists indicate the economic recovery will be slow to materialize. Through April 18, 2011, 34 banks have failed, compared to 157 and 140 in 2010 and 2009, respectively. While most of the larger money-center banks have begun returning to profitability, the community banks are trailing the return to profitability because the onset of credit issues was delayed by the stronger balance sheets of most borrowers. Memphis' economy has recently been buoyed by the announcement of several large capital investment and job-creating projects, but these will take several quarters to come on stream. In the meanwhile, joblessness in our markets exceeds that of the state as a whole, and the real estate market remains very weak.

Core inflation remains muted and the FOMC maintained its accommodative posture by leaving the targeted federal funds rate at 0% to .25%. No increase in the short term targeted rate is expected during the remainder of 2011. Certain economic indicators are beginning to trend positively, most noticeably reports that the U.S. economy created 216,000 new jobs in March, the largest monthly increase since May of 2010.

Regulatory reform. The passage of the Dodd-Frank Wall Street Reform ("DFR") and Consumer Protection Act ("CPA") will, to a large extent, reshape the financial services industry. Final regulations for implementing these reforms are currently being written. Management expects the DFR will require changes in pricing services and products going forward. The CPA calls for a new Consumer Financial Protection Bureau. The Company believes the bureau has the opportunity to simplify consumer disclosures and provide customers with an easier way to understand costs and compare products and services. A potentially significant impact the passage of the DFR may have on the Company is the abolishment of the Office of Thrift Supervision ("OTS"). The DFR calls for the OTS to wind down its operations and merge its functions into the Office of the Comptroller of the Currency ("OCC") and the Federal Reserve Board. As of July 21, 2011, the agency will formally transfer its authority over thrift holding companies to the Fed, while the OCC will supervise all federal thrifts, including Magna. The OTS officially dissolves 90 days later.

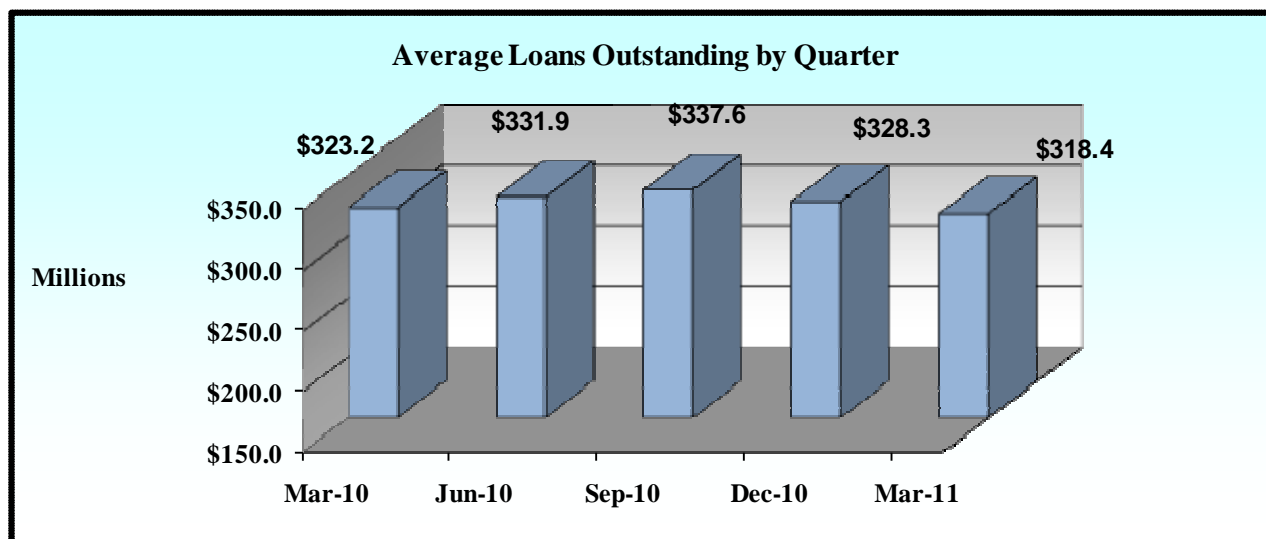
The proposed Basel III rules primarily impact the level and type of capital a financial institution must maintain as well as the level of liquidity a financial institution must maintain based on the Liquidity Coverage Ratio. The Basel III rules will be phased in over five years beginning in 2013. The Company believes we are positioned well from both a capital and liquidity prospective to meet the Basel III requirements as well as the additional regulatory requirements from the passage of the DFR and CPA discussed above; however, the regulatory reforms are in the early stages of implementation by the U.S. banking regulators and the ultimate impact on the company is not completely known at this time.

Actual and expected consequences. In our 2010 Annual Report, we communicated our expectation of significant improvement in net interest margin as a result of early prepayment of FHLB advances and brokered deposits together with continued re-pricing of higher costing time deposits. We were also confident that we would successfully complete the acquisition of collateral property for a large portion of our non-performing loans and begin the process of disposing of those properties. Both of these events occurred during the first quarter of 2011 and we are actively marketing the remaining foreclosed real estate we own. We also were cautiously optimistic that at the end of 2010 Magna had weathered the worst of our credit related problems and that 2011 would show some improvement in the overall credit quality of the balance sheet. After carefully reviewing our loan and securities portfolios, we can report positive developments in these areas.

Overall, the fair value of the securities portfolio improved by \$675,145 during the quarter ended March 31, 2011, and we determined that there was no additional other than temporary impairment in any of our securities. In the first quarter of 2010, we recorded impairment charges totaling \$19,000. These impairment charges reflect the *forecasted* amount of principal loss we *expect* to incur, as opposed to any actual losses we are currently experiencing. Consequently, the actual amount of loss we incur in the future may be higher or lower than what we have recorded. Further deterioration in the performance of the underlying collateral of our securities, which did not exhibit any forecasted losses at the end of March, may result in impairment charges in the future.

Loan credit quality also improved, as the percentage of the overall loan portfolio that was current on payment rose from 91.2% at December 31, 2010 to 96.0% at March 31, 2011. We are closely monitoring credit quality in both the loan and securities portfolios. We are actively monitoring the quality of the loan portfolio, especially those loans secured by asset classes that have been most affected by the recession. In that regard, we are in regular contact with our borrowers, and attempt to strengthen our collateral position or encourage debt reduction as each loan matures. Average loans outstanding for the first quarter of 2011 totaled \$318.4 million, a decline of \$9.9 million from the prior quarter, but were ahead of our operating plan projections. Given the trend of continued deleveraging by both consumers and businesses, we expect to see modest growth in the level of loans outstanding during the remainder of 2011.

The following chart shows the sequential quarterly change in average loans outstanding:



Residential mortgage banking experienced a decline in mortgage origination volume of \$7.0 million or 12.6%, from \$55.7 million in the first quarter of 2010 to \$48.7 million in the first quarter of 2011. The decline is primarily due to the closure of our Little Rock and Chattanooga offices in the third quarter of 2010, which accounted for \$7.85 million in mortgage origination volume in the first quarter of 2010. Because of the volatile nature of the mortgage origination business and weakness in the national economy (particularly the housing market), it is difficult to project mortgage origination volumes for the remainder of 2011; however, if current trends continue, we expect residential mortgage origination volumes in 2011 to be significantly less than what we experienced in 2010 and 2009. As discussed earlier, because of actual and projected weak home sales and declining refinance activity, we forecast mortgage origination activity for 2011 to decline from 2010 levels. As a result, we implemented a reduction in force affecting eight employees in our mortgage banking division in April of 2011. Mortgage loan origination volume by operating region and non-interest income are presented in subsequent tables.

Brokerage fee income from our commercial real estate group totaled \$55,125 in the first quarter of 2011 compared to \$86,250 in the first quarter of 2010. Activity in commercial real estate brokerage is very volatile. The recession, coupled with turmoil in the credit markets, has had a negative impact on the commercial real estate brokerage business.

Magna gained approval in the first quarter of 2010 to participate in the U. S. government insured Small Business Lending (SBA) program. Our commercial lending group hired a vice-president who brings to Magna 20 years experience in SBA and small business lending. We provide SBA loans in addition to traditional commercial loan and cash management services to small and mid-size businesses in the Memphis area. Our commercial lending group closed SBA loans totaling \$6.6 million and recognized \$483,290 in fee income in the first quarter of 2011.

Along with the addition of SBA lending to our product line, we also launched a relationship checking product in the first quarter of 2010. This checking product has grown from a balance of \$632,129 at the end of the first quarter of 2010 to \$9.7 million in the current quarter. We also added a mobile banking capability for our debit card customers in the second half of 2010. These initiatives have added to our core customer base and will continue to be promoted throughout the remainder of 2011.

Financial condition analysis. Total assets were \$412.3 million at March 31, 2011, compared to \$425.6 million at December 31, 2010. The carrying value of liquid assets, which include cash, cash equivalents and securities available for sale, declined by \$1.9 million from year end 2010. During the first quarter, the fair value of securities in the available for sale portfolio improved by \$675,145. At March 31, 2011, Magna performed a detailed analysis of all securities we own, evaluating each security on the basis of current collateral performance (base case) and a forecasted worsening scenario (stressed case). No securities met the criteria for OTTI recognition as of March 31, 2011, and one of our securities met the criteria for OTTI recognition as of March 31, 2010, with an impairment charge of \$19,000. We will diligently review these securities each quarter for evidence of a meaningful principal loss occurring within a foreseeable time frame and will recognize other than temporary impairment if such condition exists. Magna may elect to sell the investments at prices approximating current carrying values, but it is not likely that we will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity.

Loan balances declined \$11.6 million during the first quarter of 2011 primarily as a result of a decline in consumer loans of \$1.3 million and a decline in commercial loans of \$10.3 million. The decline in commercial loans was primarily due to a decline in construction, land and development loans of \$9.7 million. During the first quarter, the Bank transferred \$9.8 million from this loan category to foreclosed real estate. The Bank recorded a charge-off of \$3.4 million in the first quarter on this large loan relationship for a net transfer to foreclosed real estate of \$6.4 million. The charge-off was specifically reserved for in the allowance for loan losses at December 31, 2010.

Non-performing loans, totaling \$7.6 million at March 31, 2011, decreased \$15.6 million (67.4%) during the first three months of 2011. The decline in non-performing loans included an \$11.2 million (29.1%) reduction in non-accrual loans, which totaled \$4.6 million at March 31, 2011, compared to \$15.8 million at December 31, 2010. The following table summarizes the changes in non-performing loans during the quarter ended March 31, 2011:

Balance December 31, 2010	\$ 23,161,702
Transfers of performing loans to non-performing	1,885,211
Additional principal drawn	9,025
Principal payments received	(94,871)
Transfers out of non-performing loans to foreclosed real estate	(10,310,632)
Payoffs or transfers of non-performing loans to performing loans	<u>(7,088,595)</u>
Balance March 31, 2011	<u>\$ 7,561,841</u>

Non-performing loans include non-performing FHA/VA insured (full faith and credit) loans which are delinquent when we purchase them from GNMA pools we service. Excluding the amounts relating to non-performing FHA/VA loans, non-performing loans decreased by \$15.3 million to \$4.8 million at March 31, 2011, compared to \$20.1 million at the end of the preceding year. The Company is proactively monitoring our loan portfolio for impairment. The following table summarizes non-performing loans (excluding FHA/VA insured loans "EBO loans") as of March 31, 2011 and December 31, 2010:

	March 31, <u>2011</u>	December 31, <u>2010</u>
Non-performing loans, exclusive of EBO loans	\$ 4,828,887	\$ 20,140,170
Non-performing loans to total loans, exclusive of EBO loans	<u>1.63%</u>	<u>6.47%</u>
Non-performing assets, exclusive of EBO loans	\$ 13,654,161	\$ 23,601,060
Non-performing assets to total assets, exclusive of EBO loans	<u>3.39%</u>	<u>5.70%</u>

Net charge-offs totaled \$3.5 million and net recoveries totaled \$43,073 for the three month periods ended March 31, 2011 and 2010, respectively. Charge-offs are significantly above historical levels and have exceeded prior year levels. As discussed above, the Bank recorded a charge-off of \$3.4 million in the first quarter on one large loan relationship. The charge-off was specifically reserved for in the allowance for loan losses at December 31, 2010. Management does not expect the significant charge-offs we experienced in the first quarter of 2011 to continue during the remainder of this year.

The Bank has established an allowance for loan losses based on past loan performance, the level of past due and non-accrual loans, the size and mix of the portfolio, loan growth trends, adverse classification at recent regulatory examinations, general economic conditions in the market area, and a review of individual loans to identify potential credit problems. In evaluating the adequacy of the allowance, management makes certain estimates and assumptions which are susceptible to change in the near term. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based upon changes in economic conditions.

The following table summarizes the components of the allowance for loan losses at March 31, 2011 and December 31, 2010.

	March 31, 2011	% of outstanding balance ⁽¹⁾	December 31, 2010	% of outstanding balance ⁽¹⁾
Single family residential first mortgage	\$ 491,821	0.61%	\$ 531,017	0.72%
Single family residential junior mortgage	763,358	1.73%	836,833	1.73%
Non-mortgage consumer loans	53,568	1.46%	54,188	0.99%
Commercial & industrial	378,822	1.41%	444,822	1.54%
Commercial real estate	3,089,306	2.71%	3,331,306	2.96%
Construction, land & development	<u>1,195,519</u>	<u>3.66%</u>	<u>4,432,014</u>	<u>10.46%</u>
Total	<u>\$ 5,972,394</u>	<u>1.98%</u>	<u>\$ 9,630,180</u>	<u>3.09%</u>

1: Denominator excludes FHA/VA loans in the one-to-four family residential category totaling \$9.5 million and \$11.6 million at March 31, 2011 and December 31, 2010, respectively, losses which are charged to the FHA/VA reserve.

Credit risk management and analysis of the adequacy of the allowance for loan losses (“ALL”) in our loan portfolio is the responsibility of the Loan Policy and Oversight Committee (“LPOC”). The tools utilized by the LPOC to assist with the management of risk and ALL adequacy include, but are not limited to, the following:

- Review of high dollar value loans,
- Review of loan concentration reports,
- Review of reports detailing high loan-to-value (LTV) loans, classified loans, past due loans, and “watch” rated loans.

In view of the continued depreciation of real estate values over the past three years, one of the LPOC’s risk management initiatives is to reduce Magna’s investment in real estate secured loans with high LTV ratios, generally greater than 90%, to no more than 100% of capital. High LTV loans increase the credit risk of our loan portfolio and accordingly Magna continues to closely monitor this risk. The ratio of high LTV loans to total capital continues to decline as follows: 82% at March 31, 2010, 71% at December 31, 2010, and 61% at March 31, 2011. These high LTV percentages may not reflect current LTV ratios because the ratios are calculated using the value from the last appraisal performed, which may be an older appraisal that does not reflect an accurate current value given the continued decline in real estate values.

Magna has originated certain mortgage loans for its portfolio which were based on limited or unverified documentation relating to borrower income or assets (“Low Doc” loans). Low Doc loans exhibit a higher risk of loss due to the unsubstantiated nature of the borrower’s ability to repay but were limited to borrowers with very high credit scores, considered a reliable measure of ability and intent to meet the loan’s terms. Low Doc loans totaled approximately \$7.9 million of the Bank’s single family mortgage portfolio as of March 31, 2011. Magna no longer originates Low Doc loans.

Another category of high risk loans include so-called “Option ARM” loans which are:

1. Adjustable rate loans with low “teaser” interest rates that reset without limit at the expiration of the teaser period,
2. Adjustable rate loans that allow the borrower to skip payments, pay interest only, or choose the amount of the payment to make, or
3. Loans that allow the borrower to pay less than the amount of interest due each month, with the shortfall being added back into the loan balance and thus increasing the total debt (negative amortizing loans).

Magna has not originated Option ARM loans for its portfolio.

The OTS limits loans to one borrower to 15% of capital plus general allowances for loan losses, subject to exceptions for loans to small businesses, small farms, or 1-4 dwelling first liens less than 80% LTV under the Pilot Program, and exceptions for domestic housing development loans (“Programs”). These Programs increase the limit of loans to one borrower to 25% and 30% of capital plus loan loss reserves. As of March 31, 2011, the amount loaned under both Programs totaled approximately \$11.8 million, or approximately 20% of total capital plus loan loss reserves.

Our residential loan servicing operation, which is part of the mortgage division, acts as a hedge for our residential mortgage loan production operation. Residential mortgage servicing rights (“MSRs”) totaled \$9.2 million at March 31, 2011, compared to \$9.3 million at December 31, 2010. The net decrease is attributable to capitalized servicing rights retained on loans sold to FNMA during the three months ended March 31, 2011, of \$262,489 less amortization expense of \$423,884. At March 31, 2011, the Company serviced 8,165 residential first mortgage loans totaling \$991.8 million for third party investors compared to 8,268 loans totaling \$999.5 million at December 31, 2010. The value of MSRs is directly affected by changes in mortgage interest rates, as mortgage prepayment tends to slow when mortgage interest rates rise. Conversely, declining rates generally result in rising prepayments and therefore diminished servicing

fee income and market values. Management reviews the valuation of the MSRs on a periodic basis. As of March 31, 2011, there was \$750,000 of unrecovered impairment in the value of the residential mortgage servicing portfolio, which was unchanged from December 31, 2010.

The following table provides details of the residential mortgage loans underlying MSRs:

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Number of loans serviced for others	8,165	8,268
Unpaid principal balance of loans serviced for others	\$ 991,781,142	\$ 999,539,364
Average balance per loan	\$ 121,467	\$ 120,893
Weighted average servicing fee	0.294%	0.294%
Weighted average mortgage note rate	5.43%	5.45%
Net book value of servicing rights	\$ 9,158,586	\$ 9,283,206
Net book value as a multiple of annual servicing fee	3.14	3.16

Total liabilities declined \$14.3 million during the three months ended March 31, 2011. Borrowings totaling \$52.0 million increased \$3.0 million from December 31, 2010 as federal funds purchased increased \$7.0 million and FHLB borrowings declined \$4.0 million. Brokered deposits totaled \$14.9 million and \$14.5 million for the periods ended March 31, 2011 and December 31, 2010, respectively. Total deposits declined \$17.0 million between December 31, 2010 and March 31, 2011, including a \$14.1 million decline in time deposits and a \$4.0 million decline in interest-bearing transaction accounts. These declines were offset by seasonal growth in servicing escrow accounts of \$2.4 million during first quarter of 2011.

The following table sets forth the maturities of interest-bearing deposits at March 31, 2011 and December 31, 2010:

	<u>At March 31, 2011</u>			<u>At December 31, 2010</u>		
	<u>Amount</u>	<u>Average Rate</u>	<u>% of total</u>	<u>Amount</u>	<u>Average Rate</u>	<u>% of total</u>
Maturing within:						
One year	74,464,489	1.59%	27.5%	84,521,242	1.77%	29.3%
Two years	12,373,128	2.24%	4.6%	20,121,796	2.42%	7.0%
Three years	7,123,646	2.30%	2.6%	6,800,167	2.31%	2.4%
Four years	5,932,837	2.15%	2.2%	2,410,690	2.51%	0.8%
Five years	99,047	2.05%	0.0%	234,590	2.70%	0.1%
	<u>99,993,147</u>	<u>1.76%</u>	<u>36.9%</u>	<u>114,088,485</u>	<u>1.93%</u>	<u>39.4%</u>

The maturities of time deposits, including certificates of deposit, with balances of \$100,000 or greater by time remaining until maturity are as follows:

	<u>At March 31, 2011</u>			<u>At December 31, 2010</u>		
	<u>Balance</u>	<u>Average Rate</u>	<u>% of total</u>	<u>Balance</u>	<u>Average Rate</u>	<u>% of total</u>
Due in three months or less	\$ 15,482,425	1.50%	27.7%	\$ 17,653,983	2.08%	27.3%
Due after three through six months	9,638,294	1.90%	17.2%	15,276,220	1.51%	23.6%
Due after six through twelve months	16,481,344	1.72%	29.5%	15,764,630	1.92%	24.4%
Due after twelve months	14,293,558	2.36%	25.6%	15,921,653	2.54%	24.6%
	<u>\$ 55,895,621</u>	<u>1.85%</u>	<u>100.0%</u>	<u>\$ 64,616,486</u>	<u>2.02%</u>	<u>100.0%</u>
Percent of total deposits	<u>18.4%</u>			<u>20.2%</u>		

At March 31, 2011, the Company's loan-to-deposit ratio excluding loans held for sale was 102.6% compared to 100.7% at December 31, 2010, the result of deposit declines exceeding loan declines by \$5.4 million during the first quarter of 2011. Liquidity was provided by loan declines including loans held for sale exceeding deposit declines by \$2.6 million, but was offset by an increase in foreclosed real estate of \$5.4 million. Cash and cash equivalents declined by \$4.7 million and net borrowings increased by \$3.0 million. The loan-to-deposit ratio is a useful measure of a Bank's liquidity indicating the percentage of a bank's loans funded through deposits. A decrease in the ratio may indicate that a bank has more of a cushion to fund its growth and to protect itself against a sudden decline of funding sources.

Total shareholders' equity as of March 31, 2011 and December 31, 2010 was \$52.7 million and \$51.7 million, respectively. The increase in equity was attributable to earnings for the three month period ended March 31, 2011 of \$520,198 and a decrease in accumulated other comprehensive loss of \$411,838, which represents the after tax effect of the increase in the market value of the Bank's available-for-sale securities portfolio and changes in the non credit components of securities with recorded OTTI. The Company has neither declared nor paid dividends to common shareholders since its inception and does not expect to do so in the near future. Furthermore, the Company is restricted under federal regulations as to the amount of dividends that may be paid to its shareholders.

The Company's equity to assets ratio was 12.79% at March 31, 2011 compared to 12.16% at December 31, 2010. At March 31, 2011 and December 31, 2010, Magna's regulatory core capital and total risk based capital ratios were 12.94% and 16.45% and 12.20% and 15.93%, respectively. These ratios exceed minimum regulatory levels at March 31, 2011 and December 31, 2010, respectively, and place Magna in the "well-capitalized" category as of both dates.

Results of operation – three months ended March 31, 2011 and 2010. Interest income, including dividends earned on FHLB stock, for the three months ended March 31, 2011, was \$4.5 million, a \$724,683 decrease from 2010. Overall, the average asset yield decreased by 36 basis points to 4.74%, while the yield on the loan portfolio decreased by 47 basis points to 4.94%. Interest expense decreased by \$634,025 to \$1.2 million for the first quarter of 2011 compared to the year earlier period. The average rate incurred on interest bearing liabilities decreased by 57 basis points. Net interest income for the quarter ended March 31, 2011 was \$3.3 million compared to \$3.4 million for 2010, a decrease of \$90,658 (2.64%). Net interest margin increased by 16 basis points, partially attributable to wider average spread between interest earning assets and interest bearing liabilities. The following table summarizes the average yields earned on interest earning assets and the average rates paid on interest bearing liabilities for the three months ended March 31, 2011 and 2010:

	Quarters Ended March 31,					
	2011			2010		
	<u>Average Balance</u>	<u>Interest Income/ Expense</u>	<u>Average Rate</u>	<u>Average Balance</u>	<u>Interest Income/ Expense</u>	<u>Average Rate</u>
ASSETS						
Short-term investments	\$ 7,975,201	\$ 4,723	0.24%	\$ 18,577,331	\$ 11,477	0.25%
Investment securities	38,155,664	391,312	4.10%	53,411,384	659,754	4.94%
Loans held for sale	14,264,695	161,432	4.53%	13,206,101	164,770	4.99%
Loans	318,394,995	3,928,464	4.94%	323,247,460	4,374,613	5.41%
Investment in Federal Home Loan Bank	3,981,400	45,159	4.54%	3,981,400	45,159	4.54%
Total interest earning assets	382,771,955	4,531,090	4.74%	412,423,676	5,255,773	5.10%
Non interest earning assets	29,152,137			29,941,856		
Total assets	\$ 411,924,092			\$ 442,365,532		
LIABILITIES						
Interest-bearing transaction accounts	\$ 86,040,200	\$ 172,124	0.80%	69,737,994	185,298	1.06%
Savings deposits	85,670,746	188,912	0.88%	69,395,579	254,177	1.47%
Time deposits	106,230,221	485,306	1.83%	147,031,630	820,215	2.23%
Brokered time deposits	311,124	200	0.26%	4,793,000	19,010	1.59%
Time deposits	106,541,345	485,507	1.82%	151,824,630	839,225	2.21%
Deposits	278,252,291	846,543	1.22%	290,958,203	1,278,700	1.76%
Federal funds purchased and other short-term borrowings	1,758,889	827	0.19%	4,053,763	1,511	0.15%
Term FHLB Advances	45,155,556	343,119	3.04%	63,000,000	544,303	3.46%
Total interest bearing liabilities	325,166,736	1,190,489	1.46%	358,011,966	1,824,514	2.04%
Non interest bearing liabilities	34,616,681			30,713,324		
Shareholders' equity	52,140,675			53,640,242		
Total liabilities and shareholders' equity	\$ 411,924,091			\$ 442,365,532		
Net interest income/net interest spread		\$ 3,340,601	3.27%		\$ 3,431,259	3.06%
Net interest margin			3.49%			3.33%

The following table shows the components of each change attributable to rate and volume variances for the three months ended March 31, 2011 and 2010. The changes in interest due to both rate and volume have been allocated to change due to rate and change due to volume in proportion to the absolute amounts of the changes in each.

	Quarters ended March 31, 2011 compared to March 31, 2010		
	Increase (decrease) due to		
	Rate	Volume	Total
Interest earning assets:			
Short-term investments	\$ (457)	\$ (6,297)	\$ (6,754)
Investment securities	(143,116)	(125,326)	(268,442)
Loans held for sale	(15,977)	12,639	(3,338)
Loans	<u>(278,006)</u>	<u>(168,143)</u>	<u>(446,149)</u>
Total change in interest income	(437,556)	(287,127)	(724,683)
Interest bearing liabilities:			
Interest-bearing transaction accounts	(51,287)	38,113	(13,174)
Savings deposits	(116,080)	50,815	(65,265)
Time deposits	(132,238)	(202,671)	(334,909)
Brokered time deposits	(8,887)	(9,922)	(18,809)
Time deposits	<u>(141,125)</u>	<u>(212,593)</u>	<u>(353,718)</u>
Total deposits	(308,492)	(123,665)	(432,157)
Federal funds purchased and other short-term borrowings	324	(1,008)	(684)
FHLB Advances	<u>(60,046)</u>	<u>(141,138)</u>	<u>(201,184)</u>
Total change in interest expense	(368,214)	(265,811)	(634,025)
Increase in net interest income	\$ (69,342)	\$ (21,316)	\$ (90,658)

Magna recorded a credit to the provision for loan losses of \$165,000 in the first quarter of 2011 compared to a provision of \$261,000 in the first quarter of 2010. The credit to the loan loss provision in the first quarter of 2011 was partially attributable to recoveries of \$96,305. The bank recorded charge-offs of \$3.6 million in the first quarter of 2011; however, all charge-offs were fully reserved for as of December 31, 2010. The remainder of the decline in the provision for loan losses was due to stabilizing credit quality in the form of classified assets and non performing loans and a decline in loans outstanding of \$11.6 million. At March 31, 2011, the general component of the allowance for loan losses totaled \$5.6 million compared to \$5.3 million at December 31, 2010. In arriving at the level of allowance for loan loss at March 31, 2011, Magna maintained a negative economic environment outlook, which resulted in an environmental factor loan loss allowance of approximately \$172,000 or 17.5% of general allowance for loan loss for the homogenous loan portfolio. The environmental factor impacts the allowance for loan loss by decreasing the allowance by 15% of general allowance for loan loss in a strong economy and by increasing the allowance by 20% in a weak economy. Management considers the level of the allowance for loan losses to be adequate based upon our current assessment of the portfolio and the economy.

Total non-interest income, which is sourced primarily from mortgage banking, mortgage servicing, and commercial mortgage banking, totaled \$2.9 million and \$2.6 million for the three months ended March 31, 2011 and 2010, respectively, as seen in the following table:

	Three Months Ended March 31,	
	2011	2010
Mortgage banking	\$ 1,206,970	\$ 1,499,469
Mortgage servicing	921,234	944,268
Commercial mortgage banking	538,415	86,250
Other -than-temporary impairment on securities	-	(19,000)
Other	<u>220,810</u>	<u>134,397</u>
Total non-interest income	\$ 2,887,429	\$ 2,645,384



Mortgage banking, which is the largest investment in terms of management, human resources and support within our Company, is particularly sensitive to changes in interest rates, and can be rapidly affected by competitive pressures. The following table summarizes changes in mortgage loan origination volume, by operating region, for the periods indicated:

	<u>Memphis</u>	<u>Little Rock</u>	<u>Nashville</u>	<u>Chattanooga</u>	<u>Total</u>
<u>Three months ended March 31:</u>					
2010	35,311,352	3,836,702	12,541,938	4,013,954	55,703,946
2011	<u>32,558,308</u>	<u>-</u>	<u>16,134,840</u>	<u>-</u>	<u>48,693,148</u>
Decrease	<u>(2,753,044)</u>	<u>(3,836,702)</u>	<u>3,592,902</u>	<u>(4,013,954)</u>	<u>(7,010,798)</u>
Percent Change	<u>-7.8%</u>	<u>-100.0%</u>	<u>28.6%</u>	<u>-100.0%</u>	<u>-12.6%</u>

Residential mortgage banking origination volume declined 12.6% and revenue declined 19.5% for the first quarter of 2011 compared to the year ago period due to lower levels of home purchase activity in 2011, and the closure of our Chattanooga and Little Rock offices in the third quarter of 2010. The Little Rock and Chattanooga offices accounted for \$7.85 million in mortgage origination volume in the first quarter of 2010. Total origination production for the first quarter of 2011 and 2010 is broken down as follows:

	Quarter ended March 31,			
	<u>2011</u>		<u>2010</u>	
Purchase money mortgage	195	73.3%	271	82.9%
Refinance mortgage	<u>71</u>	<u>26.7%</u>	<u>56</u>	<u>17.1%</u>
Total units produced	<u>266</u>	<u>100.0%</u>	<u>327</u>	<u>100.0%</u>

Our residential mortgage production division relies heavily on our affiliation with the Crye-Leike realtor network. We have had a cooperative marketing agreement in place with Crye-Leike since 2004, for which we pay an equitable annual fee for marketing and promotional services. Further, the mortgage division operates in production offices that are primarily leased by Magna from Crye-Leike or Crye-Leike affiliated entities. Many of these offices are leased on a month-to-month basis.

The marketing agreement was amended in the first quarter of 2010 to increase its term from one year to three years and to add a termination clause that allows the non-selling party to terminate the agreement and receive a \$250,000 fee if the other party experiences a change in control. While we believe the marketing agreement, coupled with the leases in the Crye-Leike offices, enhances our ability to derive loans from Crye-Leike agents, there is no and there has never been an exclusive mortgage origination arrangement between the two companies; therefore, we can provide no assurance that historical mortgage origination volume derived from the Crye-Leike relationship will continue in the future.

In addition to its residential mortgage banking activities, Magna gained approval in the first quarter of 2010 to participate in the U. S. government insured Small Business Lending program. We provide SBA loans in addition to traditional commercial loan and cash management services to small and mid-size businesses in the Memphis area. Our commercial lending group closed SBA loans totaling \$6.6 million and recognized \$483,290 in fee income in the first quarter of 2011, compared to no loans closed in the first quarter of 2010.

The Company also operates a commercial real estate mortgage banking group whose investors include life insurance companies and other banks. Due to a weak market for commercial real estate loans, this group closed \$7.4 million and \$6.9 million for the three months ended March 31, 2011 and 2010, respectively. Brokerage fee income from our commercial real estate group totaled \$55,125 in the first quarter of 2011 compared to \$86,250 in the first quarter of 2010. Activity in commercial real estate brokerage is very volatile and the recession, coupled with turmoil in the credit markets, has had a negative impact on the commercial real estate brokerage business.

Another significant component of non-interest income is mortgage loan servicing, both commercial and residential. Magna's commercial real estate division services commercial real estate mortgages for third party investors, although this servicing lacks the fair value volatility of residential mortgage servicing due to the absence of prepayment volatility.

Gross fees and non-interest expenses related to these two areas for the three months ended March 31, 2011 and 2010, are shown in the following table:

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
<i>Quarter ended March 31, 2011:</i>			
Gross servicing fees	\$ 703,823	\$ 105,558	\$ 809,381
Late charges and other ancillary revenue	167,804	-	167,804
Gross servicing revenue	871,627	105,558	977,185
Servicing asset amortization	387,109	36,776	423,885
Guaranty fees and loan pay-off interest	20,656	-	20,656
Other servicing expenses	35,294	-	35,294
Gross servicing expenses	443,060	36,776	479,836
<i>Net servicing revenue</i>	<u>\$ 428,567</u>	<u>\$ 68,782</u>	<u>\$ 497,349</u>
<i>Quarter ended March 31, 2010:</i>			
Gross servicing fees	\$ 729,190	\$ 74,806	\$ 803,996
Late charges and other ancillary revenue	184,667	-	184,667
Gross servicing revenue	913,857	74,806	988,663
Servicing asset amortization	436,920	7,863	444,783
Guaranty fees and loan pay-off interest	16,767	-	16,767
Other servicing expenses	27,628	-	27,628
Gross servicing expenses	481,315	7,863	489,178
<i>Net servicing revenue</i>	<u>\$ 432,542</u>	<u>\$ 66,943</u>	<u>\$ 499,485</u>
<i>Increase (decrease)</i>			
Gross servicing fees	(25,367)	30,752	5,385
Late charges and other ancillary revenue	(16,863)	-	(16,863)
Gross servicing revenue	(42,230)	30,752	(11,478)
Servicing asset amortization	(49,811)	28,913	(20,898)
Guaranty fees and loan pay-off interest	3,889	-	3,889
Other servicing expenses	7,666	-	7,666
Gross servicing expenses	(38,255)	28,913	(9,342)
<i>Net servicing revenue</i>	<u>\$ (3,975)</u>	<u>\$ 1,839</u>	<u>\$ (2,136)</u>

The following table summarizes changes in servicing rights during the three month periods ended March 31, 2011 and 2010, respectively:

	Three months ended March 31,					
	2011			2010		
	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>	<u>Commercial</u>	<u>Residential</u>	<u>Total</u>
Beginning balance	\$ 615,238	\$ 9,283,206	\$ 9,898,444	\$ 116,897	\$ 10,298,438	\$ 10,415,335
Add: Capitalized mortgage servicing rights	-	262,489	262,489	-	287,699	287,699
Less: Amortization of mortgage servicing rights	(36,776)	(387,109)	(423,885)	(7,863)	(436,920)	(444,783)
Ending balance	<u>\$ 578,462</u>	<u>\$ 9,158,586</u>	<u>\$ 9,737,048</u>	<u>\$ 109,034</u>	<u>\$ 10,149,217</u>	<u>\$ 10,258,251</u>

Non-interest expense for the quarter ended March 31, 2011 increased \$120,848 (2.3%) compared to the year earlier period. The quarterly increase is primarily attributable to an increase in compensation and benefit costs of \$152,596.

The following table summarizes the components of occupancy and equipment expense for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	<u>2011</u>	<u>2010</u>
Rent, utilities and taxes	\$ 466,612	\$ 463,162
Telephone	24,140	19,593
Depreciation	141,970	152,103
Repairs and maintenance	55,661	53,039
Total occupancy and equipment	<u>\$ 688,383</u>	<u>\$ 687,897</u>

The following table summarizes the components of other expense for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	<u>2011</u>	<u>2010</u>
Data processing	\$ 267,594	\$ 258,403
Travel and entertainment	43,520	45,748
Bank fees and service charges	36,336	38,033
Postage, shipping and delivery	60,682	65,925
Printing and office supplies	41,299	48,500
Provision for loan repurchase and FHA/VA claim losses	69,000	152,500
Foreclosure expense	124,539	93,097
Other	241,330	209,158
Total other expense	<u>\$ 884,301</u>	<u>\$ 911,364</u>

The provision for loan repurchase and FHA/VA claim losses decreased \$83,500 in the first quarter of 2011 compared to the first quarter of 2010. The repurchase and FHA/VA provisions accounted for \$15,000 and \$54,000 of the total provision expense included in other expense for the first quarter of 2011, respectively. The FHA/VA and repurchase reserves are included in other assets and other liabilities in the Consolidated Balance Sheet, respectively.

The servicing of FHA/VA loans results in an inherent risk to the servicer for such things as missing notification deadlines, performing certain tasks on a timely basis, etc. Recently, certain municipalities have begun enforcing anti-blight ordinances which require Magna to make property preservation expenditures that are not eligible for reimbursement under HUD guidelines, further increasing the amount of loss associated with foreclosure action. The Bank quantifies such risks by reference to past occurrence, known problems and regulatory time frames and has established a reserve for possible servicing losses related to these loans.

The following table summarizes the activity in the FHA/VA reserve for the periods indicated:

	Three months ended March 31,	
	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 235,318	\$ 220,490
Provision for losses	54,000	101,500
Claim losses	(57,829)	(69,917)
Ending balance	<u>\$ 231,489</u>	<u>\$ 252,073</u>

In connection with the sale of mortgage loans to third party investors, the Company makes usual and customary representations and warranties as to the propriety of its origination activities. Under the representations and warranties Magna makes to its investors, we bear repurchase risk after delivery of a mortgage loan for faulty origination. We mitigate the risk of loss by performing both pre-delivery and post delivery quality control reviews on selected loans. Occasionally, the investors require us to repurchase loans sold to them under the terms of the warranties. When this happens, the loans are recorded at fair value with a corresponding charge to a valuation reserve. The Company did not repurchase any loans in the first quarter of 2011 or 2010. We quantify repurchase risk by reference to historical occurrence and an allowance for losses associated with repurchase has been established.

The following table summarizes the activity in the repurchase reserve for the periods indicated:

	Three months ended March 31,	
	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 453,011	\$ 400,703
Provision for losses	15,000	51,000
Claim losses and repurchase discounts	-	-
Recoveries of claim losses and repurchase discounts	-	-
Net losses	-	-
Ending balance	<u>\$ 468,011</u>	<u>\$ 451,703</u>

Income taxes. The primary difference between the Company's effective combined federal and state rates and the statutory corporate income tax rate is due primarily to state income taxes and certain expenses not deductible for income tax purposes. Deferred taxes are provided for in accordance with accounting principles generally applied in the United States of America. Deferred tax assets are reviewed quarterly for recoverability. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences

Off Balance Sheet arrangements. Not all financial assets and liabilities are recorded on a company's balance sheet. Companies may transfer financial assets or liabilities to a special purpose entity ("SPE"), some take the form of standby or contingent obligations to perform, as in the case of un-drawn lines or letters of credit, and some exist only as options embedded within the financial asset or liability itself. Other examples include long-term operating lease commitments. Although Magna has not engaged in any transference of financial assets or liabilities to any SPE, we do have long-term lease commitments, un-drawn lines and letters of credit and financial assets and liabilities which contain embedded options. The following table summarizes the amount of un-drawn lines and letters of credit for the periods indicated:

	<u>March 31, 2011</u>	<u>December 31, 2010</u>
<u>Commitments under:</u>		
Undisbursed term loans	\$ 4,808,797	\$ 5,851,718
Undrawn revolving lines of credit	47,546,431	50,426,565
Undrawn letters of credit	<u>7,543,160</u>	<u>7,259,821</u>
	<u>\$ 59,898,388</u>	<u>\$ 63,538,104</u>

We have a number of financial assets and liabilities which contain embedded options. Most notable among these is our portfolio of first mortgage residential loans. The notes underlying this asset contain provisions which allow the obligor to prepay the obligation at any time without penalty, effectively transferring the interest rate risk associated with funding this asset to us. A second embedded option exists with respect to certain time deposits. These deposit agreements allow the depositor the option to either (i) add between 25% and 50% of the original deposit amount to the account, (ii) withdraw between 25% and 50% of the original deposit amount from the account without penalty, (iii) extend the term of the account or (iv) "bump" the interest rate on the account to the then current rate for similar deposits at any time during the term of the deposit. Also, our term borrowings from the FHLB contain provisions which allow the FHLB to call or convert the interest rate on these obligations from a fixed rate to a floating rate on a quarterly basis. Management does not anticipate any material adverse impact to arise from these off balance sheet arrangements.

Derivative Instruments. The Company may use derivative financial instruments to manage interest rate risk and to facilitate asset/liability management strategies. The derivative instruments held by the Company include commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell fixed-rate mortgage loans, which are limited internally to \$15 million in outstanding commitments. Both the commitments to fund fixed-rate mortgage loans and the forward commitments to sell fixed-rate mortgage loans are reported at fair value with adjustments being recorded in current period earnings (if material), and are not accounted for as hedges.

The Company may also enter into derivative financial instruments such as interest rate swaps or caps to meet the financing, interest rate and other risk management needs of its customers and is approved for \$25 million in outstanding contracts. Upon entering into these instruments to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any fair value adjustments recorded in accumulated other comprehensive income. These instruments and their offsetting positions are recorded in other assets and other liabilities in the

consolidated statements of financial position. As of March 31, 2011, the notional amount of customer related derivative financial instruments totaled \$2.0 million with an average maturity of 114 months and an average interest receivable and payable rate of 4.25%.

Liquidity and capital resources. For the three months ended March 31, 2011, the Company's operating activities provided \$4.7 million of available cash due primarily to changes in loans held for sale. Investing activities also provided \$4.7 million of available cash due to a net decrease in loans of \$1.2 million, proceeds from sale of foreclosed real estate of \$1.5 million and purchases of securities of \$2.0 million. Paydowns in the securities portfolio provided \$4.0 million. Financing activities used \$14.2 million of available cash as a result of deposit declines of \$17.0 million, offset by a net increase in borrowings of \$3.0 million. Because brokered deposits are readily available, aid in asset/liability re-pricing strategies and are often a cheaper source of funds than retail customer deposits, we intend to continue their use as part of our overall balance sheet funding strategy. While we expect to be able to continue to attract new retail customer deposits, it is anticipated that the Company may continue to mix borrowings (including brokered deposits) and deposits to fund balance sheet growth over the next year.

In 2008, the Company issued and sold \$13.795 million of its Series A and \$690,000 of its Series B preferred stock for a discounted cash payment of \$13.795 million from the U.S. Treasury. The discount of \$690,000 will be accreted through retained earnings over the contractual life of the preferred stock. The issuance occurred in connection with, and is governed by, the Treasury Capital Purchase Program administered by the U.S. Treasury under the Troubled Asset Relief Program ("TARP"). The preferred stock carries a senior rank and certain restrictions including the payment of dividends and limitations on compensation of executive officers. Generally, the preferred shares are non-voting; however, should the Company fail to pay six quarterly dividends, the holder may elect two directors to the Company's Board until such dividends are paid. In 2009, the Company redeemed 3,455 shares of Series A preferred stock. The preferred stock qualifies as Tier 1 capital and is presented in shareholders' equity in the accompanying consolidated statements of financial condition. The following table summarizes the principal terms of the offering:

	<u>Series A</u>	<u>Series B</u>
Redemption value at date of issuance	\$13,795,000	\$690,000
Less: Value of shares redeemed	<u>(3,455,000)</u>	
Redemption value at March 31, 2011	\$10,340,000	\$690,000
Dividend rate	5.0% until December 23, 2013; 9.0% thereafter	9.0%
Stated life	Perpetual	
Voting rights	Non-voting	
Transferability	Transferable at any time	
Dividend payment dates	Feb 15, May 15, Aug 15, Nov 15 (or first business day thereafter)	
Dividend type	Non-cumulative	
Redemption	Redeemable in whole or part subject to approval by the Treasury	
Dividend restrictions	No dividends may be declared on Magna's common stock without the prior consent of the U.S. Treasury. After 10 years, no dividends may be paid on common stock unless all preferred stock held by the U.S Treasury has been redeemed.	
Other provisions	For as long as the U.S. Treasury holds any preferred stock, Magna's executive compensation structure must comply with section 111 of the EESA, as amended from time to time. Magna is also subject to any future regulations promulgated under the EESA.	

Magna maintains secured borrowing facilities with both the Federal Reserve Bank of St. Louis (the "Fed Facility") and the Federal Home Loan Bank of Cincinnati (the "FHLB Facility"). The Fed Facility is secured by loans not otherwise eligible as collateral for the FHLB Facility. Effectively, all of Magna's qualifying loans and securities are pledged at one of the two institutions. Total available borrowing capacity at March 31, 2011 was \$63.7 million, as follows:

	<u>March 31, 2011</u>
<i>Short-term credit facilities:</i>	
Twenty-one days or less (unsecured)	16,800,000
Up to thirty days (secured)	<u>29,388,045</u>
Subtotal, short term	46,188,045
Long term credit facilities (secured)	<u>17,488,863</u>
Total credit facilities	<u>\$ 63,676,908</u>

The Company has a variety of sources of funds available, but its primary source is deposits from customers. The Company's deposit acquisition strategy is to rely on a core base of retail time deposits supplemented by lesser amounts of demand and savings deposits. Next, the Company seeks to attract non-retail time deposits (\$100,000 and over) and public deposits. At March 31, 2011, the percentage of time deposits \$100,000 and over to total deposits was 18.4% compared to 20.2% at December 31, 2010. The acquisition of retail deposits is from customers within the Company's market area. Management believes that the rates offered on deposits are competitive with other financial institutions in the Company's market area.

The Company's primary short-term use of funds is to finance loans that are subsequently sold to and funded by third party investors. The volume of such funds usage is directly dependent upon the loan origination volume of the Mortgage Division. Another (longer-term) use of funds is to finance the Company's portfolio of commercial and mortgage loans which is directly related to the availability of loans meeting the Company's investment quality standards. A third, less prevalent, use of funds is the purchasing of debt securities for investment purposes. While the Company may continue to upgrade or reposition the securities portfolio, management has not in the past nor does it intend in the future to trade securities for profit or to depend upon securities gains as a regular source of income. Management is of the opinion that the sources of funds discussed above will be sufficient to enable the Company to meet its obligations as they arise and to fund future net growth. Management believes the Company is well capitalized, given our risk profile, but internal growth will be moderated due to general economic conditions in our market and nationally.

Critical Accounting Policies. During the three months ended March 31, 2011, there was no significant change in the Company's critical accounting policies and no significant change in the application of critical accounting policies as presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the three months ended March 31, 2011, there were no significant changes to the quantitative and qualitative disclosures about market risks presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4. Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information Magna Bank is required to disclose in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding timely disclosures. The Company's Chief Executive Officer and its Chief Financial Officer have evaluated the effectiveness of these disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that Magna Bank's disclosure controls and procedures are effective. There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II Other Information

**Item 6.
Exhibits
Description**

Item Number

3(i)	Amended and restated charter of Registrant (incorporated by reference to exhibit 3(i) of Magna Bank's report on Form 10-K filed March 31, 2010)
3(ii)	Amendment to Registrant's charter adopted at the annual meeting of shareholders held May 12, 2008 (incorporated by reference to exhibit 3(ii) of Magna Bank's report on Form 10-K filed March 31, 2010)
3(iii)	Amendment to Registrant's charter adopted at the special meeting of shareholders held December 19, 2008 (incorporated by reference to exhibit 3(ii) of Magna Bank's report on Form 10-K filed March 31, 2009)
3(iv)	Amended and restated by-laws of Registrant (incorporated by reference to exhibit 3(iv) of Magna Bank's report on Form 10-K filed March 31, 2010)
3(v)	Certificate of designation of fixed rate non-cumulative perpetual preferred stock, Series A (incorporated by reference to exhibit 3(iv) of Magna Bank's report on Form 10-K filed March 31, 2009)
3(vi)	Certificate of designation of fixed rate non-cumulative perpetual preferred stock, Series B (incorporated by reference to exhibit 3(v) of Magna Bank's report on Form 10-K filed March 31, 2009)
4(i)	Form of common stock certificate (incorporated by reference to exhibit 4(i) of Magna Bank's amended report on Form 10-K filed June 19, 2001)
4(ii)	Form of Warrant issued to Treasury (incorporated by reference to exhibit 4(ii) of Magna Bank's report on Form 10-K filed March 31, 2009)
31.1	Chief Executive Officer's §13a-14(a) certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.
31.2	Chief Financial Officer's §13a-14(a) certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.
32.1	Chief Executive Officer's §1350 certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.
32.2	Chief Financial Officer's §1350 certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.

SIGNATURES

Pursuant to the requirements of Sections 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.

Magna Bank
(Registrant)

/S/ Kirk P. Bailey
Kirk P. Bailey, Chief Executive Officer

/S/ David C. Wadlington
David C. Wadlington, Executive Vice President & CFO

Date: May 6, 2011

I, Kirk P. Bailey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Magna Bank;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows as of, and for the periods presented in, this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial report and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter 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 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 Board of Directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect our ability to record, process, summarize and report financial data; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in our internal control over financial reporting.

/S/ Kirk P. Bailey

Kirk P. Bailey, Chief Executive Officer

Date: May 6, 2011

I, David C. Wadlington, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Magna Bank;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows as of, and for the periods presented in, this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(f) and 15d-15(f)) for the Registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial report and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter 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 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 Board of Directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect our ability to record, process, summarize and report financial data; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in our internal control over financial reporting.

/S/ David C. Wadlington

David C. Wadlington, Chief Financial Officer

Date: May 6, 2011

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

In connection with the Quarterly Report of Magna Bank (the "Company") on Form 10-Q for the period ending March 31, 2011 as filed with the Office of Thrift Supervision on the date hereof (the "Report"), I, Kirk P. Bailey, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ Kirk P. Bailey

Kirk P. Bailey, Chief Executive Officer

May 6, 2011

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

In connection with the Quarterly Report of Magna Bank (the "Company") on Form 10-Q for the period ending March 31, 2011 as filed with the Office of Thrift Supervision on the date hereof (the "Report"), I, David C. Wadlington, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ David C. Wadlington

David C. Wadlington, Chief Financial Officer

May 6, 2011