

Securities Filing Desk  
Office of Thrift Supervision  
1700 G Street NW  
Washington, DC 20552

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, 2010

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 11, 2010  
5,488,116



MAGNA BANK
March 31, 2010 Form 10-Q
Index

Table with 2 columns: Item description and Page. Includes sections for Part I (Financial Information) and Part II (Other Information).

\* Item not applicable

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.

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.

**Part 1**  
**Item 1. Financial Statements**

**Consolidated Balance Sheet**  
**March 31, 2010 and December 31, 2009**



	<b>(Unaudited)</b>	
<b>ASSETS</b>	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Cash and due from banks	\$ 4,953,896	\$ 2,749,695
Interest-bearing deposits at other financial institutions	351,362	1,207,765
Federal funds sold	7,088,567	2,492,737
Securities:		
Available-for-sale, at fair value (amortized cost of \$43,260,036 and \$46,061,333, respectively)	43,209,709	45,399,735
Held-to-maturity, at amortized cost (fair value of \$7,600,448 and \$7,694,539, respectively)	8,720,323	8,977,002
Loans held for sale, at lower of cost or fair value	22,789,267	21,161,283
Loans, less allowance for loan losses of \$5,478,804 and \$5,174,731, respectively	328,719,702	321,655,694
Accrued interest receivable - securities	236,750	268,538
- loans	1,719,995	1,556,632
Premises and equipment, net	4,958,458	5,044,902
Mortgage servicing rights, net	10,258,251	10,415,334
Foreclosed real estate, net	3,816,656	3,166,008
Investment in Federal Home Loan Bank, at cost	3,981,400	3,981,400
Other assets	7,305,662	7,727,242
<b>TOTAL ASSETS</b>	<b>\$ 448,109,998</b>	<b>\$ 435,803,967</b>
<b>LIABILITIES</b>		
Deposits		
Non-interest-bearing transaction accounts	\$ 16,878,252	\$ 16,456,767
Servicing escrow accounts	12,823,240	10,431,503
Interest-bearing transaction accounts	73,147,886	72,339,820
Savings accounts	69,526,803	69,184,820
Time deposits	155,294,462	147,291,702
Total deposits	327,670,643	315,704,612
Federal funds purchased and short-term borrowings	-	-
Long-term Federal Home Loan Bank borrowings	63,000,000	63,000,000
Accrued interest payable	1,092,588	1,162,947
Accounts payable	1,170,253	2,039,436
Other liabilities	1,263,774	572,030
<b>TOTAL LIABILITIES</b>	<b>394,197,258</b>	<b>382,479,025</b>
<b>Commitments and contingencies</b>	-	-
<b>SHAREHOLDERS' EQUITY</b>		
Preferred stock (\$1 par value (liquidation preference \$1,000); 10,000,000 shares authorized; 11,030 shares issued and outstanding)	10,668,536	10,644,437
Common stock (\$1 par value; 10,000,000 shares authorized; 5,514,225 and 5,506,559 shares issued and 5,488,116 and 5,480,450 shares outstanding, respectively)	5,514,225	5,506,559
Treasury stock, 26,109 shares at cost	(200,374)	(200,374)
Additional paid-in capital	31,602,655	31,591,226
Retained earnings	7,629,178	7,473,586
Accumulated other comprehensive loss, net of taxes	(1,301,480)	(1,690,492)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>53,912,740</b>	<b>53,324,942</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 448,109,998</b>	<b>\$ 435,803,967</b>

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

**Consolidated Income Statement (Unaudited)**  
**Three Months Ended March 31, 2010 and 2009**



	<b>Three months ended March 31,</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
<b>INTEREST INCOME:</b>		
Short-term investments	\$ 11,477	\$ 1,253
Securities: Available-for-sale	555,786	728,128
Held-to-maturity	103,968	175,221
Loans held for sale	164,770	328,365
Loans, including fees and discounts	<u>4,374,613</u>	<u>5,284,514</u>
<b>TOTAL INTEREST INCOME</b>	5,210,614	6,517,481
<b>INTEREST EXPENSE:</b>		
Deposits	1,278,700	2,631,241
Borrowings	<u>545,814</u>	<u>712,433</u>
<b>TOTAL INTEREST EXPENSE</b>	1,824,514	3,343,674
<b>NET INTEREST INCOME BEFORE</b>		
<b>PROVISION FOR LOAN LOSSES</b>	3,386,100	3,173,807
Provision for loan losses	<u>261,000</u>	<u>415,690</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	3,125,100	2,758,117
<b>NON-INTEREST INCOME:</b>		
Service charges and other branch income	65,980	64,165
Servicing fee income	944,268	911,694
Loan brokerage fees	86,250	-
Gain on sale of mortgage loans, net	1,499,469	2,430,500
Other-than-temporary impairment on securities	(19,000)	-
Recovery of impairment on mortgage servicing rights	-	400,000
Other income	<u>68,417</u>	<u>59,077</u>
<b>TOTAL NON-INTEREST INCOME</b>	2,645,384	3,865,436
<b>NON-INTEREST EXPENSE:</b>		
Salary, wages and commission	2,335,628	2,757,504
Benefits and taxes	450,245	502,161
Professional services	127,640	96,468
Occupancy and equipment	687,897	755,039
Amortization of servicing rights	444,783	759,731
Marketing and business development	122,845	143,769
Regulatory fees and deposit insurance assessments	154,227	181,781
Other	<u>911,364</u>	<u>718,960</u>
<b>TOTAL NON-INTEREST EXPENSE</b>	<u>5,234,629</u>	<u>5,915,413</u>
<b>INCOME BEFORE TAXES</b>	535,855	708,140
Income tax expense	<u>211,389</u>	<u>295,976</u>
<b>NET INCOME</b>	324,466	412,164
<b>LESS: DIVIDENDS AND ACCRETION OF PREFERRED STOCK</b>	<u>168,873</u>	<u>200,493</u>
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	<u>\$ 155,593</u>	<u>\$ 211,671</u>
Net income per common share:		
Basic	<u>\$ 0.03</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.04</u>
<b>Comprehensive income</b>		
<b>NET INCOME</b>	\$ 324,466	\$ 412,164
Change in net unrealized loss on securities, net of taxes	<u>389,012</u>	<u>(898,024)</u>
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<u>\$ 713,478</u>	<u>\$ (485,860)</u>

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

**Consolidated Statement of Cash Flows (Unaudited)**  
**Three Months Ended March 31, 2010 and 2009**



	<b>Three months ended March 31,</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 324,466	\$ 412,164
<i>Reconciliation of net income to cash used in operating activities:</i>		
Provision for loan losses	261,000	\$ 415,690
Provision for foreclosure and mortgage origination losses	152,500	40,000
Recovery of impairment of mortgage servicing rights	-	(400,000)
Charges for other than temporary impairment of securities	19,000	-
Depreciation of premises and equipment	152,103	206,611
Stock-based compensation expense	19,095	45,621
Capitalization of mortgage servicing rights	(287,699)	(991,146)
Amortization of mortgage servicing rights	444,782	759,731
Net discount accretion on securities	(20,432)	(66,416)
Net premium amortization on loans	10,155	14,411
(Benefit) provision for deferred income tax	(54,202)	904,558
Decrease in other assets	200,070	1,755,200
Decrease in accounts payable and other liabilities	(322,381)	(3,226,517)
Proceeds from sales and repayments of loans held-for-sale	55,575,431	115,562,536
Gain on sale of mortgage loans	(1,499,469)	(2,430,500)
Origination of loans held-for-sale	(55,703,946)	(119,244,071)
(Increase) decrease in accrued interest receivable	(131,575)	185,943
Decrease in accrued interest payable	(70,359)	(160,514)
Net loss on sale of premises and equipment	-	5,737
Net loss on sale of foreclosed real estate	6,977	-
Net cash used in operating activities	<u>(924,484)</u>	<u>(6,210,962)</u>
<b>Cash flows from investing activities:</b>		
Purchases of available-for-sale securities	(1,000,625)	-
Principal repayment of available-for-sale securities	3,813,919	2,423,912
Principal repayment of held-to-maturity securities	292,009	352,863
Net (increase) decrease in loans	(8,117,864)	503,571
Proceeds from sale of foreclosed real estate	125,076	252,927
Purchase of FHLB stock	-	(78,800)
Purchases of mortgage servicing rights	-	(3,849)
Purchases of premises and equipment, net	(65,660)	(107,505)
Net cash (used in) provided by investing activities	<u>(4,953,145)</u>	<u>3,343,119</u>
<b>Cash flows from financing activities:</b>		
Net increase in deposits	11,966,031	5,125,800
Net decrease in short-term borrowings	-	(600,000)
Repayment of long-term debt	-	(1,000,000)
Dividends on preferred stock	(144,774)	(200,493)
Proceeds from stock options exercised, net	-	322,400
Net cash provided by financing activities	<u>11,821,257</u>	<u>3,647,707</u>
Net increase in cash and cash equivalents	5,943,628	779,864
Cash and equivalents at beginning of year	6,450,197	8,195,017
Cash and equivalents at end of period	<u>\$ 12,393,825</u>	<u>\$ 8,974,881</u>
<b>Cash paid during the period for:</b>		
Interest	\$ 1,894,873	\$ 3,504,188
Income taxes	-	-
Loans transferred to other real estate	782,701	200,362
Loans held for sale transferred to loans	1,921,600	4,171,052

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

1. **Basis of Presentation.** The consolidated balance sheet at December 31, 2009 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, 2010, and for the three months ended March 31, 2010 and 2009 are unaudited. Results of operations for the three months ended March 31, 2010 and 2009 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, 2009. Certain prior period amounts have been reclassified to conform to the current period presentation, although such reclassifications had no effect on total shareholder's equity or net income.

**Recent Accounting Pronouncements.** In January 2010, the FASB issued authoritative guidance codified in ASC 820 that requires new disclosures and clarifications of existing disclosures about recurring and nonrecurring fair value measurements. New disclosures require a reporting entity to disclose separately the amount of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers, and present separately information about purchases, sales, issuances and settlements in the reconciliation for fair value measurements using Level 3 inputs. Clarification of existing disclosures include that a reporting entity should provide fair value measurements for each class within each category of asset and liabilities, and provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair measurements and fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements, which are effective after December 15, 2010, and for interim periods within those fiscal years. This ASC update did not have a material impact on the Company's 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.

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

	<b><u>2010</u></b>	<b><u>2009</u></b>
Numerator - Net income	\$ 324,466	\$ 412,164
Less: Dividends and accretion of preferred stock	<u>(168,873)</u>	<u>(200,493)</u>
Numerator: Net income available to common shareholders	<u>\$ 155,593</u>	<u>\$ 211,671</u>
Denominator for basic earnings per share:		
Weighted average common shares outstanding	5,485,987	5,442,267
Add dilutive common shares:		
Share-based awards	<u>-</u>	<u>-</u>
Denominator for diluted earnings per share	<u>5,485,987</u>	<u>5,442,267</u>
Basic income per common share	<u>\$ 0.03</u>	<u>\$ 0.04</u>
Diluted income per common share	<u>\$ 0.03</u>	<u>\$ 0.04</u>

3. **Securities Portfolio.** The following table summarizes the investment securities portfolio as of March 31, 2010 and December 31, 2009:

	<u>Amortized Cost</u>	<u>Unrealized</u>		<u>Fair Value</u>
		<u>Gain</u>	<u>Loss</u>	
<b>March 31, 2010:</b>				
<i>Available-for-sale:</i>				
U.S. Agency securities	\$ 8,306,547	\$ 370,260	\$ 131	\$ 8,676,676
Collateralized mortgage obligations	14,172,885	59,124	1,176,998	13,055,011
Commercial mortgage-backed securities	2,907,911	49,614	4,872	2,952,653
Agency Mortgage-backed securities	<u>17,872,693</u>	<u>652,888</u>	<u>212</u>	<u>18,525,369</u>
<b>Subtotal available-for-sale</b>	43,260,036	1,131,886	1,182,213	43,209,709
<i>Held to maturity:</i>				
Corporate Debt Obligations	1,896,369	-	409,749	1,486,620
Collateralized mortgage obligations	3,042,723	4,919	969,491	2,078,151
Agency Mortgage-backed securities	<u>3,781,231</u>	<u>254,446</u>	<u>-</u>	<u>4,035,677</u>
<b>Subtotal held to maturity</b>	<u>8,720,323</u>	<u>259,365</u>	<u>1,379,240</u>	<u>7,600,448</u>
<b>Total at March 31, 2010</b>	<u>\$ 51,980,359</u>	<u>\$ 1,391,251</u>	<u>\$ 2,561,453</u>	<u>\$ 50,810,157</u>
<b>December 31, 2009:</b>				
<i>Available-for-sale:</i>				
U.S. Agency securities	8,632,903	292,073	401	8,924,575
Collateralized mortgage obligations	15,215,654	18,994	1,615,883	13,618,765
Commercial mortgage-backed securities	2,984,847	30,233	12,023	3,003,057
Agency Mortgage-backed securities	<u>19,227,929</u>	<u>635,883</u>	<u>10,474</u>	<u>19,853,338</u>
<b>Subtotal available-for-sale</b>	46,061,333	977,183	1,638,781	45,399,735
<i>Held-to-maturity:</i>				
Corporate Debt Obligations	1,896,370	-	356,589	1,539,781
Collateralized mortgage obligations	3,170,671	2,703	1,178,368	1,995,006
Agency Mortgage-backed securities	<u>3,909,961</u>	<u>249,791</u>	<u>-</u>	<u>4,159,752</u>
<b>Subtotal held to maturity</b>	<u>8,977,002</u>	<u>252,494</u>	<u>1,534,957</u>	<u>7,694,539</u>
<b>Total at December 31, 2009</b>	<u>\$ 55,038,335</u>	<u>\$ 1,229,677</u>	<u>\$ 3,173,738</u>	<u>\$ 53,094,274</u>

The following table summarizes the components of unrealized loss by reference to the period of time such unrealized losses have been incurred as of March 31, 2010:

	<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>
<b>March 31, 2010:</b>						
U.S. Agency	\$ -	\$ -	\$ 33,466	\$ 131	\$ 33,466	\$ 131
Corporate Debt Obligations	66,620	13,460	1,420,000	396,289	1,486,620	409,749
Collateralized mortgage obligations	1,468,895	292,625	9,942,582	1,853,865	11,411,477	2,146,490
Commercial mortgage-backed securities	-	-	261,457	4,872	261,457	4,872
Agency Mortgage-backed securities	<u>10,125</u>	<u>63</u>	<u>15,129</u>	<u>148</u>	<u>25,254</u>	<u>211</u>
	<u>\$ 1,545,640</u>	<u>\$ 306,148</u>	<u>\$ 11,672,634</u>	<u>\$ 2,255,305</u>	<u>\$ 13,218,274</u>	<u>\$ 2,561,453</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 has reviewed all debt securities with losses which have existed for more than twelve months for evidence of impairment and 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, except for securities that were determined to be other-than-temporarily impaired as discussed below.

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 followed what we consider to be a conservative yet appropriate approach to the evaluation process and identified securities that we deemed to be other than temporarily impaired. All securities in our portfolio are currently paying in accordance with their terms. A portion of Magna's securities portfolio is backed by the full faith and credit of the United States or its agencies, but a significant portion is not. Management is actively monitoring each issue for evidence of weakness, and further impairment charges are possible.

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. Magna uses a third-party analytics firm to evaluate the possibility of credit loss in these securities each quarter end, which resulted in an OTTI credit charge related to one CMO security totaling \$19,000 in the first quarter of 2010.

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 loss on available-for-sale securities at March 31, 2010 and December 31, 2009 are as follows:

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Pretax gain (loss)	\$ 248,849	\$ (316,502)
Income tax (expense) benefit	<u>(97,051)</u>	<u>123,436</u>
Net of tax gain (loss)	<u>\$ 151,798</u>	<u>\$ (193,066)</u>

The non credit components of other-than-temporary impairment on securities as of March 31, 2010 and December 31, 2009 are as follows:

	<u>March 31, 2010</u>		<u>December 31, 2009</u>	
	<u>Available-for-sale</u>	<u>Held-to-maturity</u>	<u>Available-for-sale</u>	<u>Held-to-maturity</u>
Pretax loss	\$ (299,175)	\$ (2,083,273)	\$ (345,097)	\$ (2,109,700)
Income tax benefit	<u>116,678</u>	<u>812,492</u>	<u>134,588</u>	<u>822,783</u>
Net of tax loss	<u>\$ (182,497)</u>	<u>\$ (1,270,781)</u>	<u>\$ (210,509)</u>	<u>\$ (1,286,917)</u>

The amortized cost and estimated fair value of securities at March 31, 2010 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>At March 31, 2010</u>			
	<u>Available-for-sale</u>		<u>Held-to-maturity</u>	
	<u>Amortized</u>	<u>Fair Value</u>	<u>Amortized</u>	<u>Fair Value</u>
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ -	\$ -	\$ -	\$ -
Due after one year through five years	2,369,302	2,398,760	1,816,289	1,420,000
Due after five years through ten years	2,715,045	2,741,874	877,958	939,824
Due after ten years	<u>38,175,689</u>	<u>38,069,075</u>	<u>6,026,076</u>	<u>5,240,624</u>
	<u>\$ 43,260,036</u>	<u>\$ 43,209,709</u>	<u>\$ 8,720,323</u>	<u>\$ 7,600,448</u>

**Notes to Unaudited Consolidated Financial Statements**  
**Three Months Ended March 31, 2010**



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, 2010 and December 31, 2009 totaled \$51.9 million and \$54.4 million, respectively.

4. **Loans.** Major categories of loans at March 31, 2010 and December 31, 2009 are summarized as follows:

	<u>March 31, 2010</u>		<u>December 31, 2009</u>		<u>Change</u>	
<b>Commercial Loans:</b>						
Mortgage	\$ 122,271,934	37.2%	\$ 117,120,112	36.4%	\$ 5,151,822	4.4%
Construction	33,207,891	10.1%	33,990,660	10.6%	(782,769)	-2.3%
Other	<u>24,203,552</u>	<u>7.4%</u>	<u>22,381,622</u>	<u>7.0%</u>	<u>1,821,930</u>	<u>8.1%</u>
	179,683,377	54.7%	173,492,394	54.0%	6,190,983	3.6%
<b>Consumer Loans:</b>						
First Mortgage	80,677,404	24.5%	82,025,890	25.5%	(1,348,486)	-1.6%
Junior Mortgage, Primarily HELOC	55,000,790	16.7%	54,804,498	17.0%	196,292	0.4%
Construction	15,872,682	4.8%	13,775,740	4.2%	2,096,942	15.2%
Other	<u>2,964,253</u>	<u>0.9%</u>	<u>2,731,903</u>	<u>0.8%</u>	<u>232,350</u>	<u>8.5%</u>
	<u>154,515,129</u>	<u>47.0%</u>	<u>153,338,031</u>	<u>47.6%</u>	<u>1,177,098</u>	<u>0.8%</u>
<b>Total loans</b>	334,198,506	101.7%	326,830,425	101.6%	7,368,081	2.3%
Allowance for loan losses	<u>(5,478,804)</u>	<u>-1.7%</u>	<u>(5,174,731)</u>	<u>-1.6%</u>	<u>(304,073)</u>	<u>5.9%</u>
<b>Net loans</b>	<u>\$ 328,719,702</u>	<u>100.0%</u>	<u>\$ 321,655,694</u>	<u>100.0%</u>	<u>\$ 7,064,008</u>	<u>2.2%</u>

5. **Allowance for Loan Losses.** The following table summarizes the changes in the allowance for loan losses for the periods indicated:

	<u>Three Months Ended March 31,</u>		<u>Year Ended</u>
	<u>2010</u>	<u>2009</u>	<u>December 31,</u>
			<u>2009</u>
Beginning balance	\$ 5,174,731	\$ 5,283,639	\$ 5,283,639
Provision for loan losses	261,000	415,690	1,381,381
Charge-off of uncollectible loans	(61,204)	(14,641)	(1,502,898)
Recovery of loans previously charged-off	<u>104,277</u>	<u>-</u>	<u>12,609</u>
Ending balance	<u>\$ 5,478,804</u>	<u>\$ 5,684,688</u>	<u>\$ 5,174,731</u>

6. **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. Additional funding comes from borrowings at the Federal Reserve Bank of St. Louis, the Federal Home Loan Bank and fed funds lines. The mortgage division originates and delivers 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 reporting consolidated financial position and results of operations. 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,					
	2010			2009		
	Banking	Mortgage	Total	Banking	Mortgage	Total
Net interest income	\$ 3,139,201	\$ 246,899	\$ 3,386,100	\$ 2,775,556	\$ 398,251	\$ 3,173,807
Provision for loan losses	(261,000)	-	(261,000)	(414,990)	(700)	(415,690)
Net interest income after provision for loan loss	2,878,201	246,899	3,125,100	2,360,566	397,551	2,758,117
Non-interest income	250,292	2,414,092	2,664,384	187,823	3,277,613	3,465,436
Impairment charges	19,000	-	19,000	-	-	-
Non-interest expense	2,721,951	2,512,678	5,234,629	2,782,703	2,732,710	5,515,413
Income (loss) before taxes	387,542	148,313	535,855	(234,314)	942,454	708,140
Income taxes	154,525	56,864	211,389	(89,231)	385,207	295,976
Net income (loss)	\$ 233,017	\$ 91,449	\$ 324,466	\$ (145,083)	\$ 557,247	\$ 412,164
Total Average Assets	\$400,171,762	\$42,193,772	\$ 442,365,534	\$462,864,253	\$57,361,334	\$ 520,225,587
Operating efficiency:	80.3%	94.4%	86.5%	93.9%	74.3%	83.1%

7. **Mortgage Servicing Rights.** The Company's Mortgage Division retains the servicing rights ("MSRs") to a portion of the mortgage loans it sells to third party investors and, to a much lesser extent, purchases mortgage servicing rights from third parties. The book value of purchased servicing rights is equal to the total acquisition cost, including transfer and related set-up charges. The value of retained servicing rights, as well as the gain on the sale of the related mortgage loan, is determined by allocating the Company's basis in the financial asset to the loan receivable and the servicing rights retained based upon the relative fair value of each component. MSRs 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.

Each quarter the Company evaluates its investment in MSRs for evidence of impairment resulting from changes in the projected rate of prepayment, cost to service, market discount rates and other factors. For purposes of measuring possible impairment, the underlying mortgages are subdivided into tranches based upon term and interest rate. These tranches are then evaluated using projected prepayment speeds, servicing costs and market discount rate information provided by third party brokers knowledgeable in the execution of exchanges of MSR's. If it is determined that the fair value of MSRs is less than the remaining book value, a valuation allowance is established through a charge to earnings. At December 31, 2008, Magna recognized an impairment charge of \$1.2 million, but recovered \$400,000 in the first quarter of 2009. There was no additional impairment or recovery during the quarter ended March 31, 2010.

8. **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 MSRs at the lower of cost or estimated fair value. The Company reviews the portfolio of MSRs 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 losses on the sale of REO of \$6,977 for the three months ended March 31, 2010.

**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, 2010 are presented in the following table.

	<b>At March 31, 2010</b>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>Recurring valuation:</b>				
Securities available-for-sale	\$ -	\$43,209,709	\$ -	\$ 43,209,709
<b>Non-recurring valuation:</b>				
Mortgage servicing rights	\$ -	\$ -	\$ 10,149,217	\$ 10,149,217
Foreclosed real estate			3,816,656	3,816,656
Loans held for sale		22,789,267	-	22,789,267
Impaired loans	-	-	6,451,767	6,451,767
Total Non-recurring	\$ -	\$22,789,267	\$ 20,417,640	\$ 43,206,907

The securities with recorded OTTI as of March 31, 2010 that are classified as held-to-maturity securities are not reflected in the table above because the Company does not record held-to-maturity securities at fair value on a recurring or non-recurring basis. However, held-to-maturity securities are analyzed each reporting period for potential impairment. The Company had no level 3 assets measured at fair value on a recurring basis for the three month period ended March 31, 2010.

9. ***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, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets</b>				
Securities available-for-sale	\$ 43,209,709	\$ 43,209,709	\$ 45,399,735	\$ 45,399,735
Securities held-to-maturity	8,720,323	7,600,448	8,977,002	7,694,539
<b>Commercial Loans:</b>				
Mortgage	122,271,934	111,731,868	117,120,112	107,481,230
Construction	33,207,891	31,707,127	33,990,660	32,902,111
Other	24,203,552	22,915,264	22,381,622	20,972,523
<b>Consumer Loans:</b>				
First Mortgage	80,677,404	72,994,041	82,025,890	75,574,573
Junior Mortgage, Primarily HELOC	55,000,790	40,420,550	54,804,498	40,434,190
Construction	15,872,682	15,663,181	13,775,740	13,571,474
Other	2,964,253	2,829,694	2,731,903	2,596,953
Mortgage loans held for sale	22,789,267	22,789,267	21,161,283	21,161,283
Mortgage servicing rights	10,258,251	10,365,771	10,415,334	10,543,897
<b>Financial Liabilities</b>				
Non interest-bearing deposits	29,701,492	25,292,731	26,888,270	22,624,654
Interest-bearing deposits with no stated maturity	126,924,689	106,664,763	125,774,640	108,147,830
Interest-bearing deposits with a stated maturity	150,501,462	149,543,807	142,498,702	141,547,275
Brokered deposits	20,543,000	20,529,452	20,543,000	20,522,067
Short-term borrowings	-	-	10,600,000	10,600,000
Federal Home Loan Bank advances	63,000,000	66,142,003	63,000,000	66,102,541

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.

10. **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.
11. **Subsequent Events.** In early May, the metropolitan areas surrounding Memphis and Nashville experienced damaging floods. A significant portion of our lending portfolio is concentrated in and around the impacted areas. The extent of monetary losses that Magna may incur as a result of this natural disaster is unknown at this time. The Company believes a significant portion of the homes that sustained damage from the flood are not covered by flood insurance; however, the Federal Government has declared much of West and Middle Tennessee as natural disaster areas, and assistance is expected from the Federal Emergency Management Agency ("FEMA").

**Selected Quarterly Data (Unaudited)**  
**Five Consecutive Quarters**



	<b>Quarter Ended</b>				
	<b>March-10</b>	<b>December-09</b>	<b>September-09</b>	<b>June-09</b>	<b>March-09</b>
<b>Operating data:</b>					
Net interest income	\$ 3,386,100	\$ 3,427,842	\$ 3,526,933	\$ 3,393,004	\$ 3,151,299
Provision for loan losses	<u>261,000</u>	<u>520,510</u>	<u>46,211</u>	<u>398,970</u>	<u>415,690</u>
Net interest income after provision for loan losses	3,125,100	2,907,332	3,480,722	2,994,034	2,735,609
Non-interest income	2,664,384	3,182,808	5,066,829	3,915,178	3,487,944
Impairment charges (recovery of impairment)	19,000	27,000	138,000	(660,000)	(400,000)
Non-interest expense	<u>5,234,629</u>	<u>5,741,504</u>	<u>5,992,339</u>	<u>6,277,580</u>	<u>5,915,413</u>
Income before taxes	535,855	321,636	2,417,212	1,291,632	708,140
Income tax expense	<u>211,389</u>	<u>175,763</u>	<u>931,415</u>	<u>501,670</u>	<u>295,976</u>
Net income	324,466	145,873	1,485,797	789,962	412,164
Other comprehensive income (loss)	<u>389,012</u>	<u>154,001</u>	<u>678,089</u>	<u>(461,659)</u>	<u>(898,024)</u>
Total comprehensive income (loss)	<u>\$ 713,478</u>	<u>\$ 299,874</u>	<u>\$ 2,163,886</u>	<u>\$ 328,303</u>	<u>\$ (485,860)</u>
Net income (loss) available to common shareholders	<u>\$ 155,593</u>	<u>\$ (329,256)</u>	<u>\$ 1,299,923</u>	<u>\$ 597,826</u>	<u>\$ 211,671</u>
<b>Per share data:</b>					
Income (loss) per share - diluted	\$ 0.03	\$ (0.06)	\$ 0.24	\$ 0.11	\$ 0.04
Weighted average shares outstanding - diluted	5,485,987	5,477,391	5,477,100	5,480,875	5,442,267
Income (loss) per share - basic	\$ 0.03	\$ (0.06)	\$ 0.24	\$ 0.11	\$ 0.04
Weighted average shares outstanding - basic	5,485,987	5,477,391	5,477,100	5,477,100	5,442,267
Book value per common share (at period end)	\$ 7.88	\$ 7.79	\$ 7.80	\$ 7.44	\$ 7.20
<b>Balance sheet data (at period end):</b>					
Total assets	\$ 448,109,998	\$ 435,803,967	\$ 457,657,601	\$ 505,656,895	\$ 521,063,461
Total securities	51,930,032	54,376,737	59,291,632	55,730,603	58,301,657
Loans held for sale	22,789,267	21,161,283	23,321,583	28,275,423	30,326,942
Total loans	334,198,506	326,830,425	341,460,473	380,450,471	395,571,034
Total loans-adjusted <sup>1</sup>	320,769,414	312,845,186	327,584,613	365,990,338	380,215,703
Allowance for loan losses	(5,478,804)	(5,174,731)	(5,025,366)	(5,744,611)	(5,684,688)
Mortgage servicing rights, net	10,258,251	10,415,334	10,500,121	10,602,947	9,923,039
Foreclosed real estate, net	3,816,656	3,166,008	3,279,335	2,599,475	2,741,310
Servicing escrows	12,823,240	10,431,503	18,651,668	18,487,509	14,786,977
Brokered deposits	20,543,000	20,543,000	25,045,000	37,879,999	46,059,000
Total deposits	327,670,643	315,704,612	325,529,761	370,634,523	378,510,988
Borrowings	63,000,000	63,000,000	71,000,000	74,500,000	84,500,000
Equity	53,912,740	53,324,942	56,605,593	54,640,537	53,029,086
<b>Financial ratios:</b>					
Equity to assets	12.03%	12.24%	12.37%	10.81%	10.18%
Total loans to deposits	101.99%	103.52%	104.89%	102.65%	104.51%
Allowance for loan losses to loans	1.64%	1.58%	1.47%	1.51%	1.44%
Allowance for loan losses to non-performing loans	84.92%	67.88%	81.13%	69.90%	74.15%
Non-performing loans to loans	1.93%	2.33%	1.81%	2.16%	1.94%
Non-performing loans to loans-adjusted <sup>1</sup>	0.87%	1.28%	0.52%	1.00%	0.95%
Non-performing assets to total assets	2.29%	2.48%	2.07%	2.14%	2.00%
Non-performing assets to total assets-adjusted <sup>1</sup>	1.52%	1.70%	1.12%	1.28%	1.25%
Operating efficiency	86.5%	86.9%	69.7%	85.9%	89.1%
Return on average assets	0.29%	0.13%	1.24%	0.61%	0.32%
Return on average equity	2.42%	1.05%	10.35%	5.90%	3.05%
Net interest spread	3.01%	2.92%	2.81%	2.47%	2.25%
Net interest margin	3.30%	3.26%	3.18%	2.83%	2.62%

<sup>1</sup> Adjustment excludes FHA/VA insured or guaranteed loans purchased from GNMA pools.

**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, 2010 and December 31, 2009 and the consolidated results of operations for the three month periods ended March 31, 2010 and 2009. 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 attributable to common shareholders for the first quarter of 2010 was \$155,593 compared to \$211,671 in the same quarter of 2009. Net interest income of \$3.4 million for the first quarter of 2010 improved modestly over 2009's total of \$3.2 million due to spread and margin improvement. The provision for loan losses totaled \$261,000 in the first quarter of 2010 compared to \$415,690 in the first quarter of 2009 as net charge-offs declined by approximately \$57,714. Non-interest income declined \$1.2 million for the quarter ended March 31, 2010 compared to 2009, primarily as a result of (i) a decline in the gain on sale of mortgage loans of \$931,031 from lower mortgage origination activity, and (ii) the recognition of \$19,000 of other than temporary impairment charges on securities in 2010 compared to an impairment recovery of \$400,000 on mortgage servicing rights in 2009. Excluding the impact of mortgage origination activity and impairment charges/recoveries, non-interest income was up approximately \$130,000 from the year earlier period primarily due to an increase in loan brokerage fees of \$86,250. Non-interest expenses declined \$506,875 from the prior quarter and \$680,784 from the year earlier period. We continue to exert tight expense controls on every area of the Bank.

Total assets at March 31, 2010 were \$448.1 million, increasing \$12.3 million (2.82%) from the end of 2009 including an increase of \$7.4 million in total loans outstanding. Generally, the first quarter was not marked by high demand for new credit, which is typical of a recessionary economy. The majority of the remaining increase in assets is in cash and cash equivalents, which increased \$5.9 million. The investment portfolio declined \$2.4 million as we allowed securities to pay off without full replacement. Total deposits increased \$12.0 million between December 31, 2009 and March 31, 2010, including \$9.6 million of growth in retail deposits and seasonal growth in servicing escrow accounts of \$2.4 million.

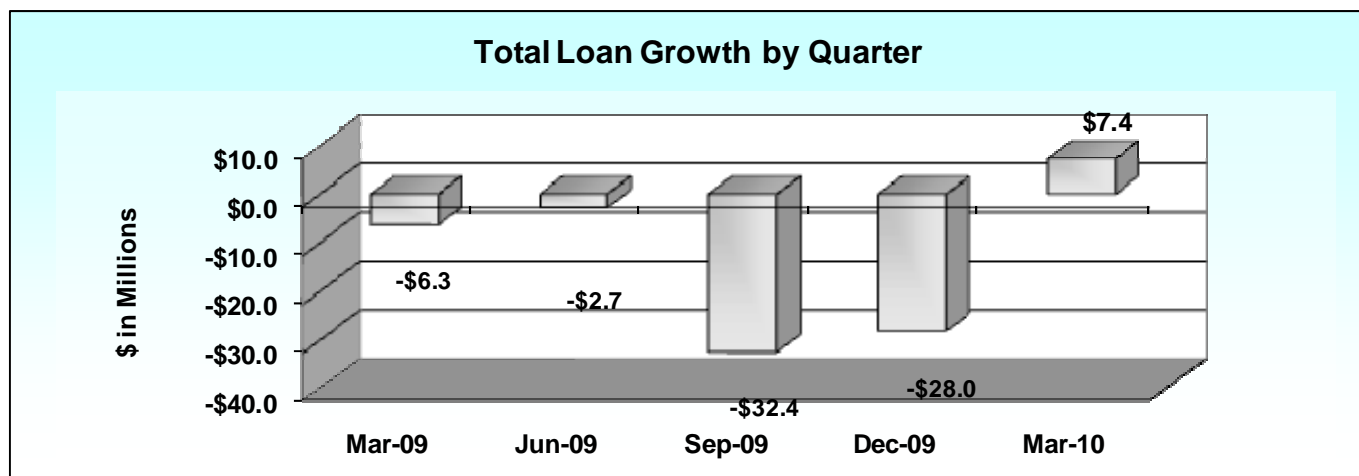
We remain focused primarily on asset quality and spread improvement. The provision for loan losses for the quarter was \$261,000 compared to \$415,690 for the first quarter of last year. Despite the reduction in the provision for loan losses, the allowance for loan losses as a percentage of outstanding loans increased from 1.58% at December 31, 2009 to 1.64% at March 31, 2010. Net recoveries of uncollectible loans totaled \$43,073 during the quarter, an annualized rate of .05% of average loans outstanding. Net charge-offs of uncollectible loans totaled \$14,641 during the first quarter of 2009, an annualized rate of .01% of average loans outstanding.

At the end of the first quarter of 2010, the stress tests we apply to our portfolio of residential mortgage backed securities indicated that one additional issue was likely to suffer principal losses within the foreseeable future. Consequently, we recognized an other than temporary credit loss in the amount of \$19,000 in anticipation of this event. Additional impairment losses are possible, as the collateral that supports these securities could further deteriorate, triggering principal loss and requiring additional impairment provisions in the future.

Magna's net interest margin improved during the quarter ended March 31, 2010 to 3.30%, up from 3.26% for the fourth quarter of 2009 and from 2.62% in the year ago quarter. The improvement in margin is attributable to the continued implementation of interest rate floors in most new or renewed loans and to aggressively re-pricing deposits to lower rates. Between December 31, 2009 and March 31, 2010, the cost of interest bearing liabilities fell from 2.14% to 2.04%. Absent a change in the current interest rate environment, we expect to see net interest margin increase to around 3.50% during the second quarter and for the remainder of 2010.

Non-interest expense in the first quarter declined \$506,875 (8.8%) from the prior quarter and \$680,784 (11.5%) from the prior year quarter. Salary, wages and commission expense declined \$421,876 from the prior year quarter, primarily as a result of reduced commission expense from lower mortgage origination volume. Amortization expense of servicing rights declined \$314,948 from the prior year quarter due to a reduction in refinancing activity. Servicing amortization and impairment recovery, although recurring in nature, tends to cause wide fluctuations between time periods.

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

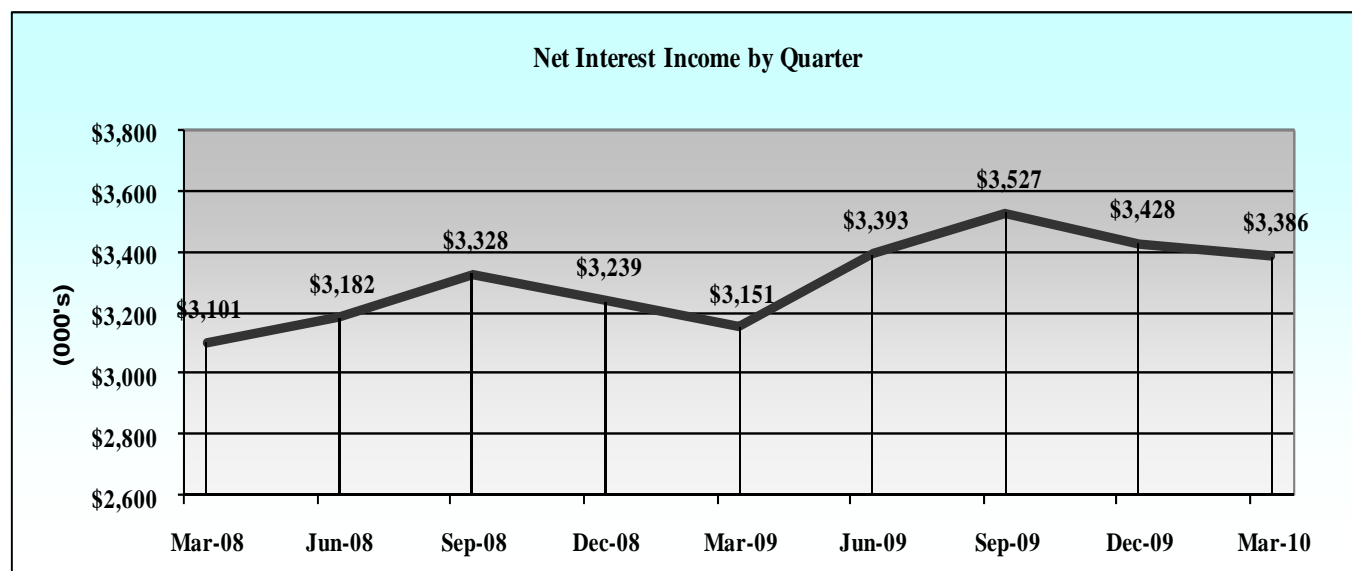


Note: The decline in total loans for the quarter ended September 30, 2009 includes \$35.0 million in loans sold.

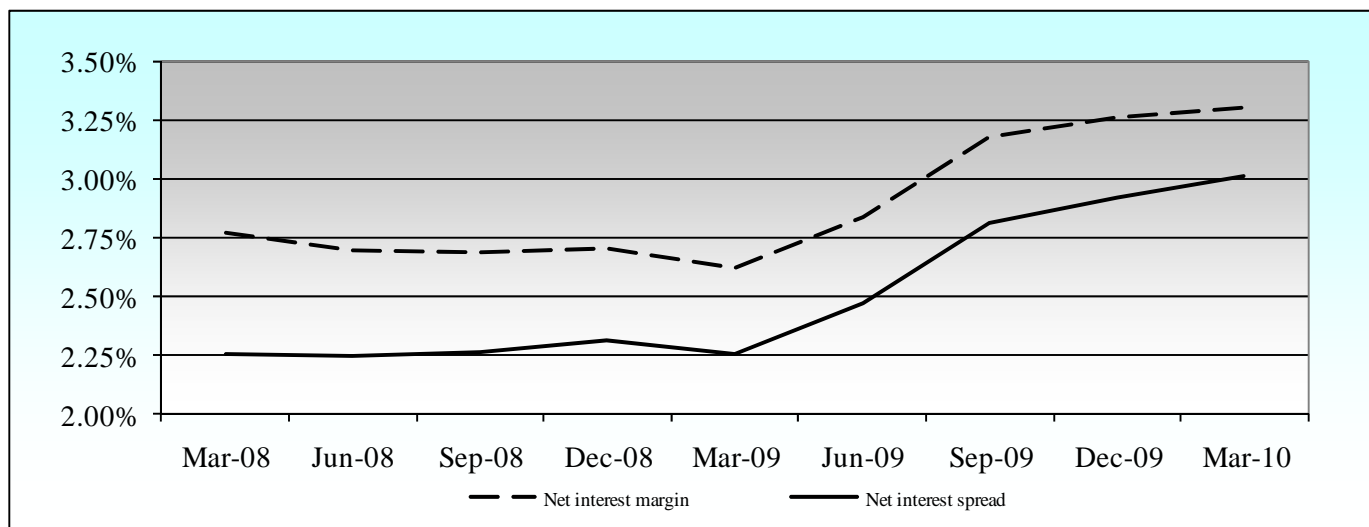
Non-performing loans totaled \$6.5 million at March 31, 2010, a decrease of \$1.2 million (15.4%) from the preceding year end. This decline is the result of aggressively dealing with problem credits through foreclosure and charge-off. The ratio of non-performing loans to total loans decreased from 2.33% at December 31, 2009 to 1.93% at March 31, 2010. The ratio of non-performing assets (which includes non-performing loans and foreclosed real estate) also declined from 2.48% in the prior quarter to 2.29% at March 31, 2010. The non-performing loan and asset ratios at March 31, 2010 were reduced to .87% and 1.52%, 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. Although asset quality is a constant focus at Magna, management is especially diligent in monitoring the quality and performance of the loan portfolio during these recessionary times. The allowance for loan losses was 1.64% of total loans outstanding at March 31, 2010 compared to 1.58% at December 31, 2009. Excluding full-faith and credit FHA/VA loans, the allowance for loan losses was 1.70% of total loans outstanding at March 31, 2010 compared to 1.65% at December 31, 2009.

Net interest income for the quarter ended March 31, 2010 totaled \$3.4 million compared to \$3.2 million for the quarter ended March 31, 2009. Net interest spread and net interest margin improved from 2.92% and 3.26%, respectively, in the fourth quarter of 2009 to 3.01% and 3.30%, respectively, for the quarter ended March 31, 2010. We expect additional improvement in these two metrics over the remainder of 2010 if the general level of market interest rates remains unchanged.

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



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



We gained approval in the first quarter to participate in the U. S. government insured Small Business Lending (SBA) program. Our commercial lending group hired a vice-president in the first quarter who brings to Magna 20 years experience in SBA and small business lending. We plan to offer to small and mid-size businesses in the Memphis area SBA loans in addition to traditional commercial loan and cash management services.

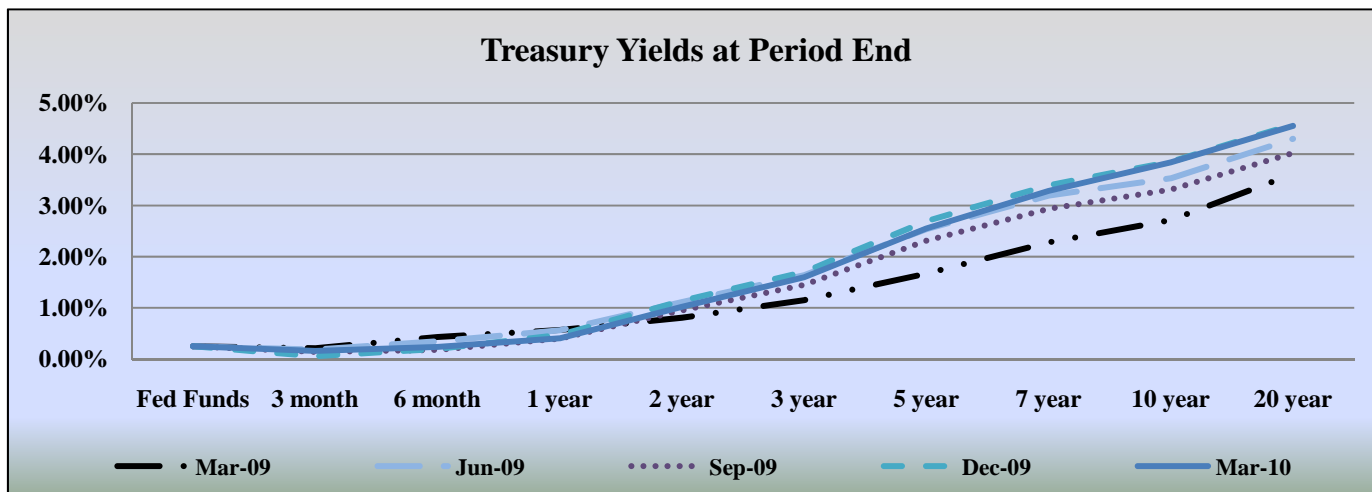
On a fully-diluted basis, income per common share for the quarter totaled \$0.03 compared to \$0.04 for 2009. To our knowledge, there were 1,025 shares of Magna stock traded during the quarter ended March 31, 2010 at prices ranging from \$5.75 to \$6.50 per share. At March 31, 2010 the last trade price of Magna stock was \$6.50 per share.

**Economic trends.** The recession which began at the end of 2007 continued into the first quarter of 2010, making it one of the longest and deepest recessions since the great depression of 1929. Unemployment claims, both new and continuing hit volumes not seen since the recession of 1981 and the turn of 2010 was accompanied by additional layoffs totaling thousands of jobs. Nationally, the unemployment rate exceeded 10%, also for the first time since 1981. Consensus forecasts of leading economists indicate the economic recovery will be slow to materialize. Through April 30, 2010, 64 banks have failed according to the FDIC's failed bank list, compared to 140 and 25 bank failures in 2009 and 2008, respectively. In 2009, the FDIC's deposit insurance reserve fund dipped to its lowest level since 1994 and a three year prepayment of bank insurance premiums was implemented in the fourth quarter of 2009 to increase the reserve fund. 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 2010.

The liquidity measures enacted by the Federal Reserve have kept mortgage rates low and spreads in U.S. agency securities historically tight to the treasury curve. Certain economic indicators are beginning to trend positively, most noticeably, reports that the U.S. economy created a higher-than-expected 290,000 jobs in April, the largest monthly increase in four years. Additionally, the rate of new housing starts and inventory of unsold homes, appear to be stabilizing with assistance from the Government in the form of tax credits for new homebuyers, which was extended until April 30, 2010.

The stock market remains volatile, as evidenced by the recent computerized sell-off that sent the Dow Jones industrial average plummeting by a near-record 1,000 points within about a half-hour before regaining two-thirds of that loss before the end of trading. Fear that the European debt crisis could spread is also a contributing factor to uncertainty in the markets, both in the U.S. and globally.

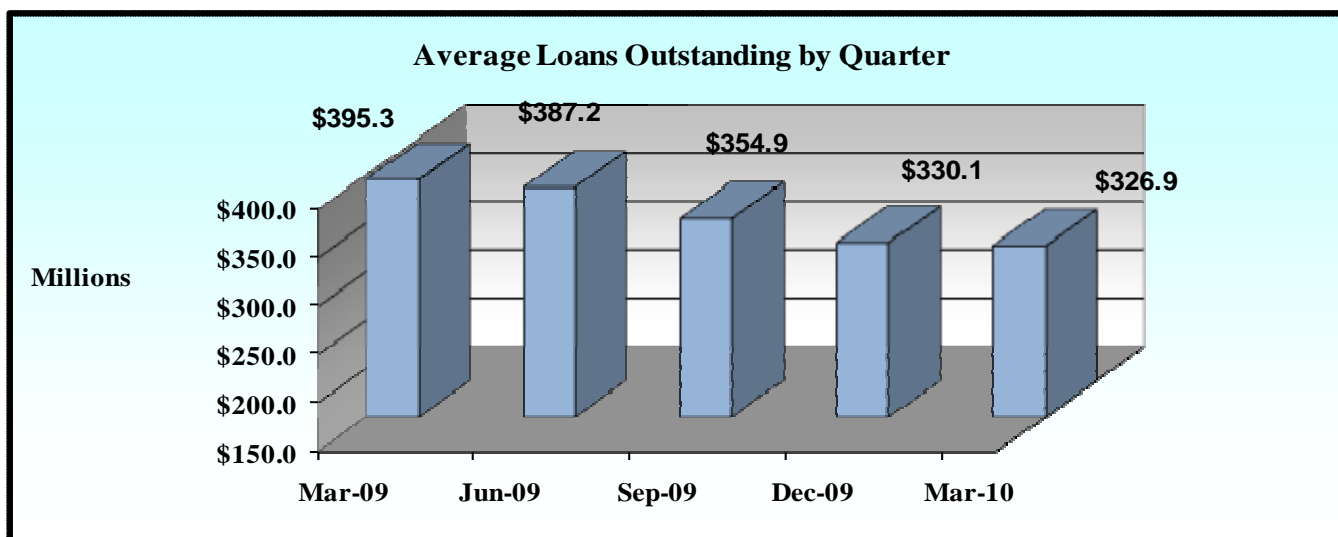
The following chart depicts the shape of the yield curve over the last five quarters:



**Actual and expected consequences.** In our 2009 Annual Report, we communicated our expectation of slight improvement in net interest spread and margin absent a change in market interest rates and/or a significant change in competitive pricing pressures. As neither of those two events occurred, both spread and margin improved in the first quarter of 2010. Assuming rates remain stable, we expect further improvement in net interest margin and spread throughout the first half of 2010, then stabilizing for the balance of the year.

We are closely monitoring credit quality in both the loan and securities portfolios. We mentioned in our last report that certain residential mortgage backed securities were showing signs of increasing delinquency and foreclosure, which might lead to impairment charges, and quarter end analysis of one of those securities did result in impairment charges totaling \$19,000. Magna recorded prior impairment charges of \$45,000 and \$27,000 on this security in the third and fourth quarter of 2009, respectively. 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 on this security or other securities, which did not exhibit any forecasted losses at the end of March, may result in impairment charges in the future.

Average loans outstanding for the first quarter of 2010 totaled \$326.9 million, which was below plan. Given the trend of deleveraging by both consumers and businesses, we expect to see modest growth in the level of loans outstanding during 2010. The following chart shows the sequential quarterly change in average loans outstanding:



Residential mortgage banking, which is the largest investment in terms of management, human resources and support within our Company, experienced record volume in 2009 due to the extension and expansion of the homebuyers credit and a favorable mortgage interest rate environment. We experienced a decline in residential mortgage origination volume of 53.3% from \$119.2 million in the first quarter of 2009 to \$55.7 million in the first quarter of 2010. The decline is primarily due to a decline in refinance activity, which fell from 50.3% (296 units) of total origination volume in the first quarter of 2009 to 17.1% (56 units) in the current quarter. In the first two months of 2010, the Company closed 82 mortgage loans in each month; however, in March we closed 163 units and expect to close

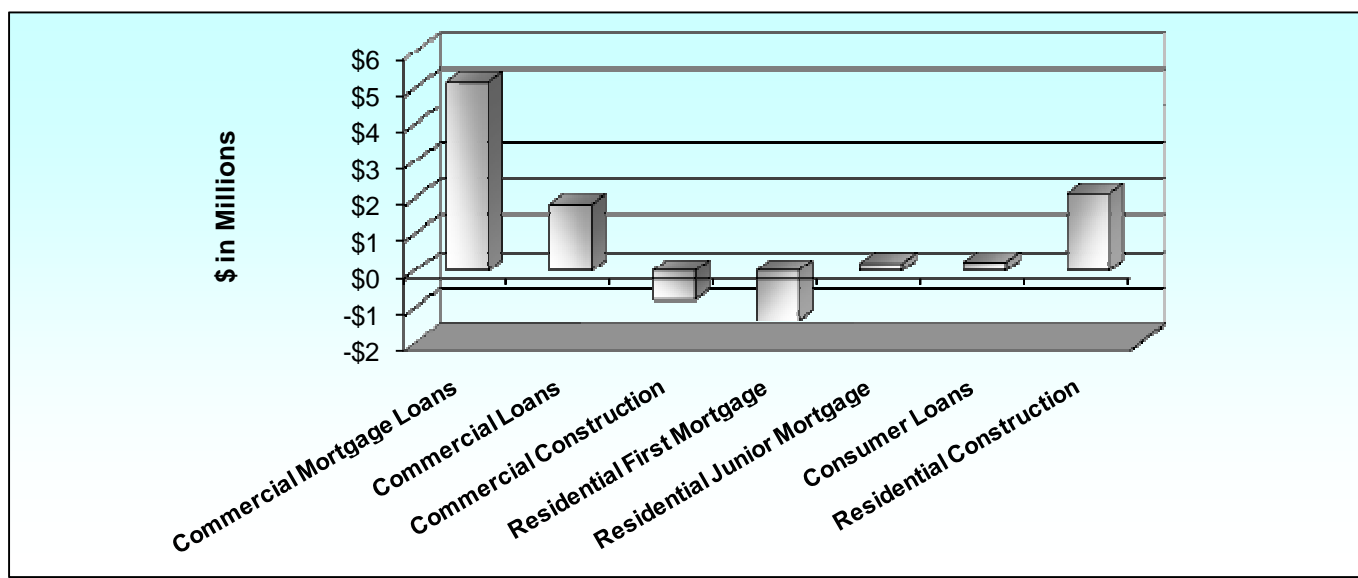


approximately 190 mortgage loans in April. As mentioned earlier, the homebuyers credit expired on April 30, 2010, and we expect that much of our increased production in April was due to the homebuyers credit program. Because of the volatile nature of the mortgage origination business, the expiration of the homebuyers credit, and weakness in the national economy (particularly the housing market), it is difficult to project mortgage origination volumes for the remainder of 2010. 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 \$86,250 in the first quarter of 2010, \$28,000 in the preceding quarter, and no brokerage fee income in the first quarter of 2009. 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.

**Financial condition analysis.** Total assets were \$448.1 million at March 31, 2010 compared to \$435.8 million at December 31, 2009. The carrying value of liquid assets, which include cash, cash equivalents and securities available for sale, increased \$3.8 million from year end 2009, while securities held to maturity paid down by \$256,679. During the first quarter, the fair value of securities in the available for sale portfolio improved by approximately \$611,000. At March 31, 2010, 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). Both of these performance forecasts project a worsening economic environment for the next two years, followed by a stabilizing environment for an additional two years, followed by a gradually improving economic environment thereafter. One of our securities met the criteria for OTTI recognition as of March 31, 2010. 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 does not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost bases, which may be maturity.

Loan balances increased \$7.4 million during the first quarter of 2010 primarily as a result of an increase in commercial mortgage loans of \$5.2 million, commercial loans of \$1.8 million, and an increase in residential construction loans of \$2.1 million as seen in the following chart.



Total non-performing loans decreased by \$1.2 million (15.4%) during the first three months of 2010, including a \$1.2 million (29.6%) reduction in non-accrual loans. These amounts 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 \$1.2 million to \$2.8 million at March 31, 2010 compared to \$4.0 million at the end of the preceding year. The Company is proactively monitoring our loan portfolio for impairment.

Net recoveries totaled \$43,073 and charge-offs totaled \$14,641 for the three month periods ended March 31, 2010 and 2009, respectively. We expect charge-offs to be significantly above historical levels and could exceed prior year levels if the economy does not improve in 2010.

The following tables summarize non-performing and past due loans as of March 31, 2010 and December 31, 2009:

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>Non-accrual loans:</b>		
<b>Recorded investment with related allowance for credit losses:</b>		
Single family residential, first mortgage, without insurance	\$ -	\$ 40,000
Junior Mortgage, Primarily HELOC	215,000	-
<b>Recorded investment without related allowance for credit losses:</b>		
Single family residential, first mortgage, with insurance	424,717	604,560
Single family residential, first mortgage, without insurance	1,594,827	2,392,637
Single family residential, junior mortgage, without insurance	69,495	166,683
Loans secured by land	290,497	476,462
Commercial loans	196,724	283,278
<b>Total non-accrual loans</b>	<b>2,791,260</b>	<b>3,963,620</b>
<b>Past due 90 or more days and still accruing interest:</b>		
Single family residential, first mortgage, FHA/VA insured	3,660,506	3,606,739
Single family residential, first mortgage, without insurance	-	52,813
<b>Total loans past due and still accruing interest</b>	<b>3,660,506</b>	<b>3,659,552</b>
<b>Total non-performing loans</b>	<b>\$ 6,451,767</b>	<b>\$ 7,623,172</b>
<b>Average non-performing loans</b>	<b>\$ 7,037,470</b>	<b>\$ 7,515,243</b>
Total non-performing loans	\$ 6,451,767	\$ 7,623,172
Non-performing loans to total loans	<u>1.93%</u>	<u>2.33%</u>
Non-performing loans exclusive of EBO loans	\$ 2,791,261	\$ 4,016,434
Non-performing loans to total loans, exclusive of EBO loans	<u>0.87%</u>	<u>1.28%</u>
Non-performing assets	\$ 10,268,423	\$ 10,789,180
Non-performing assets to total assets	<u>2.45%</u>	<u>2.45%</u>
Non-performing assets, exclusive of EBO loans	\$ 6,607,917	\$ 7,182,442
Non-performing to total assets, exclusive of EBO loans	<u>1.52%</u>	<u>1.70%</u>

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, 2010 and December 31, 2009.

	<b>March 31, 2010</b>	<b>% of outstanding balance <sup>(1)</sup></b>	<b>December 31, 2009</b>	<b>% of outstanding balance <sup>(1)</sup></b>
One-to-four family residential	\$ 638,598	0.79%	\$ 641,800	0.94%
Construction and land development	1,120,953	2.28%	999,954	2.09%
Other, primarily revolving home equity	1,343,588	2.44%	1,228,511	2.24%
Commercial real estate	2,021,990	1.65%	1,953,591	1.67%
Commercial & Industrial	293,045	1.21%	297,245	1.33%
Consumer	60,630	<u>2.05%</u>	53,630	<u>1.96%</u>
<b>Total</b>	<b>\$ 5,478,804</b>	<b><u>1.71%</u></b>	<b>\$ 5,174,731</b>	<b><u>1.65%</u></b>

1: Denominator excludes FHA/VA loans in the one-to-four family residential category totaling \$13.4 million and \$14.0 million at March 31, 2010 and December 31, 2009, 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 general depreciation of real estate values over the past year, one of the LPOC’s risk management initiatives is to reduce Magna’s investment in real estate secured loans with high loan-to-value (“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.

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 \$9.5 million of the Bank’s single family mortgage portfolio at March 31, 2010.

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. As of March 31, 2010, the amount loaned under both Programs totaled approximately \$9.0 million.

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 \$10.1 million at March 31, 2010 compared to \$10.3 million at December 31, 2009. The net decrease is attributable to capitalized servicing rights retained on loans sold to FNMA during the three months ended March 31, 2010 of \$287,699 less amortization expense of \$436,920. At March 31, 2010, the Company serviced 8,239 residential first mortgage loans totaling \$964.7 million for third party investors compared to 8,434 loans totaling \$985.4 million at December 31, 2009. 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, 2010, there was \$150,000 of unrecovered impairment in the value of the residential mortgage servicing portfolio.

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

	<u>March 31, 2010</u>	<u>December 31, 2009</u>
Number of loans serviced for others	8,239	8,434
Unpaid principal balance of loans serviced for others	\$ 964,674,507	\$ 985,431,793
Average balance per loan	\$ 117,086	\$ 116,840
Weighted average servicing fee	0.299%	0.296%
Weighted average mortgage note rate	5.77%	5.82%
Net book value of servicing rights	\$ 10,149,217	\$ 10,298,437
Net book value as a multiple of annual servicing fee	3.52	3.53

Total liabilities increased \$11.7 million during the three months ended March 31, 2010. Borrowings totaling \$63.0 million and brokered deposits of \$20.5 million were unchanged from the year ended December 31, 2009. Total deposits increased \$12.0 million between December 31, 2009 and March 31, 2010, including \$9.6 million of growth in retail deposits and seasonal growth in servicing escrow accounts of \$2.4 million.

The following table sets forth the maturities of interest-bearing deposits at March 31, 2010 and December 31, 2009:

	<u>At March 31, 2010</u>			<u>At December 31, 2009</u>		
	<u>Amount</u>	<u>Average Rate</u>	<u>% of total</u>	<u>Amount</u>	<u>Average Rate</u>	<u>% of total</u>
<b>Maturing within:</b>						
One year	118,146,580	2.05%	39.7%	105,801,109	2.12%	36.6%
Two years	28,762,493	2.48%	9.7%	29,573,051	2.62%	10.2%
Three years	6,815,984	2.98%	2.3%	10,427,621	2.96%	3.6%
Four years	526,295	3.49%	0.2%	199,221	3.67%	0.1%
Five years	<u>1,043,108</u>	<u>3.09%</u>	<u>0.4%</u>	<u>1,290,700</u>	<u>3.20%</u>	<u>0.4%</u>
	155,294,462	2.18%	52.0%	147,291,702	2.29%	50.9%
Interest bearing deposits with no stated maturity	<u>142,674,689</u>	<u>1.11%</u>	<u>48.0%</u>	<u>141,524,640</u>	<u>1.35%</u>	<u>49.1%</u>
Total interest-bearing deposits	<u>\$ 297,969,151</u>	<u>1.67%</u>	<u>100.0%</u>	<u>\$ 288,816,342</u>	<u>1.83%</u>	<u>100.0%</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, 2010</u>			<u>At December 31, 2009</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	\$ 12,131,858	2.00%	12.9%	\$ 10,096,018	2.31%	11.7%
Due after three through six months	23,671,319	2.09%	25.3%	11,842,488	2.02%	13.7%
Due after six through twelve months	34,377,268	2.06%	36.8%	38,176,731	2.05%	44.2%
Due after twelve months	<u>23,337,841</u>	<u>2.61%</u>	<u>25.0%</u>	<u>26,322,671</u>	<u>2.70%</u>	<u>30.5%</u>
	<u>\$ 93,518,286</u>	<u>2.20%</u>	<u>100.0%</u>	<u>\$ 86,437,908</u>	<u>2.28%</u>	<u>100.0%</u>
Percent of total deposits	<u>28.5%</u>			<u>27.4%</u>		

At March 31, 2010, the Company's loan-to-deposit ratio excluding loans held for sale was 102.0% compared to 103.5% at December 31, 2009, the result of deposit growth exceeding loan growth by \$4.6 million during the first quarter of 2010. Liquidity provided by first quarter net deposit growth was primarily invested in cash and cash equivalents, which increased \$5.9 million with a yield of 25 basis points. 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, 2010 and December 31, 2009 was \$53.9 million and \$53.3 million, respectively. The increase in equity was attributable to earnings for the three month period ended March 31, 2010 and a decrease in accumulated other comprehensive loss of \$389,012, 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 12.03% at March 31, 2010 compared to 12.24% at December 31, 2009. At March 31, 2010, Magna's regulatory core capital and total risk based capital ratios were 12.07% and 15.73%, respectively. These ratios exceed minimum regulatory levels at March 31, 2010 and December 31, 2009 and place Magna in the "well-capitalized" category as of both dates.

**Results of operation – three months ended March 31, 2010 and 2009.** Interest income, including dividends earned on FHLB stock, for the three months ended March 31, 2010, was \$5.3 million, a \$1.3 million decrease from 2009. Overall, average asset yield decreased by 30 basis points to 5.05%, while the yield on the loan portfolio was 5.35% in both periods. Interest expense decreased by \$1.5 million to \$1.8 million for the first quarter of 2010 compared to the year earlier period. The average rate incurred on interest bearing liabilities decreased by 105 basis points. Net interest income for the quarter ended March 31, 2010 was \$3.4 million compared to \$3.2 million for 2009, a \$213,308 (6.63%) increase. Net interest margin increased by 68 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, 2010 and 2009:

	Quarters Ended March 31,					
	2010			2009		
	<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>
<b><u>ASSETS</u></b>						
Short-term investments	\$ 18,577,331	\$ 11,477	0.25%	\$ 2,622,381	\$ 1,253	0.19%
Securities available-for-sale	44,540,317	555,786	4.99%	50,611,569	728,128	5.75%
Securities held-to-maturity	8,871,067	103,968	<u>4.69%</u>	11,440,358	175,221	<u>6.13%</u>
Total securities	53,411,384	659,754	4.94%	62,051,927	903,349	5.82%
Loans held for sale	13,206,101	164,770	4.99%	27,035,440	328,365	4.86%
<b><i>Commercial Loans:</i></b>						
Mortgage	117,030,673	1,578,735	5.40%	131,639,654	1,730,584	5.26%
Construction	33,847,104	424,427	5.02%	48,858,123	600,847	4.92%
Other	22,911,052	288,441	5.04%	33,145,918	374,646	4.52%
<b><i>Consumer Loans:</i></b>						
First Mortgage	81,431,310	1,182,478	5.81%	91,186,251	1,442,891	6.33%
Junior Mortgage, Primarily HELOC	54,156,961	681,048	5.03%	70,710,154	913,529	5.17%
Construction	14,863,376	183,461	4.94%	16,321,348	175,139	4.29%
Other	2,708,609	36,023	<u>5.32%</u>	3,436,550	46,878	<u>5.46%</u>
<b>Total loans</b>	326,949,087	4,374,613	5.35%	395,297,998	5,284,514	5.35%
Investment in Federal Home Loan Bank	3,981,400	45,159	<u>4.54%</u>	3,907,853	44,144	<u>4.52%</u>
<b>Total interest earning assets</b>	<b>416,125,304</b>	<b>5,255,773</b>	<b>5.05%</b>	<b>490,915,599</b>	<b>6,561,625</b>	<b>5.35%</b>
Non interest earning assets	26,240,231			29,309,988		
<b>Total assets</b>	<b>\$ 442,365,534</b>			<b>\$ 520,225,587</b>		
<b><u>LIABILITIES</u></b>						
Interest-bearing transaction accounts	\$ 69,737,994	\$ 185,298	1.06%	76,786,742	342,183	1.78%
Savings deposits	69,395,579	254,177	1.47%	50,608,076	336,821	2.66%
Time deposits	147,031,630	820,215	2.23%	179,502,306	1,623,828	3.62%
Brokered deposits	4,793,000	19,010	<u>1.59%</u>	40,521,033	328,409	<u>3.24%</u>
<b>Total deposits</b>	290,958,203	1,278,700	1.76%	347,418,157	2,631,241	3.03%
Federal funds purchased and other short-term borrowings	4,053,763	1,511	0.15%	9,379,111	39,644	1.69%
Term FHLB Advances	63,000,000	544,303	<u>3.46%</u>	75,433,333	672,789	<u>3.57%</u>
<b>Total interest bearing liabilities</b>	<b>358,011,967</b>	<b>1,824,514</b>	<b>2.04%</b>	<b>432,230,601</b>	<b>3,343,674</b>	<b>3.09%</b>
Non interest bearing liabilities	30,713,325			34,008,501		
Shareholders' equity	53,640,242			53,986,485		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 442,365,534</b>			<b>\$ 520,225,587</b>		
<b>Net interest income/net interest spread</b>		<u>\$ 3,431,259</u>	<u>3.01%</u>		<u>\$ 3,217,951</u>	<u>2.25%</u>
<b>Net interest margin</b>			<u>3.30%</u>			<u>2.62%</u>

The following table shows the components of each change attributable to rate and volume variances for the three months ended March 31, 2010 and 2009. 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.

	<b>Quarters ended March 31, 2010 compared to March 31, 2009</b>		
	<b>Increase (decrease) due to</b>		
	<b>Rate</b>	<b>Volume</b>	<b>Total</b>
<b>Interest earning assets:</b>			
Short-term investments	\$ 470	\$ 9,754	\$ 10,224
Securities available-for-sale	(90,499)	(81,843)	(172,342)
Securities held-to-maturity	(36,521)	(34,732)	(71,253)
<b>Total securities</b>	<b>(127,020)</b>	<b>(116,575)</b>	<b>(243,595)</b>
Loans held for sale	8,719	(172,314)	(163,595)
<b>Commercial Loans:</b>			
Mortgage	44,268	(196,117)	(151,849)
Construction	11,593	(188,013)	(176,420)
Other	39,101	(125,306)	(86,205)
<b>Consumer Loans:</b>			
First Mortgage	(113,235)	(147,178)	(260,413)
Junior Mortgage, Primarily HELOC	(23,736)	(208,745)	(232,481)
Construction	24,844	(16,522)	8,322
Other	(1,148)	(9,707)	(10,855)
<b>Total loans</b>	<b>(18,313)</b>	<b>(891,588)</b>	<b>(909,901)</b>
Investment in Federal Home Loan Bank	181	834	1,015
<b>Total change in interest income</b>	<b>(135,963)</b>	<b>(1,169,890)</b>	<b>(1,305,852)</b>
<b>Interest bearing liabilities:</b>			
Interest-bearing transaction accounts	(127,823)	(29,062)	(156,885)
Savings deposits	(182,257)	99,613	(82,644)
Time deposits	(545,974)	(257,639)	(803,613)
Brokered deposits	(113,469)	(195,930)	(309,399)
<b>Total deposits</b>	<b>(969,523)</b>	<b>(383,018)</b>	<b>(1,352,541)</b>
Federal funds purchased and other short-term borrowings	(23,500)	(14,633)	(38,133)
FHLB Advances	(20,511)	(107,975)	(128,486)
<b>Total change in interest expense</b>	<b>(1,013,534)</b>	<b>(505,626)</b>	<b>(1,519,161)</b>
<b>Increase in net interest income</b>	<b>\$ 877,571</b>	<b>\$ (664,263)</b>	<b>\$ 213,308</b>

Magna recorded a provision for loan losses of \$261,000 in the first quarter of 2010 compared to \$415,690 in 2009. The decline in provision was partially attributable to net recoveries of \$43,073 and net charge-offs of \$14,641 in the first quarters of 2010 and 2009, respectively, and to stabilizing credit quality in the form of classified assets and non performing loans. At March 31, 2010, the general component of the allowance for loan losses totaled \$5.2 million compared to \$4.9 million at December 31, 2009. In arriving at the level of allowance for loan loss at March 31, 2010, Magna maintained its “worst case” economic outlook, which resulted in an environmental factor loan loss allowance of approximately \$860,000 or 20% of general allowance for loan loss. 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 loan brokerage, totaled \$2.6 million and \$3.9 million for the three months ended March 31, 2010 and 2009, respectively. Both fiscal periods were impacted by other than temporary impairment charges/recoveries relating to either securities or mortgage servicing rights, as seen in the following table:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Mortgage banking	\$ 1,499,469	\$ 2,430,500
Mortgage servicing	944,268	911,694
Commercial mortgage banking	86,250	-
Other -than-temporary impairment on securities	(19,000)	-
Recovery of impairment on mortgage servicing rights	-	400,000
Other sources	134,397	123,242
<b>Total non-interest income</b>	<b>\$ 2,645,384</b>	<b>\$ 3,865,436</b>

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:

	<b>Memphis</b>	<b>Little Rock</b>	<b>Nashville</b>	<b>Chattanooga</b>	<b>Total</b>
<b>Three months ended March 31:</b>					
<b>2009</b>	73,044,086	10,395,084	27,993,667	7,811,234	119,244,071
<b>2010</b>	35,311,352	3,836,702	12,541,938	4,013,954	55,703,946
<b>Decrease</b>	<u>(37,732,734)</u>	<u>(6,558,382)</u>	<u>(15,451,729)</u>	<u>(3,797,280)</u>	<u>(63,540,125)</u>
<b>Percent Change</b>	<u>-51.7%</u>	<u>-63.1%</u>	<u>-55.2%</u>	<u>-48.6%</u>	<u>-53.3%</u>

The decrease in volume is linked to the decrease in the number of loans originated for the purpose of refinancing existing home loans. Total origination production for the first quarter of 2010 and 2009 is broken down as follows:

	<b>Quarter ended March 31,</b>			
	<b>2010</b>		<b>2009</b>	
Purchase money mortgage	271	82.9%	292	49.7%
Refinance mortgage	<u>56</u>	<u>17.1%</u>	<u>296</u>	<u>50.3%</u>
<b>Total units produced</b>	<u>327</u>	<u>100.0%</u>	<u>588</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. Magna received notice that the month-to-month leases in the Chattanooga and Little Rock regions will terminate on July 31, 2010.

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, the Company operates a commercial real estate mortgage banking group whose investors include life insurance companies and other banks. Due to the lack of a market for commercial real estate loans, this group had no origination activity during the quarter ended March 31, 2009 and \$6.9 million for the three months ended March 31, 2010. Brokerage fees earned in the first quarter of 2010 totaled \$86,250 and there were no brokerage fee earned in the first quarter of 2009.

Another significant component of non-interest income is mortgage loan servicing, both commercial and residential. Gross fees and non-interest expenses related to these two areas for the three months ended March 31, 2010 and 2009, are shown in the following table (impairment recovery of \$400,000 reduces servicing asset amortization for the three month period ended in 2009):

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
<b>Quarter ended March 31, 2010:</b>			
Gross servicing fees	\$ 729,190	\$ 74,806	\$ 803,996
Late charges and other ancillary revenue	<u>184,667</u>	<u>-</u>	<u>184,667</u>
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	<u>27,628</u>	<u>-</u>	<u>27,628</u>
Gross servicing expenses	<u>481,315</u>	<u>7,863</u>	<u>489,178</u>
<b>Net servicing revenue</b>	<b><u>\$ 432,542</u></b>	<b><u>\$ 66,943</u></b>	<b><u>\$ 499,485</u></b>
<b>Quarter ended March 31, 2009:</b>			
Gross servicing fees	\$ 708,770	\$ 70,240	\$ 779,010
Late charges and other ancillary revenue	<u>173,924</u>	<u>-</u>	<u>173,924</u>
Gross servicing revenue	882,693	70,240	952,933
Servicing asset amortization	351,552	8,179	359,731
Guaranty fees and loan pay-off interest	19,075	-	19,075
Other servicing expenses	<u>22,164</u>	<u>-</u>	<u>22,164</u>
Gross servicing expenses	<u>392,791</u>	<u>8,179</u>	<u>400,970</u>
<b>Net servicing revenue</b>	<b><u>\$ 489,902</u></b>	<b><u>\$ 62,061</u></b>	<b><u>\$ 551,963</u></b>
<b>Increase (decrease)</b>			
Gross servicing fees	20,420	4,566	24,986
Late charges and other ancillary revenue	<u>10,743</u>	<u>-</u>	<u>10,743</u>
Gross servicing revenue	31,164	4,566	35,730
Servicing asset amortization	85,368	(316)	85,052
Guaranty fees and loan pay-off interest	(2,308)	-	(2,308)
Other servicing expenses	<u>5,464</u>	<u>-</u>	<u>5,464</u>
Gross servicing expenses	<u>88,524</u>	<u>(316)</u>	<u>88,208</u>
<b>Net servicing revenue</b>	<b><u>\$ (57,360)</u></b>	<b><u>\$ 4,882</u></b>	<b><u>\$ (52,478)</u></b>

The following table summarizes changes in servicing rights during the three month periods ended March 31, 2010 and 2009, respectively:

	<b>Three months ended March 31,</b>					
	<b>2010</b>			<b>2009</b>		
	<b>Commercial</b>	<b>Residential</b>	<b>Total</b>	<b>Commercial</b>	<b>Residential</b>	<b>Total</b>
Beginning balance	\$ 116,897	\$ 10,298,438	\$ 10,415,335	\$ 149,026	\$ 9,138,749	\$ 9,287,775
Add: Purchased mortgage servicing rights	-	-	-	-	3,849	3,849
Capitalized mortgage servicing rights	<u>-</u>	<u>287,699</u>	<u>287,699</u>	<u>-</u>	<u>991,146</u>	<u>991,146</u>
Gross additions to mortgage servicing rights	-	287,699	287,699	-	994,995	994,995
Less: Amortization of mortgage servicing rights	(7,863)	(436,920)	(444,783)	(8,179)	(751,552)	(759,731)
Recovery of impairment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>400,000</u>	<u>400,000</u>
Gross reductions in mortgage servicing rights	<u>(7,863)</u>	<u>(436,920)</u>	<u>(444,783)</u>	<u>(8,179)</u>	<u>(351,552)</u>	<u>(359,731)</u>
Ending balance	<b><u>\$ 109,034</u></b>	<b><u>\$ 10,149,217</u></b>	<b><u>\$ 10,258,251</u></b>	<b><u>\$ 140,847</u></b>	<b><u>\$ 9,382,192</u></b>	<b><u>\$ 9,523,039</u></b>

Non-interest expense for the quarter ended March 31, 2010 decreased by \$680,784 compared to the year earlier period. The quarterly decrease between years is primarily attributable to a decline in mortgage commission and incentive expense of approximately \$478,000, which is due to the decline in mortgage origination volume between the two periods. A decline in refinancing activity was the primary driver for the decline in mortgage origination volume and also contributed to a decline in amortization expense on mortgage servicing rights of \$314,948. Occupancy expenses were also lower by \$67,142 for the quarter due primarily due to the sale of the Brentwood branch in August of 2009.

The following table summarizes the components of occupancy and equipment expense for the three months ended March 31, 2010 and 2009:

	<b>Three Months Ended March 31,</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
Rent utilities and taxes	\$ 463,162	\$ 487,891
Telephone	19,593	28,957
Depreciation	152,103	206,611
Repairs and maintenance	<u>53,039</u>	<u>31,580</u>
Total occupancy and equipment expense	<u>\$ 687,897</u>	<u>\$ 755,039</u>

The following table summarizes the components of other expense for the three months ended March 31, 2010 and 2009:

	<b>Three Months Ended March 31,</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
Data processing	\$ 258,403	\$ 227,264
Travel and entertainment	45,748	40,323
Bank fees and service charges	38,033	39,862
Postage, shipping and delivery	65,925	60,763
Printing and office supplies	48,500	56,096
Provision for loan repurchase and FHA/VA claim losses	152,500	40,000
Other	<u>302,255</u>	<u>254,652</u>
Total other expense	<u>\$ 911,364</u>	<u>\$ 718,960</u>

The provision for loan repurchase and FHA/VA claim losses increased \$112,500 in the first quarter of 2010 compared to the first quarter of 2009. The repurchase and FHA/VA provisions accounted for \$51,000 and \$101,500 of the total provision expense included in other expense for the first quarter of 2010, 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 three month periods ended March 31, 2010 and 2009:

	<b>Three months ended March 31,</b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
Beginning balance	\$ 220,490	\$ 199,213
Provision for losses	101,500	40,000
Claim losses	<u>(69,917)</u>	<u>(30,938)</u>
Ending balance	<u>\$ 252,073</u>	<u>\$ 208,275</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 2010. The total principal amount of loans repurchased (or indemnified for) was \$342,437 during the first quarter of 2009. 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:

	<b>Three months ended March 31,</b>	
	<u><b>2010</b></u>	<u><b>2009</b></u>
Beginning balance	\$ 400,703	\$ 181,517
Provision for losses	51,000	-
Claim losses and repurchase discounts	-	-
Recoveries of claim losses and repurchase discounts	-	-
Net losses	-	-
Ending balance	<u>\$ 451,703</u>	<u>\$ 181,517</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. At March 31, 2010 and December 31, 2009, the total amount of un-drawn lines and letters of credit was \$70.7 million in both periods, as follows:

	<u><b>March 31, 2010</b></u>	<u><b>December 31, 2009</b></u>
<b><u>Commitments under:</u></b>		
Undisbursed term loans	\$ 10,681,129	\$ 11,029,275
Undrawn revolving lines of credit	55,473,431	55,019,913
Undrawn letters of credit	4,501,949	4,619,449
	<u>\$ 70,656,510</u>	<u>\$ 70,668,637</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 has not entered into interest rate swaps or caps to manage interest risk; however, the Company may enter into these derivative instruments and is approved for \$25 million in outstanding contracts.

**Liquidity and capital resources.** For the three months ended March 31, 2010, the Company's operating activities used \$924,484 of available cash. Investing activities used \$5.0 million of available cash due to a net increase in loans of \$8.1 million and purchases of securities of \$1.0 million. Paydowns in the securities portfolio provided \$4.1 million. Financing activities provided \$11.8 million of available cash as a result of deposit growth of \$12.0 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 December of 2008, the Company issued and sold \$13,795,000 of its Series A and Series B 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 certain restrictions. The preferred stock has a senior rank and also provides limitations on certain compensation arrangements of executive officers and provides restrictions on dividends. In November of 2009, the Company redeemed 3,455 shares of Series A preferred stock and it is our intent to gradually repay the Treasury investment, while still remaining well capitalized. The preferred stock qualifies as Tier 1 capital and is presented in shareholders' equity in the accompanying Consolidated Balance Sheet. 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, 2010	\$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, 2010 was \$109.4 million, as follows:

	<u>March 31, 2010</u>
<i>Short-term credit facilities:</i>	
Twenty-one days or less (unsecured)	52,300,000
Up to thirty days (secured)	<u>33,744,768</u>
Subtotal, short term	86,044,768
Long term credit facilities (secured)	<u>23,314,717</u>
Total credit facilities	<u>\$ 109,359,485</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, 2010, the percentage

of time deposits \$100,000 and over to total deposits was 28.5% compared to 27.4% at December 31, 2009. 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. We discussed in our Annual Report and Proxy Statement for the year ended December 31, 2009 that some Memphis based community banks have been negatively impacted by the lingering effects of the recession. Given this fact, Magna's board of directors and executive management will be actively evaluating merger and acquisition opportunities with other community banks in the Memphis area in 2010. There is no guarantee that a transaction will be finalized in 2010.

**Critical Accounting Policies.** During the three months ended March 31, 2010, 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, 2009.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

During the three months ended March 31, 2010, 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, 2009.

### **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)
10(i)	Extension and modification agreement to lease agreement, including exhibits, between Magna Bank and 6525 Quail Hollow Road GP, 6525 Quail Hollow Suites 107, 300, 311, 513, and 520B, Memphis, TN (filed herewith)
10(ii)	Amended and restated marketing agreement, including exhibit, between Magna Bank and Crye-Leike, Inc., Crye-Leike of Mississippi, Inc., Crye-Leike of Nashville, Inc., Crye-Leike South, Inc., and Crye-Leike of Arkansas, Inc. (filed herewith)
19(i)	Quarterly report to shareholders (filed herewith)
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 11, 2010

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 11, 2010

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 11, 2010

**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, 2010 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 11, 2010

**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, 2010 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 11, 2010