Securities and Corporate Practices Division
Office of the Comptroller of the Currency
250 E Street, SW
Washington, D.C. 20219

FORM 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from ________ to ________

Commission File No. 15525

Magna Bank
(Exact name of registrant as specified in its charter)

Federal Charter	62-1760666
(State of incorporation)	(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	Outstanding at August 11, 2011
Common Stock, par value $1 per share	5,503,026

MAGNA BANK

June 30, 2011 Form 10-Q
Index

Page

Part I. FINANCIAL INFORMATION

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. Forward-looking statements include statements about estimated cost savings, plans and objectives for future operations, and expectations about performance and economic and market conditions and trends. They often can be identified by the use of words like "*expect*," "*may*," "*could*," "*intend*," "*project*", "*estimate*," "*believe*" or "*anticipate*." Magna includes forward-looking statements in filings with the Office of the Comptroller of the Currency (OCC), such as this Quarterly Report, in other written materials, and in oral statements made by senior management to analysts, investors, representatives of the media, and others. These forward-looking statements speak only to circumstances as of the date they are made, and Magna undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward looking statement is made or to reflect the occurrence of unanticipated events.

By their nature, forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from those contained in the forward-looking statement. The discussion in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Quarterly Report and "Risk Factors" in our most recent Annual Report, list some of the factors which could cause Magna's actual results to vary materially from those in the forward-looking statements. Other uncertainties which could affect Magna's future performance include the effects of competition, technological changes and regulatory developments; changes in fiscal monetary and tax policies; changes in business conditions and inflation; changes in general economic conditions, either nationally or regionally, resulting in, among other things, credit quality deterioration; and changes in the securities markets. Investors should consider these risks, uncertainties, and other factors in addition to those mentioned by Magna in its other filings from time to time when considering any forward-looking statement.

Part 1
Item 1. Unaudited Consolidated Financial Statements

Consolidated Balance Sheets
June 30, 2011 and December 31, 2010

MAGNA BANK

	(Unaudited) June 30, 2011	December 31, 2010
ASSETS		
Cash and due from banks	$ 4,161,150	$ 4,268,219
Interest-bearing deposits at other financial institutions	2,344,518	2,392,777
Federal funds sold	9,883,276	8,015,876
Securities available-for-sale, at fair value (amortized cost of $40,434,091 and $39,885,422, respectively)	40,938,603	39,920,360
Loans held for sale, at lower of cost or fair value	18,470,332	23,105,481
Loans, less allowance for loan losses of $5,885,613 and $9,630,180, respectively	310,948,317	313,389,395
Accrued interest receivable - securities	138,731	135,257
- loans	1,418,811	1,702,898
Premises and equipment, net	4,448,381	4,648,173
Mortgage servicing rights, net	9,834,525	9,898,444
Foreclosed real estate, net	5,611,319	3,460,890
Investment in Federal Home Loan Bank, at cost	3,981,400	3,981,400
Other assets	8,905,762	10,689,793
TOTAL ASSETS	$ 421,085,125	$ 425,608,963
LIABILITIES		
Deposits		
Non-interest-bearing transaction accounts	$ 18,920,621	$ 19,790,569
Servicing escrow and custodial accounts	18,567,133	11,909,818
Interest-bearing transaction accounts	89,012,396	89,148,628
Savings accounts	81,500,926	85,712,474
Time deposits	114,738,316	114,088,487
Total deposits	322,739,392	320,649,976
Federal Home Loan Bank borrowings	45,000,000	49,000,000
Accrued interest payable	616,419	938,301
Accounts payable	1,129,690	1,354,524
Other liabilities	1,556,177	1,917,610
TOTAL LIABILITIES	371,041,678	373,860,411
Commitments and contingencies	-	-
SHAREHOLDERS' EQUITY		
Preferred stock series A and series B ($1 par value; liquidation preference $1,000; 10,000,000 shares authorized; 7,575 and 11,030 shares outstanding, respectively)	7,429,883	10,740,828
Common stock ($1 par value; 10,000,000 shares authorized; 5,529,135 shares issued and 5,503,026 shares outstanding, respectively)	5,529,135	5,529,135
Treasury stock, 26,109 shares at cost	(200,374)	(200,374)
Additional paid-in capital	31,716,728	31,658,147
Retained earnings	6,236,907	5,157,056
Accumulated other comprehensive loss, net of taxes	(668,832)	(1,136,240)
TOTAL SHAREHOLDERS' EQUITY	50,043,447	51,748,552
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 421,085,125	$ 425,608,963

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

Consolidated Income Statements (Unaudited)
Three and Six Months Ended June 30, 2011 and 2010

MAGNA BANK

	Three months ended June 30, 2011	Three months ended June 30, 2010	Six months ended June 30, 2011	Six months ended June 30, 2010
INTEREST INCOME:				
Short-term investments	$ 6,180	$ 10,078	$ 10,903	$ 21,555
Securities: Available-for-sale	392,058	484,262	783,370	1,040,048
Held-to-maturity	-	98,991	-	202,959
Loans held for sale	187,481	278,070	348,913	442,840
Loans, including fees and discounts	4,144,556	4,464,073	8,206,189	8,838,686
TOTAL INTEREST INCOME	4,730,275	5,335,474	9,349,375	10,546,088
INTEREST EXPENSE:				
Deposits	812,346	1,239,723	1,658,888	2,518,423
Borrowings	345,562	550,350	689,508	1,096,164
TOTAL INTEREST EXPENSE	1,157,908	1,790,073	2,348,396	3,614,587
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	3,572,367	3,545,401	7,000,979	6,931,501
Provision for loan losses	(24,000)	1,883,000	(189,000)	2,144,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,596,367	1,662,401	7,189,979	4,787,501
NON-INTEREST INCOME:				
Service charges and other branch income	84,616	74,942	169,511	140,922
Servicing fee income	931,786	924,891	1,853,020	1,869,159
Loan brokerage and SBA fees	110,914	249,600	649,329	335,850
Gain on sale of mortgage loans, net	1,776,649	2,225,110	2,983,619	3,724,579
(Loss) gain on sale of securities available-for-sale	(25,810)	207,651	(25,810)	207,651
Other-than-temporary impairment on securities	-	-	-	(19,000)
Recovery (impairment) of mortgage servicing rights	175,000	(600,000)	175,000	(600,000)
Other income	54,821	65,156	190,736	133,575
TOTAL NON-INTEREST INCOME	3,107,976	3,147,352	5,995,405	5,792,736
NON-INTEREST EXPENSE:				
Salary, wages and commission	2,306,890	2,725,124	4,756,676	5,060,752
Benefits and taxes	414,572	454,546	903,255	904,791
Professional services	205,799	103,255	328,621	230,895
Occupancy and equipment	688,839	674,935	1,377,222	1,362,832
Amortization of servicing rights	432,194	511,247	856,079	956,030
Marketing and business development	160,768	120,727	308,725	243,572
Regulatory fees and deposit insurance assessments	144,266	129,712	293,926	283,939
Foreclosure expense	219,100	316,665	343,639	409,762
Other	811,535	780,445	1,571,297	1,598,712
TOTAL NON-INTEREST EXPENSE	5,383,963	5,816,656	10,739,440	11,051,285
INCOME (LOSS) BEFORE TAXES	1,320,380	(1,006,903)	2,445,944	(471,048)
Income tax expense (benefit)	506,549	(396,009)	943,042	(184,620)
NET INCOME (LOSS)	813,831	(610,894)	1,502,902	(286,428)
LESS: DIVIDENDS AND ACCRETION OF PREFERRED STOCK	254,179	168,873	423,051	337,746
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	$ 559,652	$ (779,767)	$ 1,079,851	$ (624,174)
Net income (loss) per common share:				
Basic	$ 0.10	$ (0.14)	$ 0.20	$ (0.11)
Diluted	$ 0.10	$ (0.14)	$ 0.20	$ (0.11)
Comprehensive income:				
Net income (loss)	$ 813,831	$ (610,894)	$ 1,502,902	$ (286,428)
Change in net unrealized gain (loss) on securities, net of taxes	55,570	101,946	467,408	490,958
TOTAL COMPREHENSIVE INCOME (LOSS)	$ 869,401	$ (508,948)	$ 1,970,310	$ 204,530

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

	June 30, 2011	June 30, 2010
Cash flows from operating activities:		
Net income (loss)	$ 1,502,902	$ (286,428)
Reconciliation of net income (loss) to cash provided by (used in) operating activities:		
Provision for loan losses	(189,000)	2,144,000
Provision for servicing and mortgage origination losses	218,000	276,500
(Recovery) impairment of mortgage servicing rights	(175,000)	600,000
Charges for other-than-temporary impairment of securities	-	19,000
Valuation adjustment to carrying value of REO	173,597	281,431
Depreciation of premises and equipment	280,147	302,231
Capitalization of mortgage servicing rights	(618,668)	(713,045)
Stock-based compensation expense	58,581	45,880
Amortization of mortgage servicing rights	857,586	956,030
Net discount accretion on securities	(14,902)	(37,580)
Net premium amortization on loans	14,425	22,410
Provision (benefit) for deferred income tax	235,927	(1,067,372)
Decrease (increase) in other assets	1,199,521	(1,414,140)
(Decrease) increase in accounts payable and other liabilities	(804,267)	1,112,286
Proceeds from sales and repayments of loans held for sale	137,774,793	143,251,657
Gain on sale of mortgage loans	(2,983,619)	(3,724,579)
Loss (gain) on sale of securities	25,810	(207,651)
Loss on sale of real estate owned	777	24,390
Origination of loans held for sale	(134,342,566)	(143,942,884)
Decrease in accrued interest payable	(321,882)	(85,139)
Decrease (increase) in accrued interest receivable	280,613	(141,476)
Net cash provided by (used in) operating activities	3,172,775	(2,584,479)
Cash flows from investing activities:		
Purchases of available-for-sale securities	(3,033,000)	(3,998,125)
Proceeds from sale of securities available-for-sale	950,000	7,800,696
Principal repayments of securities available-for-sale	6,006,635	6,435,968
Principal repayments of securities held-to-maturity	-	523,626
Net increase in loans	(4,175,627)	(13,940,434)
Proceeds from sale of foreclosed real estate	4,516,224	501,307
Purchases of mortgage servicing rights	-	(3,000)
Purchases of premises and equipment	(80,355)	(134,899)
Net cash provided by (used in) investing activities	4,183,877	(2,814,861)
Cash flows from financing activities:		
Net increase in deposits	2,089,416	25,230,936
Repayments of long-term borrowings	(4,000,000)	-
Dividends on preferred stock	(278,996)	(289,550)
Redemption of preferred stock	(3,455,000)	-
Net cash (used in) provided by financing activities	(5,644,580)	24,941,386
Net increase in cash and cash equivalents	1,712,072	19,542,046
Cash and equivalents at beginning of period	14,676,872	6,450,197
Cash and equivalents at end of period	$ 16,388,944	$ 25,992,243
Cash paid during the period for:		
Interest	$ 2,670,278	$ 3,699,726
Income taxes	162,112	1,000,000
Loans transferred to other real estate	10,532,182	761,286
Loans held for sale transferred to loans	5,863,540	3,138,850

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

1. ***Basis of Presentation***. The consolidated balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date. The accompanying unaudited interim consolidated financial statements reflect all adjustments (consisting only of normally recurring accruals) that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the rules of the Securities and Exchange Commission. The condensed consolidated financial statements of the Company as of June 30, 2011, and for the three and six months ended June 30, 2011 and 2010 are unaudited. Results of operations for the three and six months ended June 30, 2011 and 2010 are not necessarily indicative of the results that may be achieved for the full year or for any future period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2010.

Recent Accounting Pronouncements. In April 2011, the FASB issued Accounting Standards Update ("ASU") 2011-02, "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring" ("ASU 2011-02"). The clarifying guidance in this update should result in more consistent application of U.S. GAAP for debt restructurings. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: the restructuring constitutes a concession and the debtor is experiencing financial difficulties. As a result of applying these amendments, an entity may identify receivables that are newly considered impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. An entity should disclose the total amount of receivables and the allowance for credit losses as of the end of the period of adoption related to those receivables that are newly considered impaired under Section 310-10-35 for which impairment was previously measured under Subtopic 450-20, Contingencies—Loss Contingencies. An entity should disclose the information required by paragraphs 310-10-50-33 through 50-34, for interim and annual periods beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Early adoption is permitted for public and nonpublic entities. The adoption of ASU 2011-02 did not have a material impact on the Company's financial statements.

In April 2011, the FASB issued ASU No. 2011-03, "Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements" ("ASU 2011-03"). This ASU addresses financial reporting for repurchase agreements ("repos") and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before maturity. Topic 860 provides guidance on when an entity may or may not recognize a sale of the transferred financial asset. That determination is based, in part, on whether the entity has maintained effective control over the transferred asset. Under previous guidance, one relevant consideration was the transferor's ability to repurchase or redeem financial assets transferred before maturity (the transferor's ability criterion). To make that determination, an entity had to consider whether the collateral obtained was sufficient to reasonably assure completion of the arrangement, even if the transferee defaulted. Under the new guidance, an exchange of collateral is not a determining factor in assessing effective control. The amendments remove the transferor's ability criterion from the consideration of effective control. The transferor is deemed to have maintained effective control over the financial assets transferred, and must account for the transaction as secured borrowing, for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity if all of the following conditions are met: the financial assets to be repurchased or redeemed are the same or substantially the same as those transferred, the agreement is to repurchase or redeem them before maturity, at a fixed or determinable price, and the agreement is entered into contemporaneously with, or in contemplation, of the transfer. The new guidance in ASU 2011-03 is effective for the first interim or annual period beginning on or after Dec. 15, 2011, and should be applied prospectively to transactions that occur on or after the effective date. Early adoption is not permitted. The Company is currently evaluating the impact of adopting ASU 2011-03 on its financial statements.

In May, 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs" ("ASU 2011-04"). This update supersedes much of the existing guidance on fair value, and many of the changes are clarifications of existing guidance or wording changes to align U.S. GAAP with the IASB's newly issued International Financial Reporting Standard (IFRS) No. 13, "Fair Value Measurement." It is intended to ensure that the term "fair value" has the same meaning in U.S. GAAP and IFRS and that their respective fair value measurement and disclosure requirements are the same. Although the requirements of ASU-2011-04 do not extend the use of fair value accounting, they provide guidance on how it should be applied where its use is already required or permitted by other standards. The amendments in ASU-2011-04 are to be applied prospectively. For public entities, the new guidance is effective for interim and annual periods beginning after Dec. 15, 2011, with earlier application not permitted. In the period of adoption, an entity must disclose a change, if any, in valuation technique and related inputs resulting from the application of ASU-2011-04 and, if practicable, must quantify the total effect. The Company is currently evaluating the impact of adopting ASU 2011-04 on its financial statements.

In June 2011, the FASB issued Accounting Standards Update 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," ("ASU 2011-05"). This ASU is intended to increase the prominence of other comprehensive income in financial statements. The new guidance does not change whether items are reported in net income or in other comprehensive income or whether and when items of other comprehensive income are reclassified to net income. ASU 2011-05 eliminates the option in current U.S. GAAP that permits the presentation of other comprehensive income in the statement of changes in equity. The new guidance in the ASU requires that an entity report comprehensive income in either a single continuous statement that presents the components of net income, a total for net income, the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income; or two separate but consecutive statements. The components of net income and total net income are to be presented in the statement of net income, immediately followed by a statement of other comprehensive income presenting the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. Reclassification adjustments from other comprehensive income to net income must be presented on the face of the financial statement(s) where the components of net income and the components of other comprehensive income are presented. ASU 2011-05 retains the current option to present components of other comprehensive income either net of related tax effects or before related tax effects, with one amount shown for the aggregate income tax expense or benefit related to the total of other comprehensive income items. For public entities, the new guidance is to be applied retrospectively, and is effective for fiscal years, and interim periods within those years, beginning after Dec. 15, 2011. The Company is currently evaluating the impact of adopting ASU 2011-05 on its financial statements.

2. ***Earnings Per Share***. Earnings per share is computed by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding for each period. Diluted earnings per share in net income periods 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. Diluted earnings per share do not reflect an adjustment for potentially dilutive shares in net loss periods. Stock options outstanding as of June 30, 2011 have no intrinsic value; therefore, the options have no dilutive impact (antidilutive) and are not included in the earnings per share calculations.

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

	Three months ended June 30,		Six months ended June 30,	
	2011	**2010**	**2011**	**2010**
Net income (loss)	$ 813,831	$ (610,894)	$ 1,502,902	$ (286,428)
Less: Dividends and accretion of preferred stock	(254,179)	(168,873)	(423,051)	(337,746)
Numerator: Net income (loss) attributable to common shareholders	$ 559,652	$ (779,767)	$ 1,079,851	$ (624,174)
Denominator for basic earnings per share:				
Weighted average common shares outstanding	5,503,026	5,488,116	5,503,026	5,487,057
Add dilutive common shares:				
Share-based awards	-	-	-	-
Denominator for diluted earnings per share	5,503,026	5,488,116	5,503,026	5,487,057
Basic income (loss) per common share	$ 0.10	$ (0.14)	$ 0.20	$ (0.11)
Diluted income (loss) per common share	$ 0.10	$ (0.14)	$ 0.20	$ (0.11)

3. *Securities Portfolio*.

The following summarizes the investment securities portfolio as of June 30, 2011 and December 31, 2010:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
June 30, 2011:				
Corporate Debt Obligations	$ 1,271,826	$ 278,614	$ -	$ 1,550,440
U.S. Agency securities	4,352,583	96,031	123	4,448,491
State, County & Municipal obligations	1,027,860	-	12,950	1,014,910
Collateralized mortgage obligations	10,578,219	147,694	850,797	9,875,116
Commercial mortgage-backed securities	10,091	475	-	10,566
Agency Mortgage-backed securities	23,193,512	845,609	41	24,039,080
	$ 40,434,091	$ 1,368,423	$ 863,911	$ 40,938,603
December 31, 2010:				
Corporate Debt Obligations	$ 2,003,047	$ 118,779	$ 122,636	$ 1,999,190
U.S. Agency securities	2,748,547	42,056	112	2,790,491
Collateralized mortgage obligations	12,371,613	257,341	912,952	11,716,002
Commercial mortgage-backed securities	1,904,493	467	3,157	1,901,803
Agency Mortgage-backed securities	20,857,722	719,707	64,555	21,512,874
	$ 39,885,422	$ 1,138,350	$ 1,103,412	$ 39,920,360

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

	Less than 12 months Fair value	Less than 12 months Unrealized losses	12 months or more Fair value	12 months or more Unrealized losses	Total Fair value	Total Unrealized losses
June 30, 2011:						
U.S. Agency	$ 17,123	$ 123	$ -	$ -	$ 17,123	$ 123
State, County & Municipal obligations	1,014,910	12,950	-	-	1,014,910	12,950
Collateralized mortgage obligations	3,409,236	37,216	3,224,504	813,581	6,633,740	850,797
Agency Mortgage-backed securities	11,845	41	-	-	11,845	41
	$ 4,453,114	$ 50,330	$ 3,224,504	$ 813,581	$ 7,677,618	$ 863,911
December 31, 2010:						
U.S. Agency	$ -	$ -	$ 17,799	$ 112	$ 17,799	$ 112
Corporate Debt Obligations	-	-	1,149,190	122,636	1,149,190	122,636
Collateralized mortgage obligations	1,798,391	103,631	4,488,199	809,321	6,286,590	912,952
Commercial mortgage-backed securities	1,786,219	1,379	102,378	1,778	1,888,597	3,157
Agency Mortgage-backed securities	5,486,312	64,555	-	-	5,486,312	64,555
	$ 9,070,922	$ 169,565	$ 5,757,566	$ 933,847	$ 14,828,488	$ 1,103,412

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. 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. There were no OTTI credit charges in the first or second quarter of 2011.

Management has reviewed all debt securities with losses which have existed for more than twelve months for evidence of impairment. We do not intend to sell such investments, nor is it 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 that we may sell securities for which other-than-temporarily impairment has already been recorded**.**

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. At June 30, 2011, the present value of the expected remaining cash flows from those securities exceeds their carrying value. Full collection of the remaining carrying value is possible, as is the likelihood of further losses: but it is not possible to predict the ultimate collectability of all of our investments.

The following table summarizes the components of securities by reference to their current quality rating:

	Amortized Cost	Unrealized Gain	Unrealized Loss	Fair Value
Investment grade	$ 35,460,309	$ 1,005,584	$ 516,799	$ 35,949,094
Non-investment grade	4,973,782	362,839	347,112	4,989,509
Total	$ 40,434,091	$ 1,368,423	$ 863,911	$ 40,938,603

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 tables. The components of net unrealized loss on available-for-sale securities at June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
Pretax gain	$ 504,512	$ 34,937
Income tax expense	(196,760)	(13,625)
Net of tax gain	$ 307,752	$ 21,312

The non-credit components of other-than-temporary impairment on securities as of June 30, 2011 and December 31, 2010 are as follows:

	June 30, 2011	December 31, 2010
Pretax loss	$ (1,600,958)	$ (1,897,626)
Income tax benefit	624,374	740,074
Net of tax loss	$ (976,584)	$ (1,157,552)

The amortized cost and estimated fair value of securities at June 30, 2011 by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Amortized Cost	Fair Value
Due in one year or less	$ 1,962,488	$ 1,964,292
Due after one year through five years	2,022,587	2,222,936
Due after five years through ten years	3,375,444	3,423,271
Due after ten years	33,073,572	33,328,104
	$ 40,434,091	$ 40,938,603

All eligible investment securities have been pledged to the Federal Home Loan Bank of Cincinnati (FHLB) as collateral for current or future borrowings. The carrying value of eligible investment securities pledged to the FHLB as of June 30, 2011 and December 31, 2010 totaled $24.6 million and $20.7 million, respectively.

4. ***Loans.*** Major categories of loans at June 30, 2011 and December 31, 2010 are summarized as follows:

	June 30, 2011		December 31, 2010		Change	
Consumer Loans:						
Single family residential first mortgage	$ 93,473,886	30.1%	$ 85,191,206	27.2%	$ 8,282,680	9.7%
Single family residential junior mortgage	40,116,983	12.9%	48,468,866	15.5%	(8,351,883)	-17.2%
Non-mortgage consumer loans	3,857,492	1.2%	5,499,983	1.8%	(1,642,491)	-29.9%
Subtotal Consumer Loans	137,448,361	44.3%	139,160,055	44.4%	(1,711,694)	-1.2%
Commercial Loans:						
Commercial & industrial	35,366,137	11.4%	28,852,226	9.2%	6,513,911	22.6%
Commercial real estate	111,532,068	35.9%	112,656,426	35.9%	(1,124,358)	-1.0%
Construction, land & development	32,487,364	10.4%	42,350,868	13.5%	(9,863,504)	-23.3%
Subtotal Commercial Loans	179,385,569	57.7%	183,859,520	58.7%	(4,473,951)	-2.4%
Total loans	316,833,930	101.9%	323,019,575	103.1%	(6,185,645)	-1.9%
Allowance for loan losses	(5,885,613)	-1.9%	(9,630,180)	-3.1%	3,744,567	-38.9%
Net loans	$ 310,948,317	100.0%	$ 313,389,395	100.0%	$ (2,441,078)	-0.8%

The following tables summarize the loan portfolio by timeliness of payment as of June 30, 2011:

		Past Due Loans (days)						
	Current	30-59	60-89	90 or more	Non-accruing	Total unpaid balance	Carrying value adjustments	Total loans
Consumer loans:								
Single family residential first mortgage:								
FHA insured/VA Guaranteed, closed end	$ 5,378,652	$ 2,427,340	$ 1,139,260	$ 2,286,628	$ -	$ 11,231,880	$ 34,808	$ 11,266,688
Private mortgage insurance, closed end	2,224,202	170,481	-	117,659	657,696	3,170,038	-	3,170,038
Uninsured, closed end	67,624,960	1,132,605	445,849	297,699	1,416,226	70,917,339	(209,566)	70,707,773
Revolving	8,329,387	-	-	-	-	8,329,387	-	8,329,387
Subtotal first mortgage	83,557,201	3,730,426	1,585,109	2,701,986	2,073,922	93,648,644	(174,758)	93,473,886
Single family residential junior mortgage:								
Closed end amortizing	15,403,412	95,722	47,065	-	37,735	15,583,934	-	15,583,934
Revolving	24,446,387	17,341	46,338	-	22,983	24,533,049	-	24,533,049
Subtotal junior mortgage	39,849,799	113,063	93,403	-	60,718	40,116,983	-	40,116,983
Non-mortgage consumer loans								
Loans secured by deposits	494,143	-	-	-	-	494,143	-	494,143
Automobile loans	132,965	-	-	-	-	132,965	-	132,965
Other secured loans	1,871,328	-	-	-	-	1,871,328	-	1,871,328
Unsecured loans	1,278,885	-	-	80,171	-	1,359,056	-	1,359,056
Subtotal non-mortgage	3,777,321	-	-	80,171	-	3,857,492	-	3,857,492
Subotal consumer loans	127,184,321	3,843,489	1,678,512	2,782,157	2,134,640	137,623,119	(174,758)	137,448,361

		Past Due Loans (days)						
	Current	30-59	60-89	90 or more	Non-accruing	Total unpaid balance	Carrying value adjustments	Total loans
Commercial loans:								
Commercial & industrial:								
Secured - real estate	579,329	-	-	-	-	579,329	-	579,329
Secured - non real estate	30,958,431	-	-	-	101,524	31,059,955	-	31,059,955
Unsecured	3,726,853	-	-	-	-	3,726,853	-	3,726,853
Subtotal commercial & industrial	35,264,613	-	-	-	101,524	35,366,137	-	35,366,137
Commercial real estate:								
Multi-family residential	22,465,481	-	-	-	74,542	22,540,023	20,852	22,560,875
Non-residential	88,971,193	-	-	-	-	88,971,193	-	88,971,193
Subtotal commercial real estate	111,436,674	-	-	-	74,542	111,511,216	20,852	111,532,068
Construction, land & development:								
Single family residential	10,231,893	-	-	-	604,024	10,835,917	-	10,835,917
Non-residential	685,950	-	-	-	-	685,950	-	685,950
Land & land development	20,174,734	-	-	-	790,763	20,965,497	-	20,965,497
Subtotal construction, land & development	31,092,577	-	-	-	1,394,787	32,487,364	-	32,487,364
Subtotal commercial loans	177,793,864	-	-	-	1,570,853	179,364,717	20,852	179,385,569
Grand total	$ 304,978,185	$ 3,843,489	$ 1,678,512	$ 2,782,157	$ 3,705,493	$ 316,987,836	$ (153,906)	$ 316,833,930
Percent of unpaid balance	96.2%	1.2%	0.5%	0.9%	1.2%	100.0%		

Impaired loans outstanding as of June 30, 2011, including the average investment therein during the quarter then ended, together with the related allowance for loss, are summarized as follows:

	Recorded Investment	Unpaid Balance	Related Allowance	Average Recorded Investment
Single family residential first mortgage:				
FHA insured/VA Guaranteed, closed end	$ 2,293,714	$ 2,286,628	$ -	$ 2,513,335
Private mortgage insurance, closed end	1,009,595	1,009,595	50,500	504,798
Uninsured, closed end	1,952,001	1,963,773	262,000	2,497,736
Single family residential junior mortgage:				
Closed end amortizing	37,735	37,735	-	18,868
Revolving	52,652	52,652	30,000	41,160
Subtotal - Consumer loans	5,345,697	5,350,383	342,500	5,575,897
Commercial & industrial:				
Secured - non real estate	101,524	101,524	-	109,624
Commercial real estate:				
Multi-family residential	74,611	74,542	-	409,142
Construction, land & development:				
Single family residential	604,024	604,024	-	371,193
Land & land development	790,763	790,763	-	773,377
Subtotal - Commercial loans	1,570,922	1,570,853	-	1,663,336
Grand Total	$ 6,916,619	$ 6,921,236	$ 342,500	$ 7,239,233

	June 30, 2011	December 31, 2010	Change
Total non-performing loans	$ 6,916,619	$ 23,161,702	$ (16,245,083)
Non-performing loans to total loans	2.18%	12.91%	
Non-performing assets	$ 12,527,938	$ 26,622,592	$ (14,094,654)
Non-performing assets to total assets	2.98%	6.26%	

Non-accrual loans outstanding as of June 30, 2011 and December 31, 2010 totaled $4.8 million and $15.8 million, respectively. There were no commitments to lend additional funds to debtors whose loan terms had been modified in troubled debt restructurings ("TDR") at June 30, 2011. One TDR was non-performing at June 30, 2011. The loan is a conventional single family first mortgage that has been delinquent since November 2010. The Company had 24 loans which qualified as restructured troubled debts at June 30, 2011 as summarized in the following tables:

	Balance	Related Allowance	Weighted Average Rate	Average Risk Rating
Performing	$ 3,273,988	$ -	4.64%	4.13
Non-performing	384,596	-	4.75%	7.00
Total	$ 3,658,584	$ -	4.65%	4.25

	Reduction in Stated Interest Rate	Extension of Maturity	Reduction of Accrued Interest	Reduction in Face Amount of Debt	Payments Deferred
Loan count	21	13	-	-	4
Loan balance	$ 3,223,518	$ 1,375,569	$ -	$ -	$ 350,779

5. ***Allowance for Loan Losses.*** The allowance for loan loss consists of expected losses specifically related to non-performing loans (the "specific allowance") and losses that are not related to any loan in particular (the "general allowance"). The amount of the general allowance is management's estimate of losses that will be incurred given the probability that a percentage of the loans in portfolio will default using assumptions as to the severity of loss given a default. Probability of default can be estimated by reference to a borrower's employment status, credit score, financial condition, cash flow and net worth. Loss severity is dependent upon collateral value, holding period, selling concessions and guarantor strength. The general allowance also includes a subjective environmental assessment. The environmental factor is based on trends in economic data such as the unemployment rate, consumer confidence, bankruptcy filings, home sales, etc. The environmental factor is calculated on a scale of 1.0 (positive economic environment), which decreases the general allowance by 15%, to 7.0 (negative economic environment), which increases the general allowance by 20%. During the second quarter of 2011, the environmental factor was reduced (improved) by .5 to a 6.0 rating, which had the effect of reducing the general allowance by $23,000.

Segmenting the loan portfolio for loss estimate. For purposes of estimating the allowance for loan loss, the loan portfolio is divided into two groups, homogenous consumer loans and non-homogenous commercial loans. Because of the standardized origination process for homogenous loans, evaluation for collectability (by segment) is performed on an aggregated basis primarily by reference to credit score and loan to value ratios. Currently, the Bank's loan policy targets a minimum credit score of 680, and generally, the Bank does not originate loans in cases where an applicant's credit score is below 680; however, there are exceptions to loan policy targets.

The following table summarizes the homogenous loan portfolio components by credit score:

	Credit Score range							
	760+	720 - 759	680 - 719	640 - 679	600 -639	< 600	Unavailable	Total
Single family residential first mortgage:								
FHA insured/VA Guaranteed, closed end	$ 279,989	$ 205,816	$ 371,869	$ 1,643,380	$ 1,310,225	$ 6,729,242	$ 691,359	$ 11,231,880
Private mortgage insurance, closed end	662,055	586,418	116,690	254,367	409,825	1,140,683	-	3,170,038
Uninsured, closed end	30,168,642	16,885,593	7,565,303	6,006,066	2,873,079	7,151,649	267,008	70,917,339
Revolving	5,239,573	293,708	1,173,128	1,360,563	248,694	13,721	-	8,329,387
Subtotal first mortgage	36,350,259	17,971,535	9,226,990	9,264,376	4,841,823	15,035,295	958,367	93,648,644
Single family residential junior mortgage:								
Closed end amortizing	6,741,396	4,245,379	2,888,850	879,102	195,876	362,699	270,632	15,583,934
Revolving	11,893,635	6,248,628	3,904,019	1,298,434	446,642	710,181	31,510	24,533,049
Subtotal junior mortgage	18,635,031	10,494,007	6,792,869	2,177,536	642,518	1,072,880	302,142	40,116,983
Non-mortgage consumer loans								
Loans secured by deposits	241,698	62,062	112,531	11,636	37,882	28,334	-	494,143
Automobile loans	73,587	24,401	32,052	-	-	-	2,925	132,965
Other secured loans	1,522,876	225,594	97,858	25,000	-	-	-	1,871,328
Unsecured loans	211,148	455,013	2,488	3,186	40,999	416,081	230,141	1,359,056
Subtotal non-mortgage	2,049,309	767,070	244,929	39,822	78,881	444,415	233,066	3,857,492
Total consumer loans	$ 57,034,599	$ 29,232,612	$ 16,264,788	$ 11,481,734	$ 5,563,222	$ 16,552,590	$ 1,493,575	$ 137,623,119
Prior quarter end	$ 50,110,946	$ 28,673,715	$ 16,189,089	$ 9,895,491	$ 3,707,628	$ 10,520,649	$ 18,982,751	$ 138,080,266

Note: The decline in unavailable credit scores and the increase in credit scores less than 600 from the prior quarter end is due to Magna obtaining credit scores on the FHA insured/VA guaranteed and uninsured single family residential first mortgage portfolios. Because FHA loans are insured and VA loans are guaranteed, the Bank does not reserve for these loans in our allowance for loan losses; however, the Bank does reserve for FHA/VA loan losses discussed later in this report.

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

	Pass	Watch List	Special Mention	Substandard	Doubtful	Loss	Total
Commercial & industrial:							
Secured - real estate	$ 230,617	$ 348,712	$ -	$ -	$ -	$ -	$ 579,329
Secured - non real estate	30,355,740	178,000	424,691	46,524	55,000	-	31,059,955
Unsecured	3,621,014	105,839	-	-	-	-	3,726,853
Subtotal commercial & industrial	34,207,371	632,551	424,691	46,524	55,000	-	35,366,137
Commercial real estate:							
Multi-family residential	21,799,898	-	-	740,125	-	-	22,540,023
Non-residential	71,925,464	6,598,165	4,630,303	5,817,261	-	-	88,971,193
Subtotal commercial real estate	93,725,362	6,598,165	4,630,303	6,557,386	-	-	111,511,216
Construction, land & development:							
Single family residential	7,935,329	2,796,999	-	103,589	-	-	10,835,917
Non-residential	685,950	-	-	-	-	-	685,950
Land & land development	12,190,284	7,102,811	881,639	154,469	636,294	-	20,965,497
Subtotal construction, land & development	20,811,563	9,899,810	881,639	258,058	636,294	-	32,487,364
Total commercial loans	$ 148,744,296	$ 17,130,526	$ 5,936,633	$ 6,861,968	$ 691,294	$ -	$ 179,364,717
Prior quarter end	$ 139,807,171	$ 15,855,164	$ 9,840,210	$ 7,585,600	$ 117,724	$ 266,530	$ 173,472,399

The following table summarizes the changes in the allowance for loan losses for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Beginning balance	$ 5,972,394	$ 5,478,804	$ 9,630,180	$ 5,174,731
Provision for loan losses	(24,000)	1,883,000	(189,000)	2,144,000
Charge-off of uncollectible loans	(521,207)	(101,926)	(4,110,302)	(163,130)
Recovery of loans previously charged-off	458,426	24,672	554,735	128,949
Net charge-off	(62,781)	(77,254)	(3,555,567)	(34,181)
Ending balance	$ 5,885,613	$ 7,284,550	$ 5,885,613	$ 7,284,550

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

Using discounted cash flow methodology, the Company evaluates its investment in MSRs quarterly for evidence of impairment resulting from changes in the projected rate of prepayment, cost to service, market discount rates and other factors provided by third party brokers knowledgeable in the execution of MSR sales. In doing so, the underlying mortgages are divided into tranches based upon term and interest rate and the discounted cash flow expected from each is compared to the remaining carrying value of each tranche. If it is determined that the fair value is less than the remaining book value, a valuation allowance is established through a charge to earnings. The Company last recorded an increase in the valuation allowance in June of 2010. At June 30, 2011 the calculation of fair value resulted in the reversal of a portion of the valuation allowance totaling $175,000 leaving a remaining balance of $575,000 in the valuation allowance as of June 30, 2011.

7. ***Foreclosed Real Estate***. The amount reported as real estate acquired through foreclosure is carried at the lower of the recorded investment in the loan or fair value less estimated cost to sell the property. The following table summarizes changes in foreclosed real estate for the six months ended June 30, 2011 and 2010:

	Six Months Ended June 30,	
	2011	2010
Beginning balance	$ 3,460,890	$ 3,166,008
Transfer from loans	10,532,182	761,286
Foreclosed property sold	(4,517,001)	(525,697)
Writedowns and partial liquidations	(3,914,499)	(281,431)
Capitalized costs	49,747	-
Ending balance	$ 5,611,319	$ 3,120,166

8. ***Segment Information***. The Bank operates two divisions: banking and mortgage. The banking division focuses on originating loans for its portfolio. These include first and second residential mortgages, revolving home equity loans, residential and commercial construction loans, commercial real estate loans and non-real estate commercial loans. The banking division funds its operations by gathering customer deposits and through wholesale brokered deposits. Additional funding comes from borrowings at 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, telecommunication, 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 for the funds it uses in the conduct of its operations. The net amount of these transfer charges 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 June 30,					
	2011			2010		
	Banking	Mortgage	Total	Banking	Mortgage	Total
Net interest income	$ 3,316,220	$ 256,147	$ 3,572,367	$ 3,245,517	$ 299,884	$ 3,545,401
Provision for loan losses	36,000	(12,000)	24,000	(1,867,000)	(16,000)	(1,883,000)
Net interest income after provision for loan losses	3,352,220	244,147	3,596,367	1,378,517	283,884	1,662,401
Impairment recovery (charge)	-	175,000	175,000	-	(600,000)	(600,000)
Other non-interest income	327,567	2,605,409	2,932,976	615,043	3,132,309	3,747,352
Total non-interest income	327,567	2,780,409	3,107,976	615,043	2,532,309	3,147,352
Non-interest expense	2,888,312	2,495,651	5,383,963	2,959,441	2,857,215	5,816,656
Income (loss) before taxes	791,475	528,905	1,320,380	(965,881)	(41,022)	(1,006,903)
Income tax expense (benefit)	304,001	202,548	506,549	(384,434)	(11,575)	(396,009)
Net income (loss)	$ 487,474	$ 326,357	$ 813,831	$ (581,447)	$ (29,447)	$ (610,894)
Average assets	$ 373,676,293	$ 48,649,504	$ 422,325,797	$ 406,973,167	$ 48,649,504	$ 455,622,671
Operating Efficiency	79.3%	82.2%	80.6%	76.7%	100.9%	86.9%

	Six Months ended June 30,					
	2011			2010		
	Banking	Mortgage	Total	Banking	Mortgage	Total
Net interest income	$ 6,539,265	$ 461,714	$ 7,000,979	$ 6,383,652	$ 547,849	$ 6,931,501
Provision for loan losses	102,000	87,000	189,000	(2,128,000)	(16,000)	(2,144,000)
Net interest income after provision for loan losses	6,641,265	548,714	7,189,979	4,255,652	531,849	4,787,501
Impairment recovery (charge)	-	175,000	175,000	(19,000)	(600,000)	(619,000)
Other non-interest income	1,135,406	4,684,999	5,820,405	866,393	5,545,343	6,411,736
Total non-interest income	1,135,406	4,859,999	5,995,405	847,393	4,945,343	5,792,736
Non-interest expense	5,741,555	4,997,885	10,739,440	5,681,388	5,369,897	11,051,285
Income (loss) before taxes	2,035,116	410,828	2,445,944	(578,343)	107,295	(471,048)
Income tax expense (benefit)	787,862	155,180	943,042	(229,909)	45,289	(184,620)
Net income (loss)	$ 1,247,254	$ 255,648	$ 1,502,902	$ (348,434)	$ 62,006	$ (286,428)
Average assets	$ 372,778,598	$ 46,352,109	$ 419,130,707	$ 404,380,087	$ 46,352,109	$ 450,732,196
Operating Efficiency	74.8%	93.9%	82.6%	78.6%	97.8%	86.9%

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

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

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

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

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

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

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

Mortgage servicing rights: The Company records 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 classified as Level 2. 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 June 30, 2011 and December 31, 2010, 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 $23,884 and $777 for the three and six months ended June 30, 2011.

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

The balances and levels of the assets measured at fair value on both a recurring and non-recurring basis as of June 30, 2011 are presented in the following table.

	Level 1	Level 2	Level 3	Total
Recurring valuation:				
Securities available-for-sale	$ -	$ 40,938,603	$ -	$ 40,938,603
Non-recurring valuation:				
Mortgage servicing rights	$ -	$ -	$ 9,274,629	$ 9,274,629
Foreclosed real estate			5,611,319	5,611,319
Loans held for sale		18,470,332	-	18,470,332
Impaired loans	-	-	6,916,619	6,916,619
Total Non-recurring	$ -	$ 18,470,332	$ 21,802,567	$ 40,272,899

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

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

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

Loans. Magna uses an instrument-level discounted cash flow model to estimate the fair value of all loans. The model takes into account prepayment rates on loans containing such options using OCC 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 OCC. 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:

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Securities available-for-sale	$ 40,938,603	$ 40,938,603	$ 39,920,360	$ 39,920,360
Loans	316,833,930	283,819,194	323,019,575	283,550,855
Mortgage loans held for sale	18,470,332	18,470,332	23,105,481	23,105,481
Mortgage servicing rights	9,834,525	10,088,736	9,898,444	10,198,312
Financial Liabilities				
Non interest-bearing deposits	37,487,754	32,363,573	31,700,387	27,121,963
Interest-bearing deposits with no stated maturity	155,510,727	134,892,769	160,375,279	137,333,239
Interest-bearing deposits with a stated maturity	114,738,316	114,053,005	114,088,487	113,736,061
Brokered deposits	15,002,595	15,002,085	14,485,822	14,484,715
Federal Home Loan Bank advances	45,000,000	48,050,109	49,000,000	52,023,904

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

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

Selected Quarterly Data (Unaudited)
Five Consecutive Quarters

MAGNA BANK

	Quarter Ended				
	June-11	March-11	December-10	September-10	June-10
Operating data:					
Net interest income	$ 3,572,367	$ 3,428,612	$ 3,524,309	$ 3,613,762	$ 3,545,401
Provision for loan losses	(24,000)	(165,000)	1,629,400	1,708,000	1,883,000
Net interest income after provision for loan losses	3,596,367	3,593,612	1,894,909	1,905,762	1,662,401
Non-interest income	2,932,976	2,887,429	3,489,165	4,047,293	3,747,352
Impairment (recovery) charges	(175,000)	-	296,030	-	600,000
Non-interest expense	5,383,963	5,355,477	7,007,901	6,177,764	5,816,656
Income (loss) before taxes	1,320,380	1,125,564	(1,919,857)	(224,709)	(1,006,903)
Income tax expense (benefit)	506,549	436,493	(726,011)	(63,945)	(396,009)
Net income (loss)	$ 813,831	$ 689,071	$ (1,193,846)	$ (160,764)	$ (610,894)
Other comprehensive income	55,570	411,838	(22,187)	85,481	101,946
Total comprehensive income (loss)	$ 869,401	$ 1,100,909	$ (1,216,033)	$ (75,283)	$ (508,948)
Net income (loss) attributable to common shareholders	$ 559,652	$ 520,198	$ (1,362,719)	$ (329,637)	$ (779,767)
Per share data:					
Income (loss) per share - diluted	$ 0.10	$ 0.09	$ (0.25)	$ (0.06)	$ (0.14)
Weighted average shares outstanding - diluted	5,503,026	5,503,026	5,489,899	5,488,116	5,488,116
Income (loss) per share - basic	$ 0.10	$ 0.09	$ (0.25)	$ (0.06)	$ (0.14)
Weighted average shares outstanding - basic	5,503,026	5,503,026	5,489,899	5,488,116	5,488,116
Book value per common share (at period end)	$ 7.74	$ 7.63	$ 7.47	$ 7.72	$ 7.76
Balance sheet data (at period end):					
Total assets	$ 421,085,125	$ 412,294,902	$ 425,608,963	$ 460,212,818	$ 462,299,410
Cash and short-term investments	16,388,944	9,949,449	14,676,872	24,624,200	25,992,243
Total securities	40,938,603	42,792,280	39,920,360	39,036,435	44,645,654
Loans held for sale	18,470,332	15,095,718	23,105,481	38,469,103	25,577,089
Total loans	316,833,930	311,398,654	323,019,575	331,661,935	339,952,982
Allowance for loan losses	5,885,613	5,972,394	9,630,180	8,569,901	7,284,550
Mortgage servicing rights, net	9,834,525	9,737,048	9,898,444	9,476,309	9,575,349
Foreclosed real estate, net	5,611,319	8,825,274	3,460,890	4,132,579	3,120,166
Total deposits	322,739,392	303,644,737	320,649,976	340,758,866	340,935,548
Borrowings	45,000,000	45,000,000	49,000,000	63,000,000	63,000,000
Total equity	50,043,447	52,733,883	51,748,552	53,087,821	53,285,802
Common equity	42,613,564	41,968,957	41,007,724	42,371,090	42,593,169
Preferred equity	7,429,883	10,764,926	10,740,828	10,716,731	10,692,633
Financial ratios:					
Equity to assets	11.88%	12.79%	12.16%	11.54%	11.53%
Common equity to assets	10.12%	10.18%	9.64%	9.21%	9.21%
Total loans to deposits	98.17%	102.55%	100.74%	97.33%	99.71%
Allowance for loan losses to loans	1.86%	1.92%	2.98%	2.58%	2.14%
Allowance for loan losses to non-performing loans	85.09%	78.98%	41.58%	50.34%	44.58%
Non-performing loans to loans	2.18%	2.43%	7.17%	5.13%	4.81%
Non-performing assets to total assets	2.98%	3.97%	6.26%	4.60%	4.21%
Operating efficiency	82.8%	84.8%	99.9%	80.6%	79.8%
Return on average assets	0.77%	0.67%	-1.05%	-0.14%	-0.54%
Return on average equity	6.21%	5.29%	-9.03%	-1.20%	-4.48%
Net interest spread	3.52%	3.27%	2.97%	3.10%	3.08%
Net interest margin	3.74%	3.49%	3.26%	3.39%	3.37%
Number of full-time equivalent employees (FTE's)	152	154	157	155	169

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 June 30, 2011 and December 31, 2010 and the consolidated results of operations for the three and six month periods ended June 30, 2011 and 2010. The discussion should be read in conjunction with the unaudited consolidated financial statements and the notes thereto as of and for the quarters then ended.

EXECUTIVE OVERVIEW

Net income attributable to common shareholders for the second quarter of 2011 was $559,652 compared to a net loss of $779,767 in the same quarter of 2010. Year to date amounts were net income of $1,079,851 for 2011 compared to a net loss of $624,174 for 2010. The primary drivers behind the improvement in net income in 2011 compared to the net loss in 2010, is a decrease in the provision for loan losses and recognition of impairment recovery for mortgage servicing rights (MSR). In the second quarter of 2010, the Company recorded a valuation allowance against our MSR asset resulting in an impairment charge of $600,000. In the second quarter of 2011, we recovered $175,000 of the MSR valuation allowance. Loan loss provision credits of $24,000 and $189,000 were recognized for the three and six month periods ended June 30, 2011, compared to loan loss provisions of $1,883,000 and $2,144,000 for the same periods in 2010. The credits to the provision for loan losses were the result of lower balances of both non-performing and classified loans, recoveries from loans previously charged off, and improving credit quality.

Net interest income was up slightly over the year ago quarter and year to date amounts due to an increase in both net interest spread and margin. Excluding the impact of the aforementioned MSR valuation adjustments and gains and losses on security sales, non-interest income declined 16.4% and 5.5%, respectively, from the year ago quarter and year to date amounts, primarily as a result of declining mortgage banking revenue due, in part, to the closure of our Chattanooga and Little Rock offices and the expiration of the first time homebuyers credit in the third quarter of 2010. The decline in mortgage banking revenue was partially offset by improvement in the operation of our commercial and small business administration brokerage units in the first quarter of 2011.

Operating expenses declined for both the three month and six month periods ended June 30, 2011 compared to 2010, primarily due to commission expense associated with lower mortgage volume. As part of our expense control, we implemented a reduction in force affecting fourteen employees in the first six months of 2011, with the possibility of additional layoffs in 2011. We continue to exert tight expense controls on every area of the Bank.

Total assets at June 30, 2011 were $421.1 million, decreasing $4.5 million (1.1%) from the end of 2010, as both net loans and loans held for sale fell by approximately $2.4 million and $4.6 million, respectively. The decline in net loans was attributable to foreclosures totaling $10.5 million combined with net charge-offs to the allowance for loan losses of $3.6 million. This burst of foreclosure activity resulted in an increase in the carrying amount of foreclosed real estate totaling $2.2 million, which was offset by disposals, write downs, and partial liquidations totaling $8.4 million. The decline in loans held for sale from year-end is unusual given the historical cyclical high in the residential mortgage banking business in the second and third quarters. The Memphis and Nashville markets have not experienced strong spring or summer home sales, or refinance demand, which has resulted in lower loan originations. Total deposits increased $2.1 million during the year due to a seasonal increase of $6.7 million in servicing escrows, offset by a decrease in customer deposits of $5.1 million as we adjusted our deposit pricing to less aggressive levels; net interest margin grew by 48 basis points as a result.

Total shareholder's equity declined by $1.7 million from the end of 2010 due to a redemption of preferred stock of $3.3 million. In June 2011, the Company redeemed an additional 3,455 shares of Troubled Asset Relief Program (TARP) preferred stock issued by the U.S Treasury, which is in addition to a redemption of 3,455 shares in November of 2009. Magna issued a total of 14,485 preferred shares to the U.S. Treasury in December 2008 and has 7,575 preferred shares outstanding as of June 30, 2011. On July 27, 2011, the U.S. Treasury informed the Company that our application for participation in the Small Business Lending Fund (SBLF) had been preliminarily approved. Concurrent with the funding of the SBLF, the remaining 7,575 TARP preferred shares will be redeemed, subject to regulatory approval. The Company expects the SBLF transaction to close within 30 days of notification of preliminary approval. If Magna is successful in executing and closing the transaction, SBLF is expected to cost the Company significantly less than TARP. The SBLF fund is expected to cost the Company a rate of 1% to 5% depending upon qualified small business lending growth, while TARP costs the Company 5% and 9% for Series A and Series B shares.

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

- The ratio of non-performing loans declined from 7.17% at December 31, 2010 to 2.18% at June 30, 2011,
- The ratio of non-performing assets declined from 6.26% at December 31, 2010 to 2.98% at June 30, 2011,
- The percent of loans that are current rose from 91.2% at December 31, 2010 to 96.2% at June 30, 2011,
- The percent of commercial loans rated "Pass" increased from 73.2% of total commercial loans at December 31, 2010 to 82.6% at June 30, 2011, and
- We disposed of $4.5 million of foreclosed real estate properties during the quarter at a net pre-tax loss of $777.

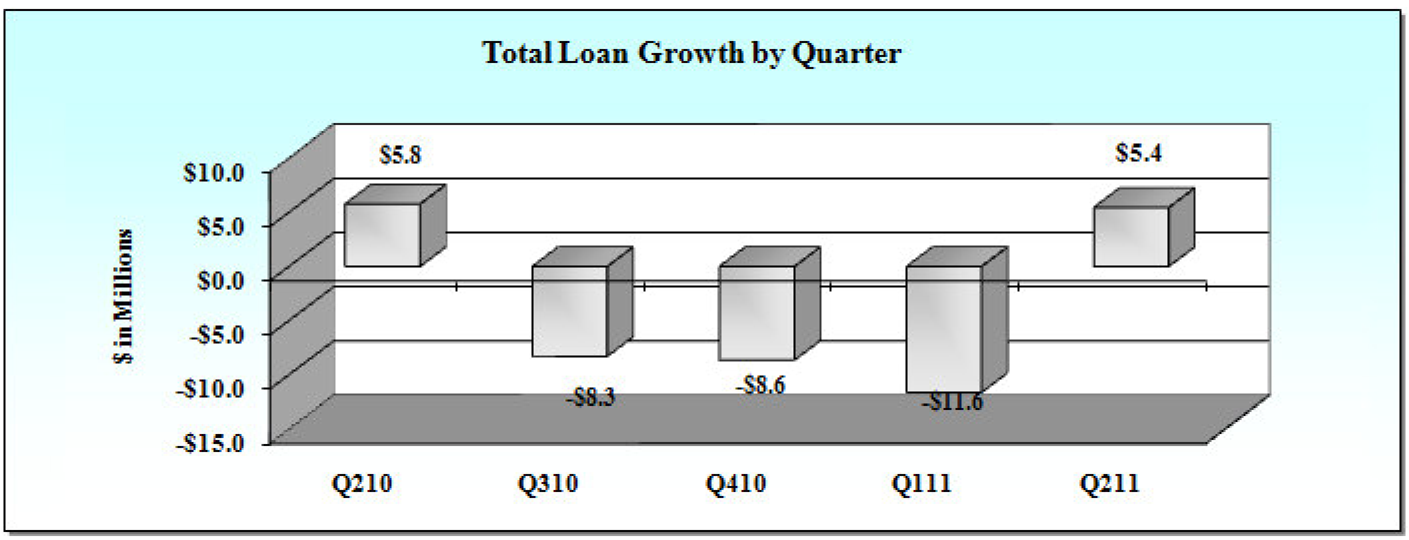
The allowance for loan losses as a percentage of outstanding loans decreased from 2.98% at December 31, 2010 to 1.86% at June 30, 2011, resulting from the charge-off of loans, losses for which were specifically identified at December 31, 2010, and which were primarily foreclosed upon during the first quarter of 2011. The general allowance for loan losses as a percent of outstanding loans (exclusive of FHA/VA loans) was 1.80% at June 30, 2011, compared to 1.70% at December 31, 2010. Net charge-offs totaled $62,781 during the second quarter of 2011 and $3.6 million for the first half of 2011, an annualized rate of 2.27% of average loans outstanding.

Magna's net interest margin improved during the quarter and year to date ended June 30, 2011 to 3.74%, up from 3.40% in the second quarter of 2010 and from 3.36% in the six month period ended June 30, 2010. The improvement in margin is attributable to re-pricing deposits to lower rates. The cost of interest bearing liabilities fell from 1.98% to 1.41% and 2.01% to 1.44% for the three and six months ended June 30, 2010 and 2011, respectively, while the yield on interest earning assets remained relatively flat. Absent a change in the current interest rate environment, we expect marginal improvement in net interest spread and margin during the remainder of 2011 as most deposits have already re-priced to lower rates.

Non-interest expense totaled $5.4 million in both the first and second quarter of 2011, and declined by $432,693 and $311,845 for the three and six months ended June 30, 2011 compared to the same periods in 2010. The declines were attributable to (i) reduced loan originator commission, (ii) lower servicing amortization expense from loan prepayments, and (iii) lower foreclosure expenses.

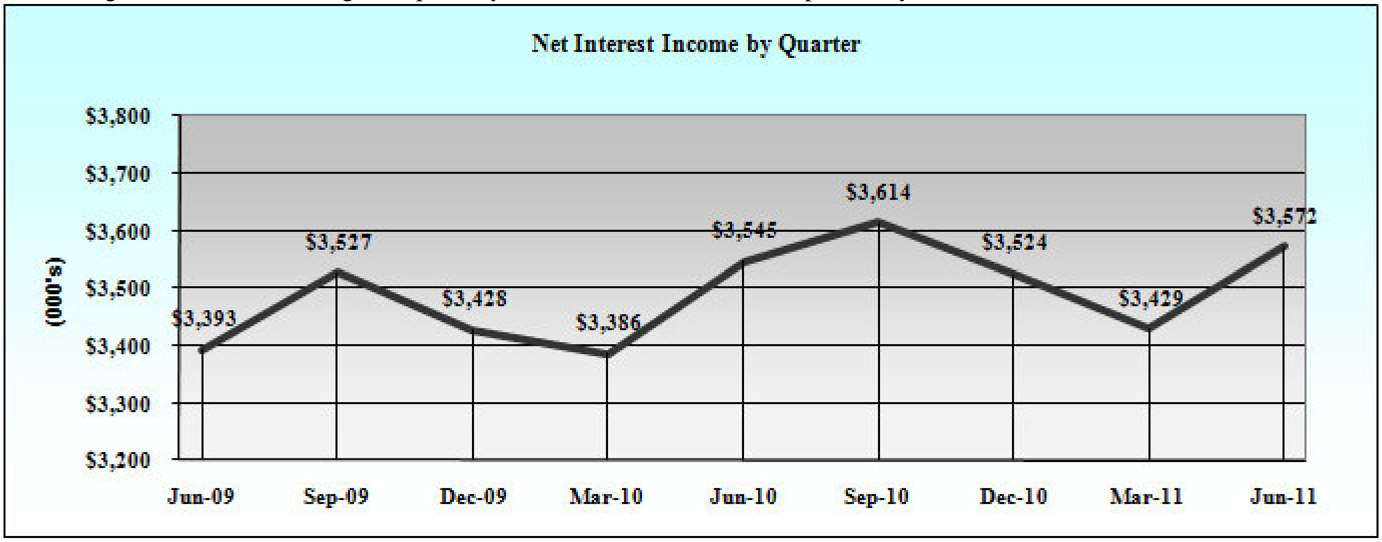
Each quarter, we apply stress testing to the portfolio of residential mortgage backed securities, but identified no additional other-than-temporary losses as of June 30, 2011. However, additional impairment is possible, as the collateral that supports these securities could further deteriorate, triggering principal loss and requiring additional impairment provisions in the future. During the second quarter of 2011, Magna recorded its first actual principal losses totaling $14,304 on two securities. The actual principal losses incurred were less severe than we estimated in our stress testing; therefore, no additional impairment charges were recorded.

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

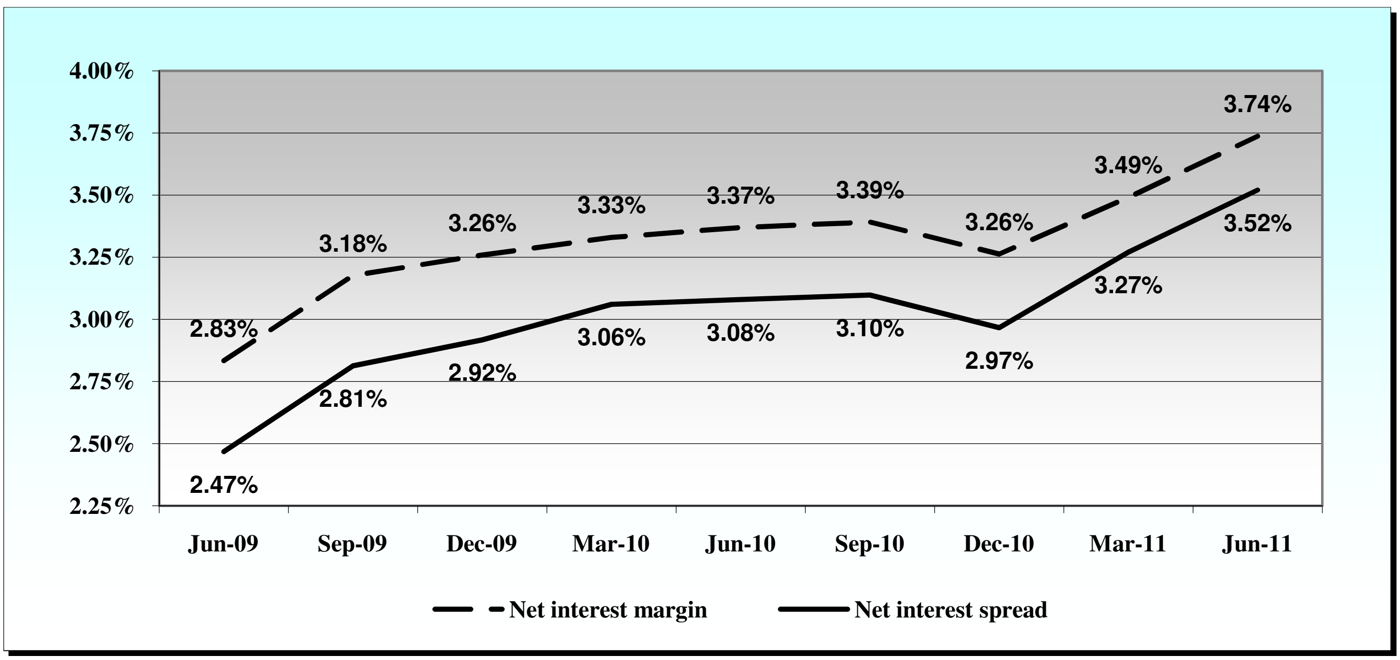


Net interest income for the quarter ended June 30, 2011 totaled $3.57 million compared to $3.55 million for the quarter ended June 30, 2010. Net interest spread and net interest margin improved from 3.08% and 3.37% for the quarter ended June 30, 2010 to 3.52% and 3.74%, respectively, for the quarter ended June 30, 2011.

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:



On a fully-diluted basis, income per common share for the quarter ended June 30, 2011 was $0.10, compared to a loss per common share of $0.14 for the same quarter in 2010. To our knowledge, there were 21,444 shares of Magna stock traded during the quarter ended June 30, 2011 all at a price of $5.40 per share.

Economic trends. Core inflation pressures, due in part to a weakening dollar, and the possibility of higher interest rates have increased recently due to the default concerns and credit downgrade issues facing the Federal Government of the U.S and other countries such as Greece and Italy. While the imminent default issues in the U.S. may be resolved by Congress in the short term, the credit downgrade issued by the rating agency Standard and Poor's (S&P) causes further uncertainty hindering an already weak economy, both nationally and globally. The U.S. credit rating downgrade may create market volatility, which could impact the valuation of our securities portfolio.

Consensus forecasts of leading economists indicate the economic recovery will be slow to materialize. Through August 1, 2011, 61 banks have failed in the U.S., compared to 157 and 140 in 2010 and 2009, respectively. While most of the larger money-center banks have begun returning to profitability, the community banks are trailing the return to profitability because the onset of credit issues was delayed by the stronger balance sheets of most borrowers. Memphis' economy has recently been buoyed by the announcement of several large capital investment and job-creating projects, but these will take several quarters to come on stream. In the meanwhile, joblessness in our markets exceeds that of the state as a whole, and the real estate market remains weak.

The FOMC maintained its accommodative posture by leaving the targeted federal funds rate at 0% to .25%. No increase in the short term targeted rate is expected during the remainder of 2011. Certain economic indicators that were beginning to trend positively, most noticeably reports that the U.S. economy created 216,000 new jobs in March, the largest monthly increase since May of 2010, have begun to trend either flat or negative. In June, the U.S. economy only created 18,000 new jobs, and the number of unemployed persons (14.1 million) and the unemployment rate (9.2 percent) were essentially unchanged from the prior month. Since March 2011, the number of unemployed persons has increased by 545,000, and the unemployment rate has risen by 0.4 percentage points.

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

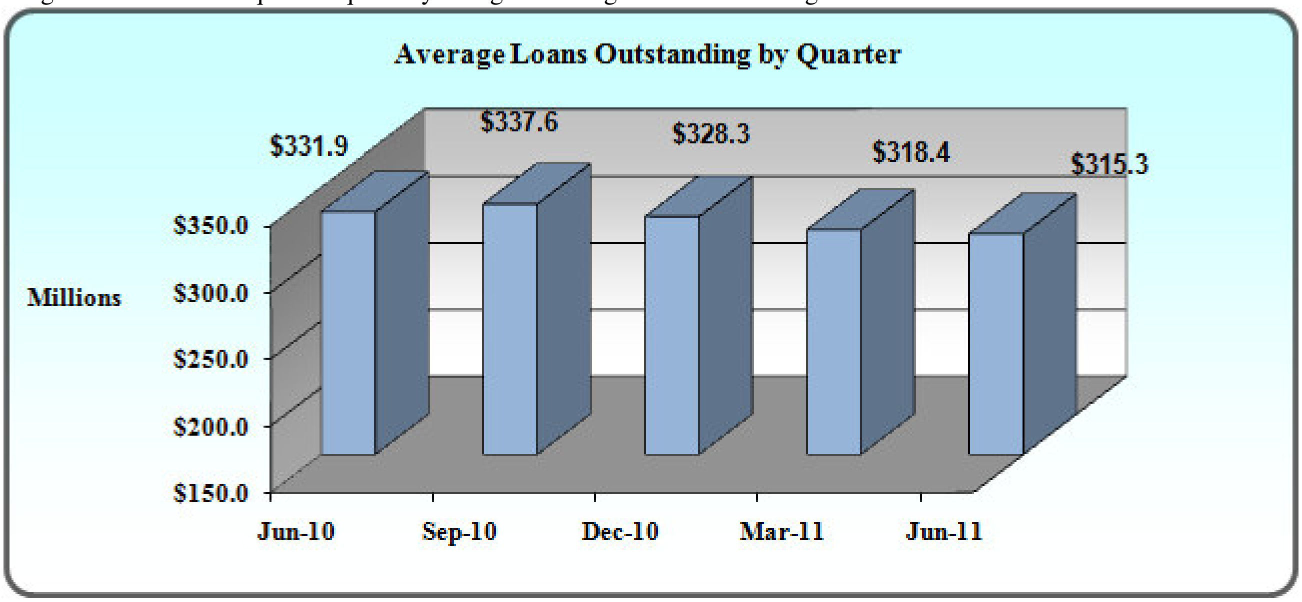
The proposed Basel III rules primarily impact the level and type of capital a financial institution must maintain as well as the level of liquidity a financial institution must maintain based on the Liquidity Coverage Ratio. The Basel III rules will be phased in over five years beginning in 2013. The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

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

Overall, the fair value of the securities portfolio improved by $489,190 during the six month period ended June 30, 2011, and we determined that there was no additional other than temporary impairment in any of our securities. In the first quarter of 2010, we recorded impairment charges totaling $19,000. These impairment charges reflect the *forecasted* amount of principal loss we *expect* to incur, as opposed to any actual losses we are currently experiencing. Consequently, the actual amount of loss we incur in the future may be higher or lower than what we have recorded. Further deterioration in the performance of the underlying collateral of our securities, which did not exhibit any forecasted losses at the end of the quarter, may result in impairment charges in the future.

Loan credit quality also continues to improve, as the percentage of the overall loan portfolio that was current on payment rose from 91.2% at December 31, 2010 to 96.2% at June 30, 2011.We are closely monitoring credit quality in both the loan and securities portfolios. We are actively monitoring the quality of the loan portfolio, especially those loans secured by asset classes that have been most affected by the recession. In that regard, we are in regular contact with our borrowers, and attempt to strengthen our collateral position or encourage debt reduction as each loan matures. Average loans outstanding for the second quarter of 2011 totaled $315.3 million, a decline of $3.1 million from the prior quarter. Given the trend of continued deleveraging by both consumers and businesses, we expect to see only modest growth in the level of loans outstanding during the remainder of 2011.

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



Residential mortgage banking experienced a decline in mortgage origination volume of $25.7 million or 29.1%, from $88.2 million in the second quarter of 2010 to $62.5 million in the second quarter of 2011. The decline is partially due to the closure of our Little Rock and Chattanooga offices in the third quarter of 2010, which accounted for $12.5 million in mortgage origination volume in the second quarter of 2010. Year to date origination volumes have declined by $32.7 million or 22.7% from the prior six month period, with Little Rock and Chattanooga accounting for $20.4 million of the total decline. Because of the volatile nature of the mortgage origination business and weakness in the national economy (particularly the housing market), it is difficult to project mortgage origination volumes for the remainder of 2011; however, if current trends continue, we expect residential mortgage origination volumes in 2011 to be significantly less than what we experienced in 2010 and 2009. As discussed earlier, because of actual and projected weak home sales and declining refinance activity, we forecast mortgage origination activity for 2011 to decline from 2010 levels. As a result, we implemented a reduction in force affecting eight employees in our mortgage banking division in April of 2011, with the possibility of further layoffs in 2011. Mortgage loan origination volume by operating region and non-interest income are presented in subsequent tables.

Brokerage fee income from our commercial real estate group totaled $55,125 in the first quarter of 2011 and current year to date compared to $249,600 in the second quarter of 2010 and $335,850 in the prior year to date. 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.

Magna gained approval in the first quarter of 2010 to participate in the U. S. government insured Small Business Lending (SBA) program. Our commercial lending group hired a vice-president who brings to Magna 20 years experience in SBA and small business lending. We provide SBA loans in addition to traditional commercial loan and cash management services to small and mid-size businesses in the Memphis area. Our commercial lending group closed SBA loans totaling $14 million in the first half of 2011 and recognized $594,204 in fee income. In the second quarter, the group closed $7.4 million in SBA loans and recognized $110,914 in fee income. The group closed three SBA loans in the second quarter of 2010 totaling $1.7 million with $116,000 in fee income deferred until the third and fourth quarters of 2010.

Along with the addition of SBA lending to our product line, we also launched a relationship checking product in the first quarter of 2010. This checking product has grown from a balance of $632,129 at the end of the first quarter of 2010 to $11.4 million in the current quarter. We also added a mobile banking capability for our debit card customers in the second half of 2010. These initiatives have added to our core customer base and will continue to be promoted throughout the remainder of 2011.

Financial condition analysis. Total assets were $421.1 million at June 30, 2011 compared to $425.6 million at December 31, 2010. The carrying value of liquid assets, which include cash, cash equivalents and securities available for sale, increased by $1.7 million from year end 2010, to $16.4 million. During the second quarter, the fair value of securities in the available for sale portfolio improved by $489,190. At June 30, 2011, Magna performed a detailed analysis of all securities we own, evaluating each security on the basis of current collateral performance (base case) and a forecasted worsening scenario (stressed case). No securities met the criteria for OTTI recognition as of June 30, 2011, and one of our securities met the criteria for OTTI recognition as of March 31, 2010, with an impairment charge of $19,000. We will diligently review these securities each quarter for evidence of a meaningful principal loss occurring within a foreseeable time frame and will recognize other than temporary impairment if such condition exists. Magna may elect to sell the investments at prices approximating current carrying values, but it is not likely that we will be required to sell the investments before recovery of their amortized cost bases, which may be at maturity.

Loan balances declined $6.2 million during the first half of 2011 primarily as a result of a decline in consumer loans of $1.7 million and a decline in commercial loans of $4.5 million. The decline in commercial loans was primarily due to a decline in construction, land and development loans of $9.9 million. During the first quarter, the Bank transferred $9.8 million from this loan category to foreclosed real estate. The Bank recorded a charge-off of $3.4 million in the first quarter on this large loan relationship for a net transfer to foreclosed real estate of $6.4 million. The charge-off was specifically reserved for in the allowance for loan losses at December 31, 2010.

Non-performing loans, totaling $6.9 million at June 30, 2011, decreased $645,222 (8.5%) during the second quarter of 2011 and $16.2 million (70.1%) during the first six months of 2011. The decline in non-performing loans included an $11.0 million (69.9%) reduction in non-accrual loans, which totaled $4.8 million at June 30, 2011, compared to $15.8 million at December 31, 2010. The following table summarizes the changes in non-performing loans during the quarter ended June 30, 2011:

Balance March 31, 2011	$	7,561,841
Transfers of performing loans to non-performing		1,827,785
Additional principal drawn		1,475
Principal payments received		(32,977)
Transfers out of non-performing loans to foreclosed real estate		(221,550)
Payoffs or transfers of non-performing loans to performing loans		(2,219,955)
Balance June 30, 2011	$	6,916,619

Non-performing loans include non-performing FHA/VA insured (full faith and credit) loans which are delinquent when we purchase them from GNMA pools we service. Excluding the amounts relating to non-performing FHA/VA loans, non-performing loans decreased by $15.5 million to $4.6 million at June 30, 2011, compared to $20.1 million at the end of the preceding year. The Company is proactively monitoring our loan portfolio for impairment. The following table summarizes non-performing loans (excluding FHA/VA insured loans "EBO loans") as of June 30, 2011 and December 31, 2010:

	June 30, 2011	December 31, 2010	change
Non-performing loans, exclusive of EBO loans	$ 4,622,904	$ 20,140,170	$ (15,517,266)
Non-performing loans to total loans, exclusive of EBO loans	1.74%	6.47%	
Non-performing assets, exclusive of EBO loans	$ 10,234,223	$ 23,601,060	$ (13,366,837)
Non-performing assets to total assets, exclusive of EBO loans	2.49%	5.70%	

Net charge-offs totaled $62,781 and $77,254 for the three month and $3.6 million and $34,181 for six month periods ended June 30, 2011 and 2010, respectively. Charge-offs are significantly above historical levels and have exceeded prior year levels. As discussed above, the Bank recorded a charge-off of $3.4 million in the first quarter on one large loan relationship. The charge-off was specifically reserved for in the allowance for loan losses at December 31, 2010. Management does not expect the significant charge-offs we experienced in the first quarter of 2011 to continue during the remainder of this year.

The Bank has established an allowance for loan losses based on past loan performance, the level of past due and non-accrual loans, the size and mix of the portfolio, loan growth trends, adverse classification at recent regulatory examinations (the most recent of which concluded in March 2011), 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 tables summarize the components of the allowance for loan losses at June 30, 2011 and December 31, 2010.

	June 30, 2011	% of oustanding balance [1]	December 31, 2010	% of oustanding balance [1]
One-to-four family residential	$ 589,157	0.63%	$ 531,017	0.62%
Construction and land development	1,430,167	4.40%	4,432,014	10.46%
Other, primarily revolving home equity	715,344	1.78%	836,833	1.73%
Commercial real estate	2,586,605	2.32%	3,331,306	2.96%
Commercial & Industrial	452,622	1.28%	444,822	1.54%
Consumer	111,718	2.90%	54,188	0.99%
Total	$ 5,885,613	1.92%	$ 9,630,180	3.09%

1: Denominator excludes FHA/VA loans in the one-to-four family residential category totaling $9.6 million and $11.6 million at June 30, 2011 and December 31, 2010, respectively, losses from which are charged to the FHA/VA reserve.

	Single family residential						
	First mortgage	Junior mortgage	Non-mortgage consumer loans	Commercial & Industrial	Commercial Real Estate	Construction, land & development	Total
Balance December 31, 2010	$ 531,017	$ 836,833	$ 54,188	$ 444,822	$ 3,331,306	$ 4,432,014	$ 9,630,180
Provision for loan losses	144,500	(59,000)	55,000	7,800	(744,700)	407,400	(189,000)
Charge-off of uncollectible loans	(178,508)	(68,794)	-	-	-	(3,863,000)	(4,110,302)
Recovery of loans previously charged-off	92,144	6,307	2,530	-	-	453,754	554,735
Net charge-offs	(86,364)	(62,487)	2,530	-	-	(3,409,246)	(3,555,567)
Balance June 30, 2011	$ 589,153	$ 715,347	$ 111,718	$ 452,622	$ 2,586,606	$ 1,430,168	$ 5,885,613

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

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

In view of the continued depreciation of real estate values over the past three years, one of the LPOC’s risk management initiatives is to reduce Magna’s investment in real estate secured loans with high LTV ratios, generally greater than 90%, to no more than 100% of total capital. High LTV loans increase the credit risk of our loan portfolio and accordingly Magna continues to closely monitor this risk. The ratio of high LTV loans to total capital continues to decline as follows: 75% at June 30, 2010, 71% at December 31, 2010, and 64% at June 30, 2011. These high LTV percentages may not reflect current LTV ratios because the ratios are calculated using the value from the last appraisal performed, which may be an older appraisal that does not reflect an accurate current value given the continued decline in real estate values; however, the Bank periodically updates collateral values via automated valuation models (“AVM’s), which are used to assess risk in determining our allowance for loan loss.

Magna has originated certain mortgage loans for its portfolio which were based on limited or unverified documentation relating to borrower income or assets (“Low Doc” loans). Low Doc loans exhibit a higher risk of loss due to the unsubstantiated nature of the borrower’s ability to repay but were limited to borrowers with very high credit scores, considered a reliable measure of ability and intent to meet the loan’s terms. Low Doc loans totaled approximately $7.6 million of the Bank’s single family mortgage portfolio as of June 30, 2011. Magna has not originated Low Doc loans since 2009.

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 OCC limits loans to one borrower to 15% of capital plus general allowances for loan losses, subject to exceptions for loans to small businesses, small farms, or 1-4 dwelling first liens less than 80% LTV under the Pilot Program, and exceptions for domestic housing development loans ("Programs"). These Programs increase the limit of loans to one borrower to 25% and 30% of capital plus loan loss reserves. As of June 30 2011, the amount loaned under both Programs totaled approximately $5.2 million, or approximately 9% of total capital plus loan loss reserves.

Real estate acquired through foreclosure is carried at the lower of the recorded investment in the loan or fair value less estimated cost to sell the property. Foreclosed real estate totaled $5.6 million at June 30, 2011 and $3.5 million at December 31, 2010, respectively, a decrease of $2.1 million (62.1%). The following table summarizes changes in foreclosed real estate for the six months ended June 30, 2011 and 2010:

	2011	2010
Beginning balance	$ 3,460,890	$ 3,166,008
Transfer from loans	10,532,182	761,286
Foreclosed property sold	(4,517,001)	(525,697)
Writedowns and partial liquidations	(3,914,499)	(281,431)
Capitalized costs	49,747	-
Ending balance	$ 5,611,319	$ 3,120,166

Foreclosed real estate at June 30, 2011 is summarized by type of collateral and year acquired in the following table:

	Year Acquired Through Foreclosure				
	2008	2009	2010	2011	Total
Single family residential mortgage	$ -	$ -	$ 126,262	$ 398,850	$ 525,111
Land	-	-	200,000	-	200,000
Construction, land & development	1,502,062	33,334	15,000	3,848,507	5,398,903
Total foreclosed real estate	1,502,062	33,334	341,262	4,247,357	6,124,014
Writedowns to fair value	(450,000)	(23,334)	(4,262)	(35,100)	(512,695)
Foreclose real estate, net	$ 1,052,062	$ 10,000	$ 337,000	$ 4,212,257	$ 5,611,319

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 totaled $9.3 million at June 30, 2011 and December 31, 2010. At June 30, 2011, the Company serviced 8,192 residential first mortgage loans totaling $1.0 billion for third party investors compared to 8,268 loans totaling $999.5 million at December 31, 2010. The value of MSRs is directly affected by changes in mortgage interest rates, as mortgage prepayment tends to slow when mortgage interest rates rise. Conversely, declining rates generally result in rising prepayments and therefore diminished servicing fee income and market values. Management reviews the valuation of the MSRs on a periodic basis. As of March 31, 2011, there was $750,000 of unrecovered impairment in the value of the residential mortgage servicing portfolio, which was unchanged from December 31, 2010. In June 2011, the MSR valuation allowance was reduced by $175,000 to $575,000.

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

	June 30, 2011	December 31, 2010
Number of loans serviced for others	8,192	8,268
Unpaid principal balance of loans serviced for others	$ 1,000,695,677	$ 999,539,364
Average balance per loan	$ 122,155	$ 120,893
Weighted average servicing fee	0.290%	0.294%
Weighted average mortgage note rate	5.40%	5.45%
Net book value of servicing rights	$ 9,274,629	$ 9,283,206
Net book value as a multiple of annual servicing fee	3.20	3.16

Total liabilities of $371.0 million decreased $2.8 million during the six months ended June 30, 2011. Total deposits of $322.7 million increased $2.1 million and FHLB term borrowings totaling $45.0 million declined by $4.0 million. Customer deposits accounted for a significant amount of the decrease in total liabilities falling $5.1 million, offset by seasonal growth in servicing escrow accounts of $6.7 million.

The following table summarizes changes in deposit balances for the prior five quarters:

	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10
Non-interest bearing	$ 18,920,621	$ 19,016,209	$ 19,790,569	$ 17,968,357	$ 17,178,190
Escrow Accounts	18,567,133	14,311,562	11,909,818	22,918,225	17,379,422
Interest bearing transaction	74,009,801	70,266,514	74,662,806	68,391,806	66,240,182
Savings	81,500,926	85,176,516	85,712,474	78,944,414	68,372,346
Time deposits	114,738,316	99,993,147	114,088,487	132,993,064	151,222,408
Brokered deposits	15,002,595	14,880,789	14,485,822	19,543,000	20,543,000
Total deposits	$ 322,739,392	$ 303,644,737	$ 320,649,975	$ 340,758,866	$ 340,935,548

The following table sets forth the maturities of interest-bearing deposits at June 30, 2011 and December 31, 2010:

	At June 30, 2011			At December 31, 2010		
Maturing within:	Amount	Average Rate	% of total	Amount	Average Rate	% of total
One year	$ 78,989,900	1.57%	27.7%	$ 84,521,242	1.77%	29.2%
Two years	21,321,837	1.68%	7.5%	20,121,796	2.42%	7.0%
Three years	6,065,626	2.21%	2.1%	6,800,167	2.31%	2.4%
Four years	8,107,096	2.11%	2.8%	2,410,690	2.51%	0.8%
Five years	253,857	2.09%	0.1%	234,590	2.70%	0.1%
Subtotal time deposits	114,738,316	1.66%	40.1%	114,088,485	1.93%	39.4%
Interest bearing deposits with no stated maturity	170,513,322	1.09%	59.9%	174,861,104	0.80%	60.6%
Total interest-bearing deposits	$ 285,251,638	1.32%	100.0%	$ 288,949,589	1.25%	100.0%

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

	At June 30, 2011			At December 31, 2010		
	Balance	Average Rate	% of total	Balance	Average Rate	% of total
Due in three months or less	$ 11,160,908	1.71%	16.6%	$ 17,653,983	2.08%	27.2%
Due after three through six months	8,112,988	1.63%	12.1%	15,276,220	1.51%	23.6%
Due after six through twelve months	27,524,039	1.61%	41.0%	15,764,630	1.92%	24.4%
Due after twelve months	20,276,708	1.90%	30.2%	15,921,653	2.54%	24.6%
	$ 67,074,644	1.72%	100.0%	$ 64,616,485	2.02%	100.0%
Percent of total deposits	20.8%			20.2%		

At June 30, 2011, the Company's loan-to-deposit ratio excluding loans held for sale was 98.2% compared to 100.7% at December 31, 2010, the result of deposits balances increasing $2.1 million, and loan balances declining $6.2 million during the first two quarters of 2011. Liquidity was provided by loan declines including loans held for sale, which decreased $4.6 million, but was offset by an increase in foreclosed real estate of $2.2 million. Cash and cash equivalents increased $1.7 million and net borrowings declined by $4.0 million. The loan-to-deposit ratio is a useful measure of a Bank's liquidity indicating the percentage of a bank's loans funded through deposits. A decrease in the ratio may indicate that a bank has more of a cushion to fund its growth and to protect itself against a sudden decline of funding sources.

Total shareholders' equity as of June 30, 2011 and December 31, 2010 was $50.0 million and $51.7 million, respectively. Equity declined by $1.7 million from the end of 2010 due to a redemption of preferred stock of $3.3 million. Net income attributable to common shareholders for the six month period ended June 30, 2011 totaled $1.1 million, and accumulated other comprehensive loss improved by $467,408, 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 11.88% at June 30, 2011 compared to 12.16% at December 31, 2010. At June 30, 2011 and December 31, 2010, Magna's regulatory core capital and total risked based capital ratios were 12.01% and 15.51% and 12.20% and 15.93%, respectively. These ratios exceed minimum regulatory levels at June 30, 2011 and December 31, 2010, respectively, and place Magna in the "well-capitalized" category as of both dates.

Results of operation – three and six months ended June 30, 2011 and 2010. Interest income, including dividends earned on FHLB stock, for the three months ended June 30, 2011, was $4.8 million, a $605,199 decrease from 2010. Overall, average asset yield decreased by 17 basis points to 4.93%, while the yield on the loan portfolio decreased 18 basis points to 5.26%. Interest expense decreased by $632,165 to $1.2 million for the second quarter of 2011 compared to the year earlier period. The average rate incurred on interest bearing liabilities decreased by 57 basis points. Net interest income for the quarter ended June 30, 2011 was $3.6 million compared to $3.6 million for 2010, a $26,966 (.75%) increase. Net interest margin increased by 34 basis points and was attributable to an average interest earning asset decline of $33.3 million year over year combined with a slight increase in net interest income. 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 June 30, 2011 and 2010:

	Three Months Ended June 30,					
	2011			2010		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS						
Short-term investments	$ 9,879,868	$ 6,180	0.25%	$ 16,424,894	$ 10,078	0.25%
Securities available-for-sale	41,928,644	392,058	3.74%	41,374,609	484,262	4.68%
Securities held-to-maturity	-	-	-	8,625,752	98,991	4.59%
Investment securities	41,928,644	392,058	3.74%	50,000,361	583,253	4.67%
Loans held for sale	15,991,228	187,481	4.69%	23,205,169	278,070	4.79%
Loans	315,322,133	4,144,556	5.26%	328,487,849	4,464,073	5.44%
Investment in Federal Home Loan Bank	3,981,400	44,177	4.44%	3,981,400	44,177	4.44%
Total interest earning assets	**387,103,273**	**4,774,452**	**4.93%**	**422,099,673**	**5,379,651**	**5.10%**
Non interest earning assets	35,222,524			33,522,998		
Total assets	$ 422,325,797			$ 455,622,671		
LIABILITIES						
Interest bearing transaction accounts	$ 71,701,511	165,965	0.93%	$ 58,214,392	158,349	1.09%
Savings deposits	83,192,906	181,780	0.87%	68,280,753	212,327	1.24%
Customer Time deposits	107,696,392	453,690	1.69%	151,527,191	819,997	2.16%
Brokered deposits	14,914,135	10,911	0.29%	20,543,000	49,050	0.96%
Total deposits	277,504,944	812,346	1.17%	298,565,336	1,239,723	1.66%
Federal funds purchased and other short-term borrowings	5,349,821	1,320	0.10%	-	-	0.00%
Term FHLB Advances	45,000,000	344,242	3.06%	63,000,000	550,350	3.49%
Total interest bearing liabilities	**327,854,765**	**1,157,908**	**1.41%**	**361,565,336**	**1,790,073**	**1.98%**
Non interest bearing liabilities	42,076,351			39,483,247		
Shareholders' equity	52,394,681			54,574,088		
Total liabilities and shareholders' equity	$ 422,325,797			$ 455,622,671		
Net interest income/net interest spread		$ 3,616,544	3.52%		$ 3,589,578	3.12%
Net interest margin			3.74%			3.40%

The following table shows the components of each change attributable to rate and volume variances for the three months ended June 30, 2011 and 2010. The changes in interest due to both rate and volume have been allocated to change due to rate and change due to volume in proportion to the absolute amounts of the changes in each.

	Increase (decrease) due to		
	Rate	Volume	Total
Interest earning assets:			
Short-term investments	$ 192	$ (4,090)	$ (3,898)
Investment securities	(148,103)	(43,092)	(191,195)
Loans held for sale	(5,891)	(84,698)	(90,589)
Loans	(87,802)	(231,713)	(319,516)
Total change in interest income	**(241,605)**	**(363,594)**	**(605,198)**
Interest bearing liabilities:			
Interest bearing transaction accounts	(25,743)	33,359	7,616
Savings deposits	(71,079)	40,532	(30,547)
Customer Time deposits	(158,872)	(207,435)	(366,307)
Brokered deposits	(27,339)	(10,800)	(38,139)
Total deposits	**(283,033)**	**(144,344)**	**(427,377)**
Federal funds purchased and other short-term borrowings	660	660	1,320
Term FHLB Advances	(62,485)	(143,623)	(206,108)
Total change in interest expense	**(344,858)**	**(287,307)**	**(632,165)**
Increase in net interest income	**$ 103,253**	**$ (76,287)**	**$ 26,966**

Interest income, including dividends earned on FHLB stock, for the six months ended June 30, 2011, was $9.4 million, a $1.2 million decrease from 2010. Overall, average asset yield decreased by 12 basis points to 4.97%, while the yield on the loan portfolio decreased by 13 basis points to 5.29%. Interest expense decreased by $1.3 million to $2.3 million for the first half of 2011 compared to the year earlier period. The average rate incurred on interest bearing liabilities decreased by 57 basis points. Net interest income for the year to date period ended June 30, 2011 was $7.1 million compared to $7.0 million for 2010, a $69,478 (.99%) increase. Net interest margin increased 38 basis points. The following table summarizes the average yields earned on interest earning assets and the average rates paid on interest bearing liabilities for the six months ended June 30, 2011 and 2010:

	Six Months Ended June 30,					
	2011			2010		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS						
Short-term investments	$ 8,945,241	$ 10,903	0.24%	$ 17,444,198	$ 21,555	0.25%
Securities available-for-sale	41,048,710	783,370	3.82%	42,959,947	1,040,048	4.84%
Securities held-to-maturity	-	-	-	8,747,628	202,959	4.64%
Investment securities	41,048,710	783,370	3.82%	51,707,575	1,243,007	4.81%
Loans held for sale	15,122,481	348,913	4.61%	18,277,903	442,840	4.85%
Loans	310,499,695	8,206,189	5.29%	326,086,478	8,838,686	5.42%
Investment in Federal Home Loan Bank	3,981,400	89,336	4.49%	3,981,400	89,336	4.49%
Total interest earning assets	**379,597,527**	**9,438,711**	**4.97%**	**417,497,554**	**10,635,424**	**5.09%**
Non interest earning assets	39,533,180			33,234,642		
Total assets	$ 419,130,707			$ 450,732,196		
LIABILITIES						
Interest bearing transaction accounts	$ 71,590,243	325,304	0.91%	$ 56,132,857	314,048	1.12%
Savings deposits	84,424,164	370,692	0.88%	68,831,707	466,504	1.36%
Customer Time deposits	106,973,418	939,196	1.76%	149,293,199	1,640,213	2.20%
Brokered deposits	14,894,443	23,696	0.32%	20,543,000	97,658	0.95%
Total deposits	277,882,268	1,658,888	1.19%	294,800,763	2,518,423	1.71%
Federal funds purchased and other short-term borrowings	3,581,768	2,147	0.12%	2,049,724	1,511	0.15%
Term FHLB Advances	45,077,348	687,361	3.05%	63,000,000	1,094,653	3.48%
Total interest bearing liabilities	**326,541,384**	**2,348,396**	**1.44%**	**359,850,487**	**3,614,587**	**2.01%**
Non interest bearing liabilities	40,318,281			36,767,680		
Shareholders' equity	52,271,042			54,114,029		
Total liabilities and shareholders' equity	$ 419,130,707			$ 450,732,196		
Net interest income/net interest spread		$ 7,090,315	3.53%		$ 7,020,837	3.09%
Net interest margin			3.74%			3.36%

The following table shows the components of each change attributable to rate and volume variances for the six months ended June 30, 2011 and 2010. The changes in interest due to both rate and volume have been allocated to change due to rate and change due to volume in proportion to the absolute amounts of the changes in each.

	Increase (decrease) due to		
	Rate	Volume	Total
Interest earning assets:			
Short-term investments	$ (289)	$ (10,363)	$ (10,652)
Investment securities	(313,588)	(146,049)	(459,637)
Loans held for sale	(20,334)	(73,593)	(93,927)
Loans	(216,938)	(415,559)	(632,497)
Total change in interest income	**(551,149)**	**(645,564)**	**(1,196,713)**
Interest bearing liabilities:			
Interest bearing transaction accounts	(65,568)	76,824	11,256
Savings deposits	(186,921)	91,109	(95,812)
Customer Time deposits	(290,730)	(410,287)	(701,017)
Brokered deposits	(52,334)	(21,628)	(73,962)
Total deposits	**(595,553)**	**(263,982)**	**(859,535)**
Federal funds purchased and other short-term borrowings	(324)	960	636
Term FHLB Advances	(122,530)	(284,762)	(407,292)
Total change in interest expense	**(718,407)**	**(547,784)**	**(1,266,191)**
Increase in net interest income	**$ 167,258**	**$ (97,780)**	**$ 69,478**

Loan loss provision credits of $24,000 and $189,000 were recognized for the three and six month periods ended June 30, 2011, compared to loan loss provisions of $1,883,000 and $2,144,000 for the same periods in 2010. The credits to the provision for loan losses were the result of lower balances of both non-performing and classified loans, and as a result of recoveries from loans previously charged off. The bank recorded charge-offs of $3.6 million in the first quarter of 2011; however, all charge-offs were fully reserved for as of December 31, 2010. At June 30, 2011, the general component of the allowance for loan losses totaled $5.5 million compared to $5.3 million at December 31, 2010. In arriving at the level of allowance for loan loss at June 30, 2011, Magna maintained a negative economic environment outlook, which resulted in an environmental factor loan loss allowance of approximately $140,000 or 15.0% of general allowance for loan loss for the homogenous loan portfolio. The environmental factor impacts the allowance for loan loss by decreasing the allowance by 15% of general allowance for loan loss in a strong economy and by increasing the allowance by 20% in a weak economy. Management considers the level of the allowance for loan losses to be adequate based upon our current assessment of the portfolio and the economy.

Total non-interest income, which is sourced primarily from mortgage banking, mortgage servicing, and commercial mortgage banking, totaled $3.1 million and $6.0 million for the three and six months ended June 30, 2011 compared to $3.1 million and $5.8 million for the three and six months ended June 30, 2010. The following table shows the components of net non-interest income for the three and six month periods ended June 30, 2011 and 2010. For purposes of this table, amortization expense and impairment or recovery related to mortgage servicing rights has been deducted from or added to mortgage servicing revenue to give a clearer picture of the net contribution of servicing revenues.

	Three months ended June 30,		Increase	Six months ended June 30,		Increase
	2011	2010	(Decrease)	2011	2010	(Decrease)
Mortgage banking	$ 1,776,649	$ 2,225,110	$ (448,461)	$ 2,983,619	$ 3,724,579	$ (740,960)
Mortgage servicing, net	674,592	(186,356)	860,948	1,171,941	313,129	858,812
Commercial mortgage banking	110,914	249,600	(138,686)	649,329	335,850	313,479
OTTI on securities	-	-	-	-	(19,000)	19,000
Other income	113,627	347,752	(234,125)	334,437	482,148	(147,711)
	$ 2,675,782	$ 2,636,105	$ 39,677	$ 5,139,326	$ 4,836,706	$ 302,620

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:

	Memphis	Nashville	Little Rock	Chattanooga	Total
Three months ended June 30:	June				
2010	$ 56,778,199	$ 18,942,017	$ 4,775,341	$ 7,743,381	$ 88,238,938
2011	39,429,898	23,119,891	-	-	62,549,789
Increase (decrease):	$ (17,348,301)	$ 4,177,875	$ (4,775,341)	$ (7,743,381)	$ (25,689,149)
Percent Change	-30.6%	22.1%	-100.0%	-100.0%	-29.1%
	Memphis	**Nashville**	**Little Rock**	**Chattanooga**	**Total**
Six months ended June 30:					
2010	$ 92,089,551	$ 31,483,955	$ 8,612,043	$ 11,757,335	$ 143,942,884
2011	71,988,206	39,254,731	-	-	111,242,937
Increase (decrease):	$ (20,101,345)	$ 7,770,777	$ (8,612,043)	$ (11,757,335)	$ (32,699,947)
Percent Change	-21.8%	24.7%	-100.0%	-100.0%	-22.7%

Residential mortgage banking origination volume declined 29.1% and 22.7% for the three and six month periods ended June 30, 2011 compared to the prior year due to lower levels of home purchase activity in 2011, and the closure of our Chattanooga and Little Rock offices in the third quarter of 2010. Total origination production for the second quarter and year to date periods of 2011 and 2010 is broken down as follows:

	Three months ended June 30,				Six months ended June 30,			
	2011		2010		2011		2010	
Purchase money mortgage	$ 52,537,657	84.0%	$ 76,671,550	86.9%	$ 87,592,179	78.7%	$ 120,152,256	83.5%
Refinance mortgage	10,012,132	16.0%	11,567,388	13.1%	23,650,758	21.3%	23,790,628	16.5%
Total production	$ 62,549,789	100.0%	$ 88,238,938	100.0%	$ 111,242,937	100.0%	$ 143,942,884	100.0%

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 leased by Magna from Crye-Leike or Crye-Leike affiliated entities. Many of these offices are leased on a month-to-month basis.

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

In addition to its residential mortgage banking activities, Magna gained approval in the first quarter of 2010 to participate in the U. S. government insured Small Business Lending program. We provide SBA loans in addition to traditional commercial loan and cash management services to small and mid-size businesses in the Memphis area. Our commercial lending group closed SBA loans totaling $14 million in the first half of 2011 and recognized $594,204 in fee income. In the second quarter, the group closed $7.4 million in SBA loans and recognized $110,914 in fee income. The group closed three SBA loans in the second quarter of 2010 totaling $1.7 million with $116,000 in fee income deferred until the third and fourth quarters of 2010.

Brokerage fee income from our commercial real estate group totaled $55,125 in the first quarter of 2011 and current year to date compared to $249,600 in the second quarter of 2010 and $335,850 in the prior year to date. Activity in commercial real estate brokerage is very volatile and the recession, coupled with turmoil in the credit markets, has had a negative impact on the commercial real estate brokerage business.

Another significant component of non-interest income is mortgage loan servicing, both commercial and residential. Magna's commercial real estate division services commercial real estate mortgages for third party investors, although this servicing lacks the fair value volatility of residential mortgage servicing due to the absence of prepayment volatility. Gross fees and direct (non-operating) expenses relating to these two areas for the three and six months ended June 30, 2011 and 2010, are shown in the following table (an impairment recovery of $175,000 in the second quarter of 2011, and an impairment charge of $600,000 in the second quarter of 2010 increase or decrease servicing asset amortization for the three and six month periods presented, respectively):

	Three months ended June 30,			Six months ended June 30,		
	Residential	Commercial	Total	Residential	Commercial	Total
2010						
Gross servicing fees	$ 721,159	$ 69,324	$ 790,483	$ 1,450,348	$ 144,130	$ 1,594,478
Late charges and other ancilliary revenue	175,613	-	175,613	360,280	-	360,280
Gross servicing revenue	896,772	69,324	966,096	1,810,629	144,130	1,954,760
Servicing asset amortization	1,103,445	7,802	1,111,247	1,540,365	15,665	1,556,030
Guaranty fees and loan pay-off interest	11,648	-	11,648	28,414	-	28,414
Other servicing expenses	29,557	-	29,557	57,186	-	57,186
Gross servicing expenses	1,144,650	7,802	1,152,452	1,625,965	15,665	1,641,630
Net servicing revenue	***$ (247,878)***	***$ 61,522***	***$ (186,356)***	***$ 184,664***	***$ 128,465***	***$ 313,129***
2011						
Gross servicing fees	$ 740,780	108,875	$ 849,655	$ 1,444,604	214,433	1,659,037
Late charges and other ancilliary revenue	137,265	-	137,265	305,069	-	305,069
Gross servicing revenue	878,045	108,875	986,920	1,749,672	214,433	1,964,105
Servicing asset amortization	228,624	28,570	257,194	615,733	65,346	681,079
Guaranty fees and loan pay-off interest	17,035	-	17,035	37,690	-	37,690
Other servicing expenses	38,099	-	38,099	73,395	-	73,395
Gross servicing expenses	283,758	28,570	312,328	726,818	65,346	792,164
Net servicing revenue	***$ 594,287***	***$ 80,305***	***$ 674,592***	***$ 1,022,854***	***$ 149,087***	***$ 1,171,941***
Increase (decrease)						
Gross servicing fees	$ 19,621	39,551	59,172	$ (5,744)	70,303	64,559
Late charges and other ancilliary revenue	(38,348)	-	(38,348)	(55,212)	-	(55,212)
Gross servicing revenue	(18,727)	39,551	20,824	(60,957)	70,303	9,346
Servicing asset amortization	(874,821)	20,768	(854,053)	(924,632)	49,681	(874,951)
Guaranty fees and loan pay-off interest	5,387	-	5,387	9,276	-	9,276
Other servicing expenses	8,542	-	8,542	16,209	-	16,209
Gross servicing expenses	(860,892)	20,768	(840,124)	(899,146)	49,681	(849,465)
Net servicing revenue	***$ 842,165***	***$ 18,783***	***$ 860,948***	***$ 838,190***	***$ 20,622***	***$ 858,812***

MAGNA BANK

The following table summarizes changes in servicing rights during the three and six month periods ended June 30, 2011 and 2010, respectively:

	Three months ended June 30,					
	2011			2010		
	Commercial	Residential	Total	Commercial	Residential	Total
Beginning balance	$ 578,462	$ 9,158,586	$ 9,737,048	$ 109,034	$ 10,149,217	$ 10,258,251
Add: Purchased mortgage servicing rights	-	-	-	-	3,000	3,000
Capitalized mortgage servicing rights	-	356,179	356,179	-	425,346	425,346
Recovery (impairment) of servicing rights	-	175,000	175,000	-	(600,000)	(600,000)
Amortization of mortgage servicing rights	(28,640)	(405,062)	(433,702)	(7,802)	(503,446)	(511,248)
Ending balance	$ 549,822	$ 9,284,703	$ 9,834,525	$ 101,232	$ 9,474,117	$ 9,575,349

	Six months ended June 30,					
	2011			2010		
	Commercial	Residential	Total	Commercial	Residential	Total
Beginning balance	$ 625,311	$ 9,273,133	$ 9,898,444	$ 116,897	$ 10,298,437	$ 10,415,334
Add: Purchased mortgage servicing rights	-	-	-	-	3,000	3,000
Capitalized mortgage servicing rights	-	618,668	618,668	-	713,045	713,045
Recovery (impairment) of servicing rights	-	175,000	175,000	-	(600,000)	(600,000)
Amortization of mortgage servicing rights	(65,416)	(792,171)	(857,587)	(15,665)	(940,365)	(956,030)
Ending balance	$ 559,895	$ 9,274,630	$ 9,834,525	$ 101,232	$ 9,474,117	$ 9,575,349

Non-interest expense declined in both the three month and six month periods ended June 30, 2011 compared to the same periods in 2010, primarily due to lower commission expense on mortgage banking activity. As part of our expense control, we implemented a reduction in force affecting fourteen employees through April 2011. We continue to exert tight expense controls on every area of the Bank.

The following table summarizes the components of occupancy and equipment expense for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Rent & office occupancy	$ 469,445	$ 455,989	$ 936,057	$ 919,151
Maintenance & repairs	51,354	49,467	107,015	102,507
Depreciation expense	138,177	150,129	280,147	302,231
Telecommunications	29,863	19,350	54,003	38,943
Total occupancy and equipment expense	$ 688,839	$ 674,935	$ 1,377,222	$ 1,362,832

The following table summarizes the components of other expense for the three and six months ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Data processing	$ 251,021	$ 271,016	$ 518,615	$ 529,417
Printing and office supplies	33,769	41,465	75,068	89,968
Directors' Fees	70,950	69,800	163,950	147,775
Postage, shipping and delivery	42,352	55,722	103,034	121,646
Travel and entertainment	55,606	49,198	99,126	94,948
Bank fees and service charges	37,702	39,506	74,039	77,539
Provision for loan repurchase and FHA/VA claim losses	149,000	124,000	218,000	276,500
Other	171,135	129,738	319,465	260,919
Total other expense	$ 811,535	$ 780,445	$ 1,571,297	$ 1,598,712

The provision for loan repurchase and FHA/VA claim losses increased $25,000 in the second quarter of 2011, compared to the second quarter of 2010, and decreased $58,500 for the six month periods. 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 losses associated with foreclosure action. The Bank quantifies such risks by reference to past occurrence, known problems and regulatory time frames and has established a reserve for possible servicing losses related to these loans. The following table summarizes the activity in the FHA/VA reserve for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Beginning balance	$ 231,489	$ 252,073	$ 235,317	$ 220,490
Provision for losses	144,000	90,000	198,000	191,500
Claim losses	(105,130)	(113,657)	(162,958)	(183,574)
Ending balance	$ 270,359	$ 228,416	$ 270,359	$ 228,416

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 two quarters of 2011 or 2010; however, we have received repurchase requests on several loans from our investors that are in process. The Company may or may not be successful in repurchase request negotiations with our investors, and may ultimately be required to repurchase some or all of these loans. We quantify repurchase risk by reference to historical occurrence and an allowance for losses associated with repurchase has been established. The following table summarizes the activity in the repurchase reserve for the periods indicated:

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Beginning balance	$ 468,011	$ 451,703	$ 453,011	$ 400,703
Provision for losses	5,000	34,000	20,000	85,000
Claim losses and repurchase discounts	-	-	-	-
Ending balance	$ 473,011	$ 485,703	$ 473,011	$ 485,703

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

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

	June 30, 2011	December 31, 2010
Commitments under:		
Undisbursed term loans	$ 5,938,822	$ 5,851,718
Undrawn revolving lines of credit	49,645,607	50,426,565
Undrawn letters of credit	6,638,356	7,259,821
	$ 62,222,785	$ 63,538,104

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

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

The Company may also enter into derivative financial instruments such as interest rate swaps or caps to meet the financing, interest rate and other risk management needs of its customers and is approved for $25 million in outstanding contracts. Upon entering into these instruments to meet customer needs, the Company enters into offsetting positions to minimize interest rate and equity risk to the Company. These derivative financial instruments are reported at fair value with any fair value adjustments recorded in accumulated other comprehensive income. These instruments and their offsetting positions are recorded in other assets and other liabilities in the consolidated statements of financial position. As of June 30, 2011, the notional amount of customer related derivative financial instruments totaled $1.9 million with an average maturity of 111 months and an average interest receivable and payable rate of 4.25%.

Liquidity and capital resources. For the six months ended June 30, 2011, the Company's operating activities provided $3.2 million of available cash. Investing activities provided $4.2 million in cash consisting primarily of net sales, purchases, paydowns, or payoffs in securities, which provided $3.9 million. Proceeds from sale of foreclosed real estate provided $4.5 million, but was offset by a net increase in loans of $4.2 million. Financing activities used $5.6 million of available cash due to repayments of long-term borrowings of $4.0 million, and redemption and dividends on preferred stock of $3.7 million. This was offset by a net increase in deposits of $2.1 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, the Company may continue to mix borrowings (including brokered deposits) and deposits to fund balance sheet growth over the next year.

In 2008, the Company issued and sold $13.795 million of its Series A and $690,000 of its Series B preferred stock for a discounted cash payment of $13.795 million from the U.S. Treasury. The discount of $690,000 will be accreted through retained earnings over the contractual life of the preferred stock. The issuance occurred in connection with, and is governed by, the Treasury Capital Purchase Program administered by the U.S. Treasury under the Troubled Asset Relief Program ("TARP"). The preferred stock carries a senior rank and certain restrictions including the payment of dividends and limitations on compensation of executive officers. Generally, the preferred shares are non-voting; however, should the Company fail to pay six quarterly dividends, the holder may elect two directors to the Company's Board until such dividends are paid. In 2009, the Company redeemed 3,455 shares of Series A preferred stock, and redeemed an additional 3,455 shares of Series A preferred stock in June 2011. The preferred stock qualifies as Tier 1 capital and is presented in shareholders' equity in the accompanying consolidated statements of financial condition.

The following table summarizes the principal terms of the offering:

	Series A	Series B
Redemption value at date of issuance	$13,795,000	$690,000
Less: Value of shares redeemed	(6,910,000)	
Redemption value at June 30,2011	$6,885,000	$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.	

On July 27, 2011, the U.S. Treasury informed the Company that our application for participation in the Small Business Lending Fund (SBLF) had been preliminarily approved. Concurrent with the funding of the SBLF, the remaining 7,575 TARP preferred shares will be redeemed, subject to regulatory approval. The Company expects the SBLF transaction to close within 30 days of notification of preliminary approval. If Magna is successful in executing and closing the transaction, SBLF is expected to cost the Company significantly less than TARP. The SBLF fund is expected to cost the Company a rate of 1% to 5% depending upon qualified small business lending growth, while TARP costs the Company 5% and 9% for Series A and Series B shares.

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 June 30, 2011 was $80.9 million, as follows:

	June 30, 2011	December 31, 2010
Short-term credit facilities:		
Fourteen days or less (unsecured)	$ 16,080,000	$ 16,080,000
Up to thirty days (secured)	34,266,152	26,835,713
Subtotal, short term	50,346,152	42,915,713
Long term credit facilities (secured)	30,508,326	25,098,719
Total credit facilities	$ 80,854,478	$ 68,014,432

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 June 30, 2011, the percentage of time deposits $100,000 and over to total deposits was 20.8% compared to 20.2% at December 31, 2010. The acquisition of retail deposits is from customers within the Company's market area. Management believes that the rates offered on deposits are competitive with other financial institutions in the Company's market area.

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

Critical Accounting Policies. During the six month period ended June 30, 2011, there was no significant change in the Company's critical accounting policies and no significant change in the application of critical accounting policies as presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Item 3.
Quantitative and Qualitative Disclosures About Market Risk

During the six month period ended June 30, 2011, there were no significant changes to the quantitative and qualitative disclosures about market risks presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Item 4.
Controls and Procedures

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

Part II Other Information

Item 1A. Risk Factors.

There have been no material changes from the risk factors previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Item 6.
Exhibits

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

31.2	Chief Financial Officer's §13a-14(a) certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.
32.1	Chief Executive Officer's §1350 certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.
32.2	Chief Financial Officer's §1350 certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.

SIGNATURES

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

Magna Bank
(Registrant)

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

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

Date: August 11, 2011

Magna Bank **Exhibit 31.1**
Officers' Certification pursuant to §302 of the Sarbanes-Oxley Act of 2002

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: August 11, 2011

Magna Bank **Exhibit 31.2**

Officers' Certification pursuant to §302 of the Sarbanes-Oxley Act of 2002

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: August 11, 2011

Exhibit 32.1

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

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

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

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

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

August 11, 2011

Exhibit 32.2

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

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

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

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

/S/ David C. Wadlington
David C. Wadlington, Chief Financial Officer

August 11, 2011