

FORM 10-Q
Securities Filing Desk
Office of Thrift Supervision
1700 G Street NW
Washington, DC 20552

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

For the quarterly period ended June 30, 2009
OR

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

For the transition period from _____ to _____

Commission File No. 15525

Magna Bank

(Exact name of registrant as specified in its charter)

Federal Charter
(State of incorporation)



62-1760666
(IRS Employer Identification No.)

MAGNA BANK

6525 Quail Hollow Suite 513
Memphis, Tennessee 38120

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

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

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

Indicate by check mark whether the registrant 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 ISSUERS INVOLVED IN BANKRUPTCY
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

CLASS
Common Stock, par
value of \$1 per share

OUTSTANDING AT August 14, 2009
5,477,100



MAGNA BANK

June 30, 2009 Form 10-Q
Index

	<u>Page</u>
Part I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 3. Quantitative and Qualitative Disclosures About Market Risk	35
Item 4. Controls and Procedures.....	38
Item 4T Controls and Procedures.....	*
Part II OTHER INFORMATION	
Item 1. Legal Proceedings	*
Item 1A. Risk Factors	*
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	*
Item 3. Defaults Upon Senior Securities	*
Item 4. Submission of Matters to a Vote of Security Holders	*
Item 5. Other Information.....	*
Item 6. Exhibits	38
Signatures	38

* 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 Thrift Supervision (OTS), 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,” lists some of the factors which could cause Magna’s actual results to vary materially from those in the forward-looking statements. Other uncertainties which could affect Magna’s future performance include the effects of competition, technological changes and regulatory developments; changes in fiscal monetary and tax policies; changes in business conditions and inflation; changes in general economic conditions, either nationally or regionally, resulting in, among other things, credit quality deterioration; and changes in the securities markets.

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. Financial Statements

Consolidated Balance Sheets
June 30, 2009 and December 31, 2008



	(Unaudited)	
	<u>June 30, 2009</u>	<u>December 31, 2008</u>
<u>ASSETS</u>		
Cash and due from banks	\$ 7,606,857	\$ 6,307,173
Interest bearing deposits at other financial institutions	279,163	331,740
Federal funds sold	5,569,123	1,556,104
Securities:		
Available-for-sale, at fair value (amortized cost of \$46,930,942 and \$52,851,312 respectively)	44,975,403	50,944,920
Held-to-maturity, at amortized cost (fair value of \$7,458,333 and \$10,874,986, respectively)	10,755,200	11,539,266
Loans held for sale, at lower of cost or fair value	28,275,423	24,214,907
Loans, less allowance for loan losses of \$5,744,611 and \$5,283,639, respectively	374,705,860	391,020,380
Accrued interest receivable	2,178,945	2,501,910
Premises and equipment, net	5,454,259	5,721,304
Mortgage servicing rights, net	10,602,947	9,287,775
Foreclosed real estate, net	2,599,475	2,793,875
Investment in Federal Home Loan Bank, at cost	3,981,400	3,902,600
Other assets	8,672,840	10,925,512
TOTAL ASSETS	<u>\$ 505,656,895</u>	<u>\$ 521,047,466</u>
<u>LIABILITIES</u>		
Deposits		
Non-interest bearing transaction accounts	\$ 14,109,799	15,015,948
Servicing escrow accounts	18,487,509	10,085,847
Interest bearing transaction accounts	77,648,722	77,817,106
Savings accounts	78,358,425	40,964,893
Time deposits	182,030,068	229,501,394
Total deposits	370,634,523	373,385,188
Federal funds purchased	-	10,600,000
Long-term borrowings	74,500,000	75,500,000
Accrued interest payable	1,810,397	2,767,975
Accounts payable and other liabilities	4,071,438	5,446,886
TOTAL LIABILITIES	451,016,358	467,700,049
Commitments and contingencies		
	-	-
<u>SHAREHOLDERS' EQUITY</u>		
Preferred Stock (\$1 par value; 10,000,000 shares authorized; 14,485 shares issued and outstanding)	13,864,000	13,795,000
Common stock (\$1 par value; 10,000,000 shares authorized; 5,503,209 and 5,448,209 shares issued and 5,477,100 and 5,422,100 shares outstanding, respectively)	5,503,209	5,448,209
Treasury stock, 26,109 shares at cost	(200,374)	(200,374)
Additional paid-in capital	31,562,365	31,214,117
Retained earnings	6,433,919	4,253,364
Accumulated other comprehensive loss, net of taxes:		
Net unrealized loss on available-for-sale securities	(1,101,779)	(1,162,899)
Other-than-temporary impairment, net of taxes:		
Available-for-sale securities	(96,772)	-
Held-to-maturity securities	(1,324,031)	-
Total accumulated other comprehensive loss, net of taxes	(2,522,582)	(1,162,899)
TOTAL SHAREHOLDERS' EQUITY	<u>54,640,537</u>	<u>53,347,417</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 505,656,895</u>	<u>\$ 521,047,466</u>

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

Consolidated Income Statements (Unaudited)
Three and Six Months Ended June 30, 2009 and 2008



	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
INTEREST INCOME:				
Deposits at other financial institutions	\$ 22	\$ 1,732	\$ 68	\$ 4,220
Federal funds sold	3,362	10,109	4,570	24,233
Securities:				
Available-for-sale	672,683	528,561	1,400,811	889,030
Held-to-maturity	144,310	236,223	319,532	508,722
Loans held for sale	368,000	294,105	696,365	532,664
Loans, including fees and discounts	<u>5,161,608</u>	<u>5,922,461</u>	<u>10,423,613</u>	<u>12,324,922</u>
TOTAL INTEREST INCOME	6,349,985	6,993,191	12,844,959	14,283,791
INTEREST EXPENSE:				
Interest bearing transaction accounts	280,824	528,939	623,007	1,204,203
Savings deposits	369,971	25,267	706,792	37,880
Time deposits	1,618,067	2,274,232	3,570,303	4,690,378
Borrowings	<u>688,119</u>	<u>982,545</u>	<u>1,400,552</u>	<u>2,067,955</u>
TOTAL INTEREST EXPENSE	2,956,981	3,810,983	6,300,654	8,000,416
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	3,393,004	3,182,208	6,544,305	6,283,375
Provision for loan losses	<u>398,970</u>	<u>484,300</u>	<u>814,660</u>	<u>894,487</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	2,994,034	2,697,908	5,729,645	5,388,888
NON-INTEREST INCOME:				
Service charges and other branch income	66,533	51,822	130,698	94,805
Servicing fee income	877,674	931,145	1,789,368	1,888,322
Loan brokerage fees	78,750	304,565	78,750	412,565
Gain on sale of mortgage loans, net	2,806,454	2,186,491	5,259,464	3,913,613
Other income	<u>85,767</u>	<u>94,551</u>	<u>144,845</u>	<u>170,797</u>
TOTAL NON-INTEREST INCOME	3,915,178	3,568,574	7,403,125	6,480,102
NON-INTEREST EXPENSE:				
Salary, wages and commission	2,909,178	2,959,776	5,666,682	5,786,376
Benefits and taxes	453,291	545,839	955,452	1,119,531
Professional services	68,917	79,573	165,385	193,857
Occupancy and equipment	800,463	754,456	1,555,502	1,418,916
Amortization of servicing rights, net of impairment recovery	125,982	458,320	485,713	900,609
Marketing and business development	119,688	165,776	263,457	337,288
Regulatory fees and deposit insurance assessments	407,733	86,435	589,514	172,302
Other	<u>732,328</u>	<u>743,662</u>	<u>1,451,289</u>	<u>1,443,274</u>
TOTAL NON-INTEREST EXPENSE	5,617,580	5,793,837	11,132,994	11,372,153
INCOME BEFORE TAXES	1,291,632	472,645	1,999,776	496,837
Income tax expense	<u>501,670</u>	<u>181,281</u>	<u>797,646</u>	<u>194,170</u>
NET INCOME	\$ 789,962	\$ 291,364	\$ 1,202,130	\$ 302,667
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$ 597,826	\$ 291,364	\$ 809,497	\$ 302,667
Net income per common share:				
Basic	<u>\$ 0.11</u>	<u>\$ 0.05</u>	<u>\$ 0.15</u>	<u>\$ 0.06</u>
Diluted	<u>\$ 0.11</u>	<u>\$ 0.05</u>	<u>\$ 0.15</u>	<u>\$ 0.06</u>
Comprehensive income				
Net income	\$ 789,962	\$ 291,364	\$ 1,202,130	\$ 302,667
Change in net unrealized gain (loss) on securities, net of taxes	<u>862,372</u>	<u>(60,176)</u>	<u>(35,652)</u>	<u>(289,011)</u>
TOTAL COMPREHENSIVE INCOME	\$ 1,652,334	\$ 231,188	\$ 1,166,478	\$ 13,656

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

Consolidated Statement of Cash Flows (Unaudited)
Six Months Ended June 30, 2009 and 2008



	<u>June 30,</u>	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income	\$ 1,202,130	\$ 302,667
<i>Reconciliation of net income to cash used in operating activities:</i>		
Provision for loan losses	814,660	894,487
Provision for servicing and mortgage origination losses	154,000	151,103
Depreciation of premises and equipment	413,169	354,842
Capitalization of mortgage servicing rights	(1,786,728)	(1,586,373)
Stock-based compensation expense	80,848	199,554
Amortization of mortgage servicing rights, net of impairment recovery	485,713	900,609
Net discount accretion on securities	(171,253)	(35,217)
Net premium amortization on loans	28,171	48,044
Provision (benefit) for deferred income tax	1,342,214	(324,902)
Decrease in other assets	1,035,743	292,026
Decrease in accounts payable and other liabilities	(1,651,461)	(4,695,916)
Proceeds from sales and repayments of loans held for sale	243,985,223	196,973,651
Gain on sale of mortgage loans	(5,259,464)	(3,913,613)
Loss (gain) on sale of real estate owned	7,455	(1,770)
Origination of loans held for sale	(242,786,275)	(203,648,008)
(Decrease) increase in accrued interest payable	(957,578)	215,552
Decrease in accrued interest receivable	322,965	137,580
Net cash used in operating activities	<u>(2,740,466)</u>	<u>(13,735,684)</u>
Cash flows from investing activities:		
Purchases of available-for-sale securities	-	(28,715,411)
Principal repayments of securities available-for-sale	6,160,038	3,397,598
Principal repayments of securities held-to-maturity	841,899	1,189,922
Net decrease (increase) in loans	15,080,510	(26,878,615)
Proceeds from sale of foreclosed real estate	578,124	-
Purchase of FHLB stock	(78,800)	(271,300)
Purchases of mortgage servicing rights	(14,157)	(62,401)
Purchases of premises and equipment	(146,124)	(1,477,844)
Net cash provided by (used in) investing activities	<u>22,421,491</u>	<u>(52,818,051)</u>
Cash flows from financing activities:		
Net (decrease) increase in deposits	(2,750,665)	33,653,971
Advances from long-term borrowings	-	33,000,000
Repayments of long-term borrowings	(1,000,000)	-
Net (decrease) increase in federal funds purchased	(10,600,000)	1,961,000
Dividends - preferred stock	(392,633)	-
Proceeds from stock options	322,400	-
Net cash (used in) provided by financing activities	<u>(14,420,898)</u>	<u>68,614,971</u>
Net increase in cash and cash equivalents	5,260,126	2,061,236
Cash and equivalents at beginning of period	8,195,017	4,328,976
Cash and equivalents at end of period	<u>\$ 13,455,143</u>	<u>\$ 6,390,212</u>
Cash paid for interest	<u>\$ 7,258,232</u>	<u>\$ 7,784,864</u>
Cash paid for taxes	<u>\$ 160,000</u>	<u>\$ 625,000</u>
Foreclosure in satisfaction of loans	<u>\$ 391,179</u>	<u>\$ 480,000</u>

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

1. **Basis of Presentation.** The consolidated balance sheet at December 31, 2008 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, 2009, and for the three and six months ended June 30, 2009 and 2008 are unaudited. Results of operations for the three and six months ended June 30, 2009 and 2008 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, 2008. Certain prior period amounts have been reclassified to conform to the current period presentation, although such reclassifications had no effect on total shareholder's equity or net income.
2. **Recent Accounting Pronouncements.** In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, "*Interim Disclosures about Fair Value of Financial Instruments*" (FSP FAS 107-1). FSP FAS 107-1 amends Statement of Financial Accounting Standards No. 107, "*Disclosures about Fair Value of Financial Instruments*" (SFAS No. 107) to require disclosures about fair value of financial instruments in interim financial statements. FSP FAS 107-1 requires that disclosures be included in both interim and annual financial statements of the methods and significant assumptions used to estimate the fair value of financial instruments. FSP FAS 107-1 is effective for periods ending after June 15, 2009, with early adoption permitted. Comparative disclosures are required only for periods ending subsequent to initial adoption. Magna Bank adopted the provisions of this FSP during the second quarter of 2009.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "*Recognition and Presentation of Other-Than-Temporary Impairments*" (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 clarify the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price. In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP FAS 115-2 and FAS 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Magna Bank adopted the provisions of this FSP during the second quarter of 2009.

Also in April of 2009, the FASB issued staff position No. FAS 157-4, "*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*" (FSP FAS 157-4). This FASB Staff Position (FSP) provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, "*Fair Value Measurements*", when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate when a transaction is not orderly and provides entity latitude in determining the fair value of a security when an orderly market is deemed not to exist. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. Magna owns a number of securities for which it has concluded that an

orderly market does not exist and has adopted the principals of FSP FAS 157-4 in deriving the fair values thereof. These securities are classified as “Level 3” securities disclosed elsewhere in this report.

In April 2009, the FASB issued Staff Position No. 141(R)-1, “*Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*” (“FSP FAS 141(R)-1”). This Staff Position amends and clarifies Statement No. 141, “*Business Combinations*,” to address the initial recognition and measurement of an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability's fair value on the date of acquisition can be determined. When the fair value, at the acquisition date, of an asset acquired or liability assumed cannot be determined, FSP FAS 141(R)-1 requires using the guidance under Statement No. 5, “*Accounting for Contingencies*,” and Interpretation No. 14, “*Reasonable Estimation of the Amount of a Loss*.” FSP FAS 141(R)-1 is effective for assets or liabilities arising from contingencies in business combinations that occur following the start of the first annual reporting period beginning on or after December 15, 2008. The adoption of FSP FAS 141(R)-1 will impact the Company’s accounting for and reporting of acquisitions completed after January 1, 2009.

In May 2009, the FASB issued Statement No. 165, “*Subsequent Events*” (“Statement No. 165”). The objective of Statement No. 165 is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Statement No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Statement No. 165 was effective for the Company for the quarterly period ended June 30, 2009. The Company has evaluated for consideration of recognition or disclosure, subsequent events that have occurred through August 14, 2009, the date of issuance of its financial statements, and has determined that any significant events that occurred subsequent to the balance sheet date but prior to the filing of these financial statements that would have a material impact on its financial statements have been disclosed. The adoption of Statement No. 165 had no material impact on the Company’s financial statements. Subsequent events are disclosed in Note 12.

In June 2009, the FASB issued SFAS No. 166, “*Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140*”. This statement prescribes the information that a reporting entity must provide in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor’s continuing involvement in transferred financial assets. Specifically, among other aspects, SFAS 166 amends Statement of Financial Standard No. 140, “*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*”, or SFAS 140, by removing the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities. It also modifies the financial-components approach used in SFAS 140. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company does not anticipate the adoption of FAS 166 to have a material impact on its consolidated financial statements.

In June 2009, the FASB issued Statement No. 168, “*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*” (“Statement No. 168”). Statement No. 168 replaces FASB Statement No. 162, “*The Hierarchy of Generally Accepted Accounting Principles*”. Statement No. 168 defines the new hierarchy for U.S. GAAP and explains how the FASB will use its Accounting Standards Codification as the sole source for all authoritative guidance. Following Statement No. 168, the FASB will not issue new standards in the form of Statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. The Board will not consider Accounting Standards Updates as authoritative in their own right. Accounting Standards Updates will serve only to update the Codification, provide background information about the guidance, and provide the bases for conclusions on the change(s) in the Codification. Statement No. 168 is effective for interim and annual periods ending after September 15, 2009. Statement No. 168 will have no impact on the Company’s financial statements; however, all future references to authoritative accounting literature will be in accordance with Statement No. 168.

3. **Earnings Per Share.** Earnings per share is computed by dividing net income or loss available 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 options granted under the Company's stock option plan had been issued utilizing the treasury stock method. Diluted earnings per share does not reflect an adjustment for potentially dilutive shares in net loss periods. The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Net income	\$ 789,962	\$ 291,364	\$ 1,202,130	\$ 302,667
Less: Preferred dividends	(192,135)	-	(392,633)	-
Numerator: Net income available to common shareholders	\$ 597,826	\$ 291,364	\$ 809,497	\$ 302,667
Denominator for basic earnings per share				
Weighted average common shares	5,477,100	5,382,100	5,459,780	5,382,100
Add dilutive common shares:				
Employee stock options	<u>3,775</u>	<u>89,706</u>	<u>3,775</u>	<u>89,706</u>
Denominator for diluted earnings per share	<u>5,480,875</u>	<u>5,471,806</u>	<u>5,463,555</u>	<u>5,471,806</u>
Basic earnings per share	<u>\$ 0.11</u>	<u>\$ 0.05</u>	<u>\$ 0.15</u>	<u>\$ 0.06</u>
Diluted earnings per share	<u>\$ 0.11</u>	<u>\$ 0.05</u>	<u>\$ 0.15</u>	<u>\$ 0.06</u>

4. **Employee Stock Option Plan.** Certain employees of the Company have been granted stock options under the Company's non-qualified share-based award plan. Options awarded under the plan are granted with an exercise price equal to the last observed exchange price prior to the date of grant; all shares issued pursuant to the plan are issued from the Company's authorized but un-issued common shares. There are currently 421,265 shares in the plan available for grant.

The compensation cost that has been recognized for our option plan was \$35,277 and \$80,848 for the three and six months ended June 30, 2009, compared to \$91,177 and \$199,554 for the three and six months ended June 30, 2008, respectively. As of June 30, 2009, there was \$109,337 of total unrecognized compensation cost related to our option plan that is expected to be recognized over a weighted average period of 20 months. The weighted average remaining contractual term of options outstanding as of June 30, 2009 is 6.1 years. There was one exercise of vested options during the six months ended June 30, 2009, proceeds from which were \$275,000. There were no exercises of stock options during the three and six months ended June 30, 2008.

The fair value of each option award is estimated on the grant date using the Black-Scholes-Merton option valuation model. The risk-free rate of return is the yield of a U.S. treasury note with a maturity most closely matching the expected term of each option as of the grant date. Since the Company's stock is not listed on any exchange nor actively traded, volatility is calculated as the standard deviation of the hypothetical price of our stock based on internal projections for growth in earnings, book value per share and expected trading multiple. The expected dividend yield used is zero, as the Company does not pay any dividends on its stock and anticipates retaining future earnings for internal growth. The expected term and forfeiture rate of options granted is estimated using historical experience. The following table summarizes changes in both vested and non-vested options in the Plan during the six month period ended June 30, 2009 (aggregate intrinsic value is based on \$7.25 per share value, the last observed exchange price for our stock):

	<u>Vested</u>	<u>Average Exercise Price</u>	<u>Contractual Remaining Term (Years)</u>	<u>Aggregate Intrinsic Value</u>
Balance December 31, 2008	242,078	\$ 6.99		\$ 62,763
Options-exercised	(55,000)	\$ 5.00		
-forfeited	(35,000)	\$ 5.00		
-vested	33,283	\$ 9.88		
Balance June 30, 2009	185,361	\$ 8.48	5.2	\$ 27,368
	<u>Nonvested</u>			
Balance December 31, 2008	95,272	\$ 10.20		\$ -
Options-granted	-	\$ -		
-forfeited	-	\$ -		
-vested	(33,283)	\$ 9.88		
Balance June 30, 2009	61,989	\$ 9.15	8.6	\$ -
Total	247,350	\$ 8.64	6.1	\$ 27,368

5. **Securities Portfolio**. In accordance with FAS No. 115 "Accounting for Certain Investments in Debt and Equity Securities", as of June 30, 2009 and December 31, 2008, the securities in the "Available-for-Sale" category included \$2.0 million and \$1.9 million, respectively, in net unrealized losses. Accordingly, total stockholders' equity was decreased by \$1.2 million at both of those dates (net of taxes), to reflect the adjustment of the securities portfolio to fair value.

The following summarizes the investment securities portfolio as of June 30, 2009 and December 31, 2008:

	<u>Amortized Cost</u>	<u>Unrealized</u>		<u>Fair Value</u>
		<u>Gain</u>	<u>Loss</u>	
June 30, 2009:				
<i>Available-for-sale:</i>				
Agency Preferred stock	\$ 60,301	\$ -	\$ 34,192	\$ 26,109
U.S. Agency	4,357,467	228,947	619	4,585,795
Collateralized mortgage obligations	17,434,641	29,410	2,495,555	14,968,496
Commercial mortgage-backed securities	4,896,543	3,527	177,243	4,722,827
Agency Mortgage-backed securities	20,181,990	503,438	13,252	20,672,176
Subtotal available-for-sale	46,930,942	765,322	2,720,861	44,975,403
<i>Held to maturity:</i>				
Corporate Debt Obligations	2,825,411	132,214	1,706,078	1,251,547
Collateralized mortgage obligations	3,724,341	-	1,943,138	1,781,203
Agency Mortgage-backed securities	4,205,448	220,135	-	4,425,583
Subtotal held-to-maturity	10,755,200	352,349	3,649,216	7,458,333
Total at June 30, 2009	\$ 57,686,142	\$ 1,117,671	\$ 6,370,077	\$ 52,433,736
December 31, 2008:				
<i>Available-for-sale:</i>				
Agency Preferred stock	\$ 60,301	\$ -	\$ 47,476	\$ 12,825
U.S. Agency	4,604,495	156,238	365	4,760,368
Collateralized mortgage obligations	19,905,258	7,774	1,763,478	18,149,554
Commercial mortgage-backed securities	5,703,544	-	338,989	5,364,555
Agency Mortgage-backed securities	22,577,714	265,847	185,943	22,657,618
Subtotal available-for-sale	52,851,312	429,859	2,336,251	50,944,920
<i>Held to maturity:</i>				
Corporate Debt Obligations	2,824,963	-	78,946	2,746,017
Collateralized mortgage obligations	4,053,212	-	768,591	3,284,621
Agency Mortgage-backed securities	4,661,091	183,257	-	4,844,348
Subtotal held-to-maturity	11,539,266	183,257	847,537	10,874,986
Total at December 31, 2008	\$ 64,390,578	\$ 613,116	\$ 3,183,788	\$ 61,819,906

The following table summarizes the components of unrealized loss by reference to the period of time such unrealized losses have been incurred as of June 30, 2009 and December 31, 2008:

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
June 30, 2009:						
Agency Preferred stock	\$ 26,109	\$ 34,192	\$ -	\$ -	\$ 26,109	\$ 34,192
U.S. Agency	-	-	34,731	619	34,731	619
Corporate Debt Obligations	282,945	287,852	2,443,400	1,418,226	2,726,345	1,706,078
Collateralized mortgage obligations	6,137,915	1,552,757	10,339,217	2,885,936	16,477,132	4,438,693
Commercial mortgage-backed securities	3,075,556	102,778	1,301,694	74,465	4,377,250	177,243
Agency Mortgage-backed securities	329,243	1,395	1,360,085	11,857	1,689,328	13,252
	<u>\$ 9,851,768</u>	<u>\$ 1,978,974</u>	<u>\$ 15,479,127</u>	<u>\$ 4,391,103</u>	<u>\$ 25,330,895</u>	<u>\$ 6,370,077</u>

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
December 31, 2008:						
Agency Preferred stock	\$ 12,825	\$ 47,476	\$ -	\$ -	\$ 12,825	\$ 47,476
U.S. Agency	36,123	365	-	-	36,123	365
Corporate Debt Obligations	-	-	2,746,017	78,946	2,746,017	78,946
Collateralized mortgage obligations	19,299,051	2,382,763	1,200,205	149,306	20,499,256	2,532,069
Commercial mortgage-backed securities	5,364,555	338,989	-	-	5,364,555	338,989
Agency Mortgage-backed securities	8,840,603	128,350	1,939,440	57,593	10,780,043	185,943
	<u>\$ 33,553,157</u>	<u>\$ 2,897,943</u>	<u>\$ 5,885,662</u>	<u>\$ 285,845</u>	<u>\$ 39,438,819</u>	<u>\$ 3,183,788</u>

Agency Preferred Stock. The unrealized loss in U.S. agency preferred stock is attributable to the conservatorship of both FNMA and FHLMC, which occurred in September of 2008. All dividend payments on such stock were discontinued at that time and Magna recorded an other than temporary impairment (“OTTI”) charge totaling \$2.3 million through its earnings. The stock is perpetual in nature, thus any future realization of Magna’s remaining investment in this stock is dependent upon a return of these companies to the public sector and a reinstatement of the obligations, an event considered highly unlikely. The reported carrying value is equal to quoted market prices for these issues.

U.S. Agency Debentures and Agency Mortgage backed Securities. The unrealized losses on the Company’s investments in these securities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because Magna does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2009.

Corporate Debt Obligations. The unrealized losses in corporate debt obligations were caused by credit concerns stemming from the disruption in the global credit markets which began in late 2008 and virtually eliminated active trading in such securities. Four of these securities are synthetic credit default swaps and one is a senior tranche of a sequentially-paying CDO, the collateral for which is primarily trust preferred stock issued by REIT’s and REOC’s. We recorded an OTTI charge to earnings related to these securities totaling \$3.4 million in the fourth quarter of 2008. During the second quarter of 2009, Magna adopted the provisions of FSP FAS 115-2 and 124-2, which resulted in the reclassification of the non-credit related portion of the OTTI charge, totaling \$1.0 million, from retained earnings to a new category of equity reported as other comprehensive income. Magna uses rating agency default and loss forecasts to calculate the expected cash flow shortfall in these securities each quarter. Magna does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases.

Collateralized Mortgage Obligations. The unrealized loss in non-agency collateralized mortgage obligations is primarily attributable to credit concerns caused by the economic recession which began in 2008. These securities are collateralized by residential mortgages that were originated during a period of reduced credit underwriting standards (2004 – 2007) and, in some cases, are secured by real estate that has seen significant declines in value due to oversupply and high levels of foreclosure. The nationally recognized rating agencies have revised their

rating methodologies for this class of asset to introduce more severe loss scenario outcomes when collateral performance metrics (i.e. default rate, foreclosure frequency and loss severity) are stressed, resulting in a significant number of tranches within these securities being either downgraded outright or placed on watch list for possible downgrade. Magna uses a third-party analytics firm to evaluate the possibility of credit loss in these securities each quarter end, which resulted in an OTTI charge of \$711,000 in the fourth quarter of 2008. During the second quarter of 2009, Magna adopted the provisions of FSP FAS 115-2 and 124-2, which resulted in the reclassification of the non-credit related portion of the OTTI charge, totaling \$414,000, from retained earnings to a new category of equity reported as other comprehensive income.

Although all securities Magna owns were investment grade (BBB or better) when purchased, approximately 14% of the total portfolio (and 33% of the RMBS portfolio), is no longer investment grade, as seen in the following table (S&P equivalent where not rated by S&P):

Rating	Available for Sale	Held to Maturity	Total	%	RMBS Only	%
AAA	\$ 37,995,399	\$ 5,827,943	\$ 43,823,342	78.6%	\$ 10,499,270	56.2%
AA+	244,567	-	244,567	0.4%	-	0.0%
AA	1,617,182	-	1,617,182	2.9%	-	0.0%
A	392,226	-	392,226	0.7%	392,226	2.1%
BBB+	765,174	-	765,174	1.4%	765,174	4.1%
BBB	966,944	-	966,944	1.7%	966,944	5.2%
Investment grade	41,981,492	5,827,943	47,809,435	85.8%	12,623,614	67.5%
BB	1,163,780	1,903,051	3,066,830	5.5%	2,483,123	13.3%
B+	-	1,291,691	1,291,691	2.3%	1,291,691	6.9%
B	1,804,023	490,386	2,294,409	4.1%	2,294,409	12.3%
B-	-	1,127,343	1,127,343	2.0%	-	0.0%
CCC+	-	72,047	72,047	0.1%	-	0.0%
CCC	-	42,739	42,739	0.1%	-	0.0%
C	26,108	-	26,108	0.0%	-	0.0%
Non-investment grade	2,993,911	4,927,257	7,921,168	14.2%	6,069,223	32.5%
Total	\$ 44,975,403	\$ 10,755,200	\$ 55,730,603	100.0%	\$ 18,692,837	100.0%

6. Loans. Major categories of loans at June 30, 2009 and December 31, 2008 are summarized as follows:

	June 30, 2009		December 31, 2008		Increase (Decrease)	
Commercial Loans:						
Mortgage	\$ 130,490,723	34.8%	\$ 132,345,296	33.8%	\$ (1,854,573)	-1.4%
Construction	46,153,107	12.3%	47,844,858	12.2%	(1,691,751)	-3.5%
Other	28,167,550	7.5%	33,456,092	8.6%	(5,288,542)	-15.8%
	204,811,380	54.6%	213,646,246	54.6%	(8,834,866)	-4.1%
Consumer Loans:						
First Mortgage	88,859,288	23.6%	92,915,873	23.8%	(4,056,585)	-4.4%
Junior Mortgage, Primarily HELOC	68,830,027	18.4%	71,400,918	18.3%	(2,570,891)	-3.6%
Construction	14,743,362	3.9%	14,874,791	3.8%	(131,429)	-0.9%
Other	3,206,414	1.0%	3,466,191	0.9%	(259,777)	-1.6%
	175,639,091	46.9%	182,657,773	46.8%	(7,018,683)	-3.8%
Total loans	380,450,471	101.5%	396,304,019	101.4%	(15,853,549)	-4.0%
Allowance for loan losses	(5,744,611)	-1.5%	(5,283,639)	-1.4%	(460,972)	8.7%
Net loans	\$ 374,705,860	100.0%	\$ 391,020,380	100.0%	\$ (16,314,521)	-4.2%

7. Segment Information. The Bank operates two divisions: banking and mortgage. The banking division focuses on originating loans for its portfolio. These include first and second residential mortgages, revolving home equity loans, residential and commercial construction loans, commercial real estate loans and non-real estate commercial loans. The banking division funds its operations by gathering customer savings and transactional deposits and through wholesale brokered deposits. Additional funding comes from borrowings at the Federal Reserve Bank of St. Louis, the Federal Home Loan Bank and fed funds lines. The mortgage

division originates and delivers residential first mortgages to investors (including, in certain instances, to the banking division) and services residential mortgage loans for others. Transactions between business segments are conducted at fair value and are eliminated for reporting consolidated financial position and results of operations. Expenses for centrally provided services such as corporate compliance, legal representation, human resources, accounting and information technology are allocated to each segment based upon usage or per-unit-of-production. Corporate governance costs, including the chairman of the board and the board of directors, are borne by the banking segment. Each segment bears its own loan losses and other ancillary business expenses. Additionally, the mortgage division incurs interest transfer charges/credits for the assets and liabilities it employs in the conduct of its operations. The net amount of these transfer charges/credits has been eliminated from the Banking segment in the following tables, which present condensed statements of operations and average assets for each reportable segment.

	Three Months ended June 30,					
	2009			2008		
	Banking	Mortgage	Total	Banking	Mortgage	Total
Net interest income	\$ 3,025,975	\$ 367,029	\$ 3,393,004	\$ 2,677,441	\$ 504,767	\$ 3,182,208
Provision for loan losses	(382,070)	(16,900)	(398,970)	(484,000)	(300)	(484,300)
Net interest income after provision for loan losses	2,643,905	350,129	2,994,034	2,193,441	504,467	2,697,908
Non-interest income	260,291	3,654,887	3,915,178	585,283	2,983,291	3,568,574
Non-interest expense	2,927,071	2,690,509	5,617,580	3,129,348	2,664,489	5,793,837
Income (loss) before taxes	(22,875)	1,314,507	1,291,632	(350,624)	823,268	472,645
Income tax expense (benefit)	(9,567)	511,237	501,670	(138,452)	319,733	181,281
Net income (loss)	\$ (13,308)	\$ 803,270	\$ 789,962	\$ (212,172)	\$ 503,535	\$ 291,364
Average assets	\$ 462,452,173	\$ 52,819,578	\$ 515,271,751	\$ 449,979,009	\$ 56,575,709	\$ 506,554,718
Operating Efficiency	89.07%	66.90%	76.87%	95.91%	76.39%	85.82%

	Six Months ended June 30,					
	2009			2008		
	Banking	Mortgage	Total	Banking	Mortgage	Total
Net interest income	\$ 5,873,145	\$ 671,160	\$ 6,544,305	\$ 5,311,718	\$ 971,657	\$ 6,283,375
Provision for loan losses	(797,060)	(17,600)	(814,660)	(913,687)	19,200	(894,487)
Net interest income after provision for loan losses	5,076,085	653,560	5,729,645	4,398,031	990,857	5,388,888
Non-interest income	519,432	6,883,693	7,403,125	848,867	5,631,235	6,480,102
Non-interest expense	5,705,251	5,427,743	11,132,994	6,061,678	5,310,475	11,372,153
Income (loss) before taxes	(109,734)	2,109,510	1,999,776	(814,780)	1,311,617	496,837
Income tax expense (benefit)	(42,985)	840,631	797,646	(308,000)	502,170	194,170
Net income (loss)	\$ (66,749)	\$ 1,268,879	\$ 1,202,130	\$ (506,780)	\$ 809,447	\$ 302,667
Average assets	\$ 463,399,519	\$ 54,591,471	\$ 517,990,990	\$ 437,919,647	\$ 55,477,418	\$ 493,397,065
Operating Efficiency	89.25%	71.84%	79.82%	98.39%	80.43%	89.10%

8. **Mortgage Servicing Rights.** The Company's Mortgage Division retains the servicing rights ("MSRs") to a portion of the mortgage loans it sells to third party investors and, to a much lesser extent, purchases mortgage servicing rights from third parties. The book value of purchased servicing rights is equal to the total acquisition cost, including transfer and related set-up charges. The value of retained servicing rights, as well as the gain on the sale of the related mortgage loan, is determined by allocating the Company's basis in the financial asset to the loan receivable and the servicing rights retained based upon the relative fair value of each component. MSRs are amortized over the period of, and in proportion to, the estimated future net servicing income of the mortgage loans serviced, using actual prepayments, foreclosures, cost to service and escrow balances.

Each quarter the Company evaluates its investment in MSRs for evidence of impairment resulting from changes in the projected rate of prepayment, cost to service, market discount rates and other factors. For purposes of measuring possible impairment, the underlying mortgages are subdivided into tranches based upon term and interest rate. These tranches are then evaluated using projected prepayment speeds,

servicing costs and market discount rate information provided by third party brokers knowledgeable in the execution of exchanges of MSR's. If it is determined that the fair value of MSRs is less than the remaining book value, a valuation allowance is established through a charge to earnings. Due primarily to a sharp decline in residential mortgage rates at December 31, 2008, Magna recognized an impairment charge of \$1.2 million as of that date. During the first quarter of 2009, Magna recorded a recovery of \$400,000 of this impairment as mortgage rates increased. At June 30, 2009, the calculation of impairment had further declined, resulting in a further recovery of \$660,000 during the quarter ended June 30, 2009. Such amounts are included in amortization of servicing rights, net of impairment recovery for the three and six months ended June 30, 2009, in the accompanying consolidated income statement.

9. **Fair Value Disclosures.** SFAS No. 157, "Fair Value Measurements" establishes a framework for measuring the fair value of assets and liabilities. SFAS No. 157 establishes a fair value 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 quotes prices for the specific securities but rather by relying on the pricing relationship or correlation among other benchmark quoted securities. Where no active market exists for a security or other benchmark securities, fair value is estimated by the Company with reference to discount margins for other high risk securities. Available-for-sale securities valued using quoted market prices of similar instruments or that are valued using matrix pricing are classified as Level 2.

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

Loans held for sale: Loans held for sale are carried at the lower of cost or estimated fair value on a loan level basis and are subject to non-recurring fair value adjustments. Estimated fair value is determined based on posted market prices for uncommitted loans and on firm purchase commitments from third party investors for committed loans. Loans held for sale were carried at cost on the consolidated balance sheet at June 30, 2009 and December 31, 2008, respectively.

Foreclosed real estate: Foreclosed real estate (“OREO”) is comprised of commercial and residential real estate obtained in partial or total satisfaction of loan obligations. OREO 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 of \$7,455 and gains of \$1,770 in the consolidated income statement as of June 30, 2009 and 2008, respectively, related to the sale of foreclosed real estate.

Impaired loans: Loans considered impaired under SFAS No. 114 “Accounting by Creditors for Impairment on a Loan,” as amended by SFAS No. 118, “Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosure,” are loans for which, based on current information and events, it is probable that the creditor 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, 2009 are presented in the following table.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
Recurring valuation:				
Securities available for sale	\$ -	\$ 44,975,403	\$ -	\$ 44,975,403
Non-recurring valuation:				
Mortgage servicing rights	\$ -	\$ -	\$ 10,602,947	\$ 10,602,947
Foreclosed real estate	-	-	2,599,475	2,599,475
Impaired loans	-	-	8,217,971	8,217,971
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,420,393</u>	<u>\$ 21,420,393</u>

The following table presents changes in level 3 assets measured at fair value on a recurring basis for the six month period ended June 30, 2009:

	Available-for- sale Securities
Balance at December 31, 2008	\$ 713,849
Total net gains included in:	
Net income	-
Other comprehensive income	-
Purchases, sales and settlements, net	-
Transfers in (out) of level 3	(713,849)
Balance at June 30, 2009	<u>\$ -</u>
Net unrealized gains included in net income for the quarter relating to assets held at June 30, 2009	<u>\$ -</u>

The securities with recorded OTTI as of June 30, 2009 that are classified as held-to-maturity securities are not reflected in the table above because the Company does not record held-to-maturity securities at fair value on a recurring or non-recurring basis. However, held-to-maturity securities are analyzed each reporting period for potential impairment. The fair value of held-to-maturity securities that had an OTTI charge recorded in the fourth quarter of 2008 based on Level 3 valuations is \$2.7 million as of June 30, 2009. The Company performed a review of our securities portfolio as of June 30, 2009, and based on the review no additional OTTI charges were recorded in the current quarter.

10. Fair Value of Financial Instruments. Accounting standard FSP FAS 107-1, “*Interim Disclosures about Fair Value of Financial Instruments*” requires the disclosure of estimated fair values of all assets, liabilities and off-balance sheet financial instruments for which it is practical to estimate such value. Fair value is a point in time estimate 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 widely 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 regarding prepayment rates on loans containing such options using OTS prepayment tables. The discount rate on each loan is based on the yield curve observed by reference to the fixed rate term advance rates posted by the FHLB of Cincinnati, which approximates the swap curve. All loans are discounted at 2.50% over this hypothetical funding rate.

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

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

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

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

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

	June 30, 2009		December 31, 2008	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Financial Assets				
Securities available for sale	\$ 44,975,403	\$ 44,975,403	\$ 50,944,920	\$ 50,944,920
Securities held to maturity	10,755,200	10,874,986	11,539,266	10,874,986
Commercial Loans:				
Mortgage	130,490,723	120,971,723	132,345,296	120,698,582
Construction	46,153,107	42,730,681	47,844,858	47,230,657
Other	28,167,550	26,928,738	33,456,092	32,464,441
Consumer Loans:				
First Mortgage	88,859,288	79,049,506	92,092,253	81,262,201
Junior Mortgage, Primarily HELOC	68,830,027	51,569,371	71,400,918	67,087,792
Construction	14,743,362	12,390,492	15,698,411	14,615,988
Other	3,206,414	3,037,176	3,466,191	3,244,782
Mortgage loans held for sale	28,275,423	28,275,423	24,214,907	24,214,907
Mortgage servicing rights	10,602,947	11,341,670	9,287,775	9,152,911
Financial Liabilities				
Non interest-bearing deposits	32,597,308	26,588,071	25,101,795	21,759,425
Interest-bearing deposits with no stated maturity	140,257,148	117,780,375	103,032,003	89,687,617
Interest-bearing deposits with a stated maturity	159,900,068	158,595,240	181,218,394	180,072,095
Brokered deposits	37,879,999	37,795,383	64,032,996	63,861,745
Short-term borrowings	-	-	10,600,000	10,600,000
Federal Home Loan Bank advances	74,500,000	77,944,198	75,500,000	80,250,928

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 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.
12. **Subsequent Events.** The Company sold our Brentwood branch to Reliant Bank on July 31, 2009. The sale involved approximately \$35 million in loans and \$42 million in deposits. Following the completion of this transaction, our capital ratios will improve due to balance sheet reductions and the \$1.8 million pre-tax gain from the sale.

Selected Quarterly Data (Unaudited)
Five Consecutive Quarters



	Quarter Ended				
	June-09	March-09	December-08	September-08	June-08
Operating data:					
Interest income	\$ 6,349,985	\$ 6,517,481	\$ 7,000,686	\$ 7,256,751	\$ 6,993,191
Interest expense	2,956,981	3,343,674	3,761,661	3,929,214	3,810,983
Net interest income	3,393,004	3,173,807	3,239,025	3,327,537	3,182,208
Provision for loan losses	398,970	415,690	1,116,553	515,960	484,300
Net interest income after provision for loan losses	2,994,034	2,758,117	2,122,472	2,811,577	2,697,908
Non-interest income	3,915,178	3,465,436	2,621,874	3,181,553	3,568,574
Impairment charges (recovery of impairment)	(660,000)	(400,000)	5,312,000	2,383,000	-
Non-interest expense	6,277,580	5,915,413	5,306,050	5,165,635	5,793,837
Income (loss) before taxes	1,291,632	708,140	(5,873,704)	(1,555,505)	472,645
Income tax expense (benefit)	501,670	295,976	(3,139,723)	314,893	181,281
Net income (loss)	789,962	412,164	(2,733,981)	(1,870,398)	291,364
Other comprehensive income (loss)	862,372	(898,024)	(616,366)	234	(60,176)
Total comprehensive income (loss)	\$ 1,652,334	\$ (485,860)	\$ (3,350,347)	\$ (1,870,164)	\$ 231,188
Net income (loss) available to common shareholders	\$ 597,826	\$ 211,671	\$ (2,733,981)	\$ (1,870,398)	\$ 291,364
Per share data:					
Income (loss) per share - diluted	\$ 0.11	\$ 0.04	\$ (0.50)	\$ (0.35)	\$ 0.05
Weighted average shares outstanding - diluted	5,480,875	5,442,267	5,422,100	5,382,100	5,471,806
Book value per common share (at period end)	\$ 7.44	\$ 7.20	\$ 7.29	\$ 7.98	\$ 8.28
Balance sheet data (at period end):					
Total assets	\$ 505,656,895	\$ 521,063,461	\$ 521,047,466	\$ 531,074,140	\$ 533,061,411
Total securities	55,730,603	58,301,657	62,484,186	69,418,936	60,742,142
Loans held-for-sale	28,275,423	30,326,942	24,214,907	18,246,269	31,914,915
Total loans	380,450,471	395,571,034	396,304,019	405,873,452	406,638,709
Total loans-adjusted ¹	365,990,338	380,215,703	380,156,680	389,006,766	387,293,184
Allowance for loan losses	(5,744,611)	(5,684,688)	(5,283,639)	(4,197,247)	(3,877,766)
Mortgage servicing rights, net	10,602,947	9,923,039	9,287,775	10,406,721	11,547,573
Foreclosed real estate, net	2,599,475	2,741,310	2,793,875	2,441,172	502,062
Servicing escrows	18,487,509	14,786,977	10,085,847	20,061,873	17,838,949
Brokered deposits	37,879,999	46,059,000	64,032,996	61,590,000	48,873,000
Total deposits	370,634,523	378,510,988	373,385,188	388,891,988	334,160,257
Borrowings	74,500,000	84,500,000	86,100,000	89,623,000	144,221,000
Equity	54,640,537	53,029,086	53,347,417	42,966,466	44,583,568
Financial ratios:					
Equity to assets	10.81%	10.18%	10.24%	8.09%	8.36%
Loans to deposits	102.65%	104.51%	106.14%	104.37%	121.69%
Allowance for loan losses to loans	1.51%	1.44%	1.33%	1.03%	0.95%
Allowance for loan losses to non-performing loans	69.90%	74.15%	67.10%	63.27%	41.77%
Non-performing loans to loans	2.16%	1.94%	1.99%	1.63%	2.28%
Non-performing loans to loans-adjusted ¹	1.00%	0.95%	0.73%	0.55%	1.18%
Non-performing assets to total assets	2.14%	2.00%	2.05%	1.71%	1.84%
Non-performing assets to total assets-adjusted ¹	1.25%	1.23%	1.08%	0.87%	0.96%
Operating efficiency	85.9%	89.1%	90.5%	79.4%	85.8%
Return on average assets	0.61%	0.32%	-2.14%	-1.40%	0.23%
Return on average equity	5.90%	3.05%	-24.79%	-16.98%	2.63%
Net interest spread	2.47%	2.25%	2.31%	2.26%	2.25%
Net interest margin	2.83%	2.62%	2.70%	2.68%	2.69%

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

Item 2.

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

This discussion analyzes major factors and trends regarding the consolidated financial condition of Magna Bank (the "Company," "Magna," "Bank," "We" or "Us") as of June 30, 2009 and December 31, 2008 and the consolidated results of operations for the three and six month periods ended June 30, 2009 and 2008. The discussion should be read in conjunction with the unaudited consolidated financial statements and the notes thereto as of and for the quarters then ended.

EXECUTIVE OVERVIEW

Net income available to common shareholders for the second quarter of 2009 was \$597,826 compared to \$291,364 in the same quarter of 2008. Year to date amounts were \$809,497 and \$302,667, respectively. Net interest income and non-interest income were up over the comparable year ago quarter and year to date amounts while loan loss provision and operating expenses were both reduced from their year ago amounts.

Total assets at June 30, 2009 were \$505.7 million, down \$15.4 million (3.0%) from the end of 2008. Loans and securities led the decline, as we allowed securities to pay off without replacement and the demand for credit slowed dramatically, which is typical of a recessionary economy. Deposits declined slightly by \$2.8 million (.7%), but we saw a 7.5% increase in customer deposits and a 40.8% decrease in brokered deposits. While brokered time deposits are generally less costly than retail deposits, we have achieved our goal of reducing brokered deposits to 10% or less of total deposits.

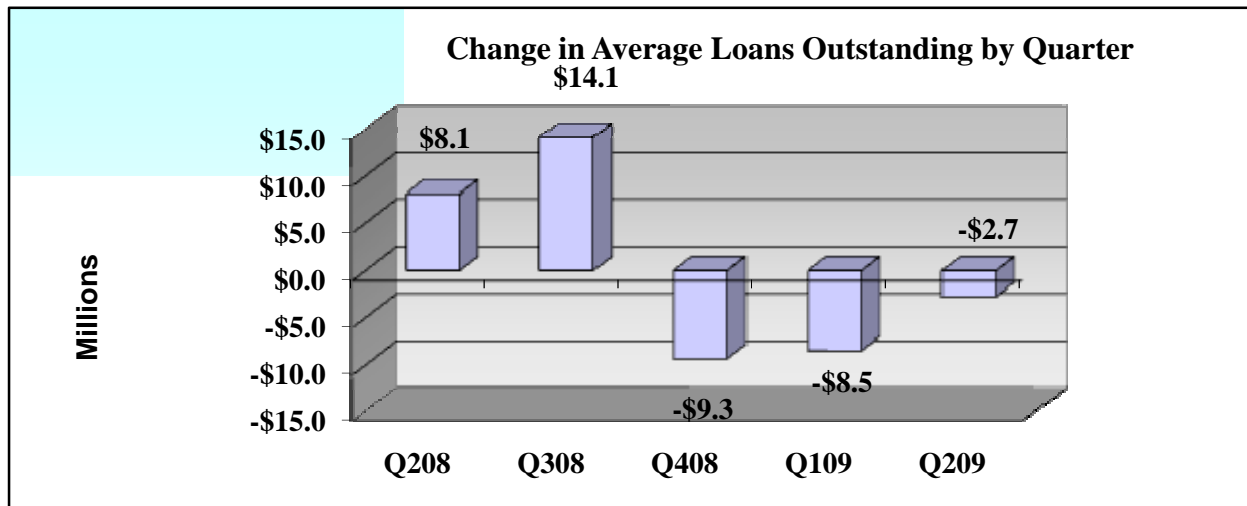
Magna's management focus during the second quarter was on asset quality, spread improvement and expense control. The provision for loan losses for the quarter was \$398,970 compared to \$415,690 for the preceding quarter, and the loan loss allowance totaled 1.51% of outstanding loans at quarter end. Charge-off of uncollectible loans totaled \$339,047 during the quarter and \$353,688 for the year to date period. Although these amounts represent historical highs for Magna Bank, they translate to an annualized charge off rate of .18% of average loans outstanding, which we believe is respectable in today's difficult banking environment. We are also closely monitoring the credit quality in our securities portfolio for evidence of possible credit losses. There were no additional other than temporary impairment charges at June 30, 2009, 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.

We continued implementing interest rate floors in all new or renewed loans during the quarter and re-priced a significant volume of time deposits. Between March 31, 2009 and June 30, 2009, the cost of interest bearing liabilities fell from 2.90% to 2.24%. Net interest income increased from \$3.2 million in the first quarter to \$3.4 million for the second quarter. We expect to see net interest income climb during the remainder of the year. Net interest margin for the second quarter was 2.83%, an increase of .21% from the 2.62% achieved in the preceding quarter.

Operating expenses, excluding amortization of mortgage servicing rights, increased by \$335,916 (6.5%) quarter over quarter, largely due to a \$230,000 FDIC deposit insurance assessment, which was in addition to the recurring quarterly deposit insurance expense of \$145,000 in the second quarter of 2009. FDIC deposit insurance expense totaled \$58,000 in the second quarter of 2008. We continue to exert tight expense controls on every area of the Bank and are ahead of plan in this area.

The Company sold our Brentwood branch to Reliant Bank on July 31, 2009. The sale involved approximately \$35 million in loans and \$42 million in deposits. Following the completion of this transaction, our capital ratios will improve due to balance sheet reductions and the \$1.8 million pre-tax gain from the sale. We have adequate liquidity to fund the deposits Reliant Bank will assume without impeding our ability to fund new loans in the Memphis market.

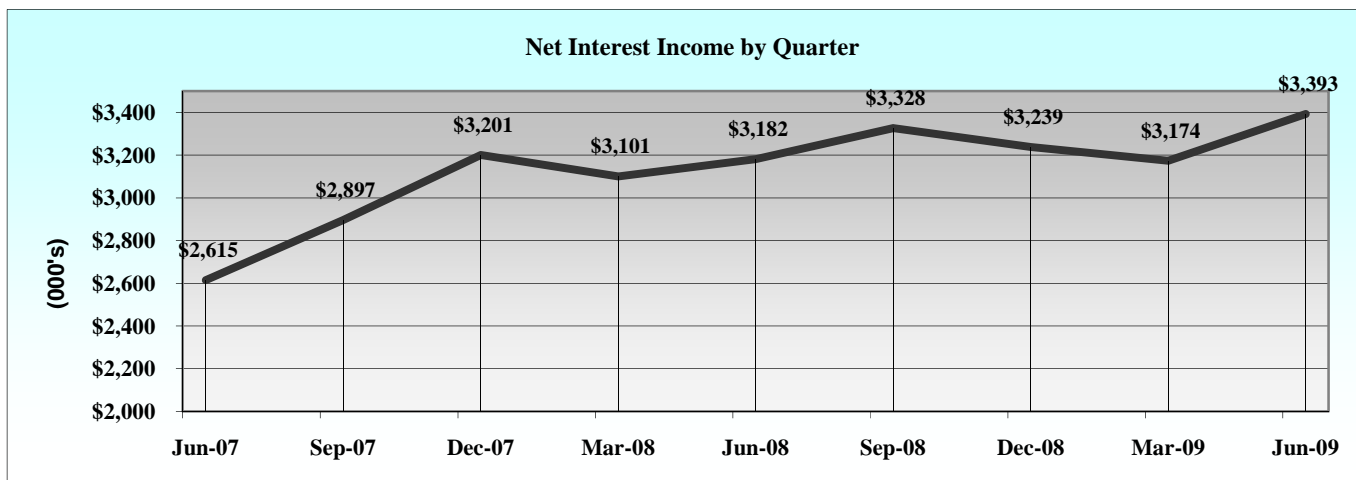
Average loans outstanding during the second quarter of 2009 totaled \$387.2 million, a 2.7% decrease from the preceding quarter. The following chart shows sequential changes in the amount of loans outstanding since the end of the second quarter of 2008:



Non-performing loans totaled \$8.2 million at June 30, 2009, an increase of \$551,630 (7.2%) from the preceding quarter end and \$343,400 (4.4%) from the end of 2008. The ratio of non-performing loans to total loans consequently increased to 2.16% and non-performing assets (which includes non-performing loans and foreclosed real estate) increased to 2.14% of total assets. These ratios are reduced to 1.00% and 1.25%, respectively, when deducting the component of non-performers represented by loans backed by the full faith and credit of the United States, which management does for purposes of peer comparison. Although asset quality is a constant focus at Magna, management is especially diligent in monitoring the quality and performance of the loan portfolio during these recessionary times.

The allowance for loan losses was 1.58% of total loans (excluding full-faith and credit FHA/VA loans) outstanding at June 30, 2009 compared to 1.40% at December 31, 2008.

Magna achieved its highest level of quarterly net interest income in the quarter ended June 30, 2009 at \$3.4 million, from both a lower average balance of and average rate on interest bearing liabilities. Net interest spread and net interest margin improved from 2.25% and 2.62%, respectively, in the first quarter of 2009 to 2.47% and 2.83%, respectively, for the quarter ended June 30, 2009. We expect further improvement in these two metrics over the remainder of 2009 if the general level of market interest rates remains unchanged. The following chart shows the changes in quarterly net interest income over the past two years:



Excluding the impact of impairment charges and recoveries, operating expenses totaled \$6.3 million for the second quarter of 2009 compared to \$5.9 million for the preceding quarter and \$5.8 million for the second quarter of 2008. Both the quarter over quarter and year over year increases were primarily driven by the imposition of the special FDIC deposit insurance assessment of \$230,000 and by higher levels of incentives earned in the mortgage division connected to profitability.

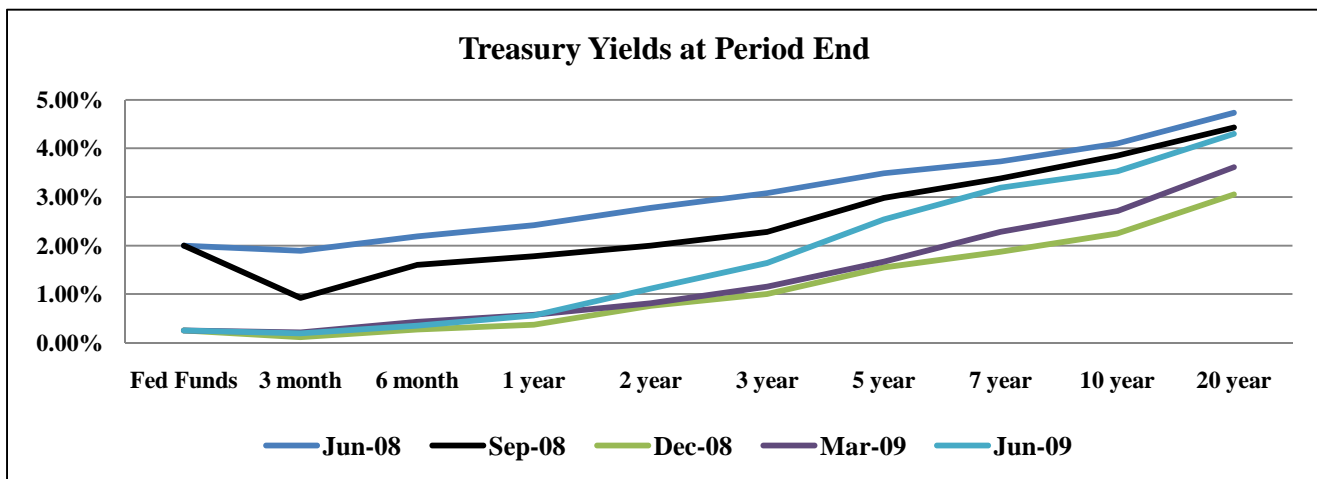
In the fourth quarter of 2008, the Company recorded an MSR impairment charge of \$1.2 million, but had recovered all except \$150,000 by June 30, 2009. We may incur additional impairment charges or recoveries during 2009, if mortgage interest rates rise or fall from current levels, which may result in valuation charges related to our MSR investment.

On a fully-diluted basis, income per common share for the quarter totaled \$.11 compared to income per share of \$0.05 for 2008. To our knowledge there were no shares of Magna stock traded during the quarter ended June 30, 2009.

Economic trends. The economy remained in a persistent state of recession during the second quarter of 2009 as (i) the unemployment rate reached 9.5% and job losses approached 3 million, (ii) business' continued to cut inventory overhang, (iii) manufacturing utilization remained at its lowest level since the great depression and (iv) consumer spending remained sluggish with high levels of personal savings. Core inflation continued its slow rate of growth and the FOMC remained accommodative in leaving the targeted federal funds rate at 0% to .25% at both of its meetings during the quarter. In testimony before the U.S. Congress after the quarter's end, FOMC chairman Bernanke indicated that the FOMC likely will remain accommodative through the remainder of 2009.

The liquidity measures enacted by the Federal Reserve have kept mortgage rates low and spreads in U.S. agency securities historically tight to the treasury curve. Certain economic indicators, most noticeably the rate of new housing starts and inventory of unsold homes, appear to be improving although are still well below their pre-recession levels. The stock market (as measured by the Dow index) climbed past 8,500 for the first time in many months and shows a positive return year to date. Most economists agree that the remainder of 2009 will be weak with true reversal of the recession probably not showing up until 2010.

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



RealtyTrac, an organization that tracks real estate trends nationally, reported that Tennessee, which ranked 16th among all states in the rate of foreclosures for June, 2009, experienced 4,679 foreclosure filings, while Shelby County had 1,753 foreclosure filings for the month of June 2009 (1 in every 227 housing units). Shelby County experienced 5,101 and 4,575 foreclosure filings for the quarter ended March 31, and June 30, 2009, respectively, a decrease of 10.3%. At June 30, 2009, the county had a total of 8,324 foreclosed homes for sale. Nationally, RealtyTrac reported 337,206 new foreclosure filings in June, 2009, an increase of 4.9% from the previous month.

In Memphis, the number of home sales as reported by the local realtor association fell by 13.2% and 16.6% for the month of June and for the year to date periods, respectively, for 2009 compared to 2008.

Actual and expected consequences. At the end of the first quarter we communicated our expectation of improved net interest income absent a change in market interest rates and/or a significant change in competitive pricing pressures. As neither of those two events occurred, both spread and margin improved, although much of the improvement occurred late in the second quarter. Consequently we expect further improvement in net interest income over the remainder of the year, particularly in the third quarter, although there can be no assurance of that expectation due to the unknown nature of the FOMC's actions and uncertainty of the liquidity needs of the banking industry.

Average loans outstanding for the second quarter of 2009 was targeted at \$397.1 million versus \$387.2 million actually achieved. Overall, we expect the loan portfolio to shrink further during the remainder of 2009, primarily as the result of the sale of our Brentwood, Tennessee branch which was announced on April 19, 2009, and includes approximately \$35 million in loans to be sold.

The Bank's new branches (those opened less than two years) continue to exhibit strong deposit growth, as seen in the following table:

Location	Open Date	MMDA &			Total
		DDA & NOW	Savings	Time	
Wolf River Parkway	November-07	\$ 5,626,088	\$ 18,406,224	\$ 24,177,678	\$ 48,209,990
Poplar/Oak Court	August-08	3,925,221	12,500,774	11,831,336	28,257,331
Poplar/Forest Hill	November-08	767,406	5,298,391	5,836,887	11,902,684
		<u>\$ 10,318,715</u>	<u>\$ 36,205,389</u>	<u>\$ 41,845,901</u>	<u>\$ 88,370,005</u>
		11.68%	40.97%	47.35%	100.00%

Residential mortgage banking, which is the largest investment in terms of management, human resources and support within our Company, has been very strong in 2009, with year over year quarterly volume up 36.5%. Year to date, volume is up 43.9%, with the higher year to date amount reflective of the refinance wave we experienced in the first quarter of 2009. We anticipate that 2009's overall total will slow from the pace of the last six months, but will exceed 2008's by a substantial margin because we have added loan officers from competitors who are curtailing their mortgage lending and due to the favorable refinance market. Mortgage loan origination volume by operating region and non-interest income are presented in subsequent tables.

Financial condition analysis. Total assets were \$505.7 million at June 30, 2009 compared to \$521.0 million at December 31, 2008. The carrying value of liquid assets, which include cash, cash equivalents and securities available for sale, declined by \$709,391 from year end 2008, while securities held to maturity paid down by an additional \$784,066. During the quarter, the fair value of securities in the available for sale portfolio improved by \$1.4 million, which offset the \$1.5 million decline in value exhibited during the first quarter of the year. Substantially all of the recovery was in the category of non-agency residential mortgage backed securities, as this asset class has shown significant volatility in price across all levels of subordination on fears of continued escalation in delinquencies and foreclosures. At June 30, 2009, Magna performed a detailed analysis of all securities we own, evaluating each security on the basis of current collateral performance (base case) and a forecasted worsening scenario (stressed case). Both of these performance forecasts project a worsening economic environment for the next two years, followed by a stabilizing environment for an additional two years, followed by a gradually improving economic environment thereafter. None of our securities met the criteria for OTTI recognition as of June 30, 2009. We will diligently review these securities each quarter for evidence of a meaningful principal loss occurring within a foreseeable time frame and will recognize other than temporary impairment if such condition exists. Magna does not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost bases, which may be maturity.

Loan balances fell by \$15.2 million during the second quarter of 2009. Approximately \$10 million of this decline was attributable to a handful of large commercial loans which we declined to renew or for which we saw voluntary pay off. The remainder was predominately in our residential first mortgage portfolio, where payoffs exceeded new loans due to the lack of demand for adjustable rate mortgages which we portfolio.

Total non-performing loans increased by \$343,400 (4.4%) during the first six months of 2009, while non-accrual loans increased by \$678,794 (24.5%) during this same time frame. These amounts include non-performing FHA/VA insured (full faith and credit) loans which are delinquent when we purchase them from GNMA pools we service. Excluding the decline in non-performing FHA/VA loans, non-performing loans increased by \$897,690 to \$3.7 million at June 30, 2009 compared to \$2.8 million at the end of the preceding year. The Company is proactively monitoring our loan portfolio for impairment.

Net charge-offs totaled \$339,047 and \$353,688 for the three and six month periods ended June 30, 2009 compared to \$91,264 and \$149,053 in 2008, respectively. Based on the level of our classified assets and loan delinquency statistics, we expect that charge-off activity may increase throughout the remainder of 2009. Charge-offs totaled \$375,693 for all of 2008.

The following table summarizes non-performing and past due loans as of June 30, 2009 and December 31, 2008:

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Non-accrual loans:		
Recorded investment with related allowance for credit losses:		
Residential construction	\$ 389,200	\$ 330,000
Commercial real estate	35,000	-
Junior Mortgage, Primarily HELOC	23,100	-
Consumer other	135,400	50,000
Recorded investment without related allowance for credit losses:		
Residential construction	907,513	1,566,985
Commercial real estate	339,290	-
Commercial other	146,593	-
Single family residential, first mortgage, with private mortgage insurance	866,924	225,010
Single family residential, first mortgage, without private mortgage insurance	606,379	598,610
Total non-accrual loans	3,449,399	2,770,605
Past due 90 or more days and still accruing interest:		
Single family residential, first mortgage, FHA/VA insured	4,549,236	5,103,526
Single family residential, first mortgage, without private mortgage insurance	219,336	440
Total loans past due and still accruing interest	4,768,572	5,103,966
Total non-performing loans	\$ 8,217,971	\$ 7,874,571
Non-performing loans as a % of total loans	<u>2.16%</u>	<u>1.99%</u>
Non-performing loans exclusive of FHA/VA insured loans	\$ 3,668,735	\$ 2,771,045
Non-performing loans as a % of total loans, excluding FHA/VA insured loans	<u>1.00%</u>	<u>0.73%</u>

The Bank has established an allowance for loan losses based on past loan performance, the level of past due and non-accrual loans, the size and mix of the portfolio, loan growth trends, adverse classification at recent regulatory examinations, general economic conditions in the market area, and a review of individual loans to identify potential credit problems. In evaluating the adequacy of the allowance, management makes certain estimates and assumptions which are susceptible to change in the near term. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based upon changes in economic conditions. The following table summarizes the components of the allowance for loan losses at June 30, 2009 and December 31, 2008.

	<u>June 30, 2008</u>	<u>% of outstanding balance ⁽¹⁾</u>	<u>December 31, 2008</u>	<u>% of outstanding balance ⁽¹⁾</u>
One-to-four family residential	\$ 470,063	0.64%	\$ 439,764	0.59%
Construction and land development	709,773	1.17%	1,014,891	1.62%
Other, primarily revolving home equ	1,302,620	1.89%	1,213,055	1.70%
Commercial real estate	2,695,717	2.07%	2,095,820	1.58%
Commercial & Industrial	362,861	1.29%	410,044	1.23%
Consumer	203,577	6.35%	110,065	3.18%
Total	\$ 5,744,611	1.58%	\$ 5,283,639	1.40%

1: Denominator excludes FHA/VA loans in the one-to-four family residential category totaling \$15.8 million and \$17.8 million at June 30, 2009 and December 31, 2008, respectively, losses from which are charged to the FHA/VA reserve.

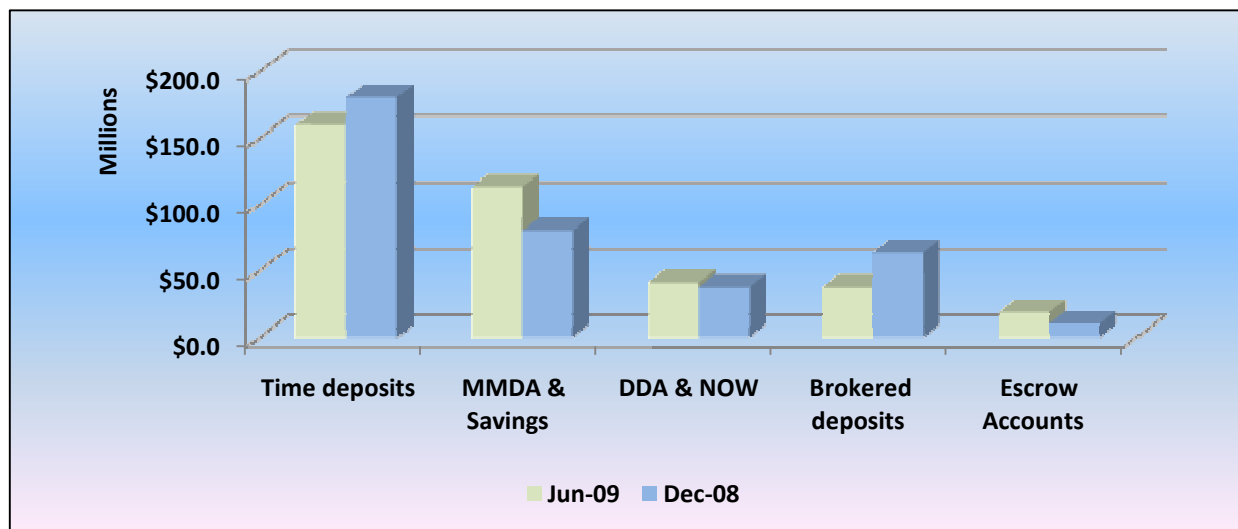
Credit risk management and analysis of the adequacy of the allowance for loan losses (“ALL”) in our loan portfolio is the responsibility of the Loan Policy and Oversight Committee (“LPOC”). The tools utilized by the LPOC to assist with the management of risk and ALL adequacy include, but are not limited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

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

In view of the general depreciation of real estate values over the past year, one of the LPOC's risk management initiatives is to reduce Magna's investment in real estate secured loans with high loan-to-value ("LTV") ratios, generally greater than 90%, to no more than 100% of capital. High LTV loans increase the credit risk of our loan portfolio and accordingly Magna continues to closely monitor this risk.

The OTS limits loans to one borrower to 15% of capital plus general allowances for loan losses, subject to exceptions for loans to small businesses, small farms, or 1-4 dwelling first liens less than 80% LTV under the Pilot Program, and exceptions for domestic housing development loans ("Programs"). These Programs increase the limit of loans to one borrower to 25% and 30% of capital. As of June 30, 2009 and December 31, 2008, the amount loaned under both Programs totaled approximately \$39 million and \$48 million, respectively.

Total liabilities decreased by \$16.7 million during the six months ended June 30, 2009. Total deposits were off \$2.8 million for that period, but the mix of customer deposits and brokered deposits shifted significantly as customer deposits increased by \$23.4 million and brokered deposits fell by \$26.2 million, as seen in the following chart:



Loan payoffs funded reductions in borrowings, which fell by \$11.6 million during the quarter. At June 30, 2009, customer deposits accounted for \$314.3 million of the funding for the balance sheet, followed by term advances at the Federal Home Loan Bank of Cincinnati, brokered time deposits and loan servicing escrows.

The following table sets forth the maturities of interest-bearing deposits at June 30, 2009 and December 31, 2008:

Maturing within:	At June 30, 2009			At December 31, 2008		
	Amount	Average Rate	% of total	Amount	Average Rate	% of total
One year	\$ 135,834,690	3.01%	40.2%	\$ 213,673,858	3.68%	61.3%
Two years	36,946,727	2.65%	10.9%	11,401,001	3.68%	3.3%
Three years	7,512,113	3.25%	2.2%	2,442,996	4.21%	0.7%
Four years	961,534	4.51%	0.3%	1,673,579	4.30%	0.5%
Five years	775,004	3.45%	0.2%	309,960	3.75%	0.1%
Subtotal time deposits	182,030,068	2.96%	53.7%	229,501,394	3.69%	65.8%
Interest bearing deposits with no stated maturity	156,007,147	1.40%	46.3%	118,781,999	4.07%	34.2%
Total interest-bearing deposits	\$ 338,037,215	2.24%	100.0%	\$ 348,283,393	3.82%	100.0%

The maturities of time deposits of \$100,000 or greater are as follows:

	<u>At June 30, 2009</u>			<u>At December 31, 2008</u>		
	<u>Balance</u>	<u>Average Rate</u>	<u>% of total</u>	<u>Balance</u>	<u>Average Rate</u>	<u>% of total</u>
Due in three months or less	\$ 33,811,451	3.55%	30.5%	\$ 36,333,797	5.12%	25.7%
Due after three through six months	25,661,169	3.11%	23.1%	50,088,119	5.04%	35.4%
Due after six through twelve months	22,317,239	2.33%	20.1%	47,244,402	4.93%	33.4%
Due after twelve months	<u>29,058,566</u>	<u>2.72%</u>	<u>26.2%</u>	<u>7,730,923</u>	<u>5.10%</u>	<u>5.5%</u>
	<u>\$ 110,848,425</u>	<u>2.98%</u>	<u>100.0%</u>	<u>\$ 141,397,241</u>	<u>5.03%</u>	<u>100.0%</u>
Percent of total deposits	<u>29.9%</u>			<u>37.9%</u>		

At June 30, 2009, the Company's loan-to-deposit ratio excluding loans held for sale was 102.7% compared to 106.1% at December 31, 2008.

Our residential loan servicing operation, which is part of the mortgage division, acts as a hedge for our residential mortgage loan production operation. Residential mortgage servicing rights ("MSRs") totaled \$10.5 million at June 30, 2009 compared to \$9.1 million at December 31, 2008. The increase is primarily attributable to capitalized servicing rights retained on loans sold to FNMA and THDA during the six months ended June 30, 2009. At June 30, 2009, the Company serviced 8,535 residential first mortgage loans totaling \$942.5 million for third party investors compared to 8,404 loans totaling \$924.9 million at December 31, 2008. 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 June 30, 2009, there was \$150,000 of unrecovered impairment in the value of the residential mortgage servicing portfolio.

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

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Number of loans serviced for others	8,535	8,404
Unpaid principal balance of loans serviced for others	\$ 942,494,506	\$ 924,914,745
Average balance per loan	\$ 110,427	\$ 110,056
Weighted average servicing fee	0.295%	0.308%
Weighted average mortgage note rate	6.14%	6.23%
Net book value of servicing rights	\$ 10,470,142	\$ 9,138,749
Net book value as a multiple of annual servicing fee	3.76	3.20

The servicing of FHA/VA loans results in an inherent risk to the servicer for such things as missing notification deadlines, performing certain tasks on a timely basis, etc. Recently, certain municipalities have begun enforcing anti-blight ordinances which require Magna to make property preservation expenditures that are not eligible for reimbursement under HUD guidelines, further increasing the amount of loss associated with foreclosure action. The Bank quantifies such risks by reference to past occurrence, known problems and regulatory time frames and has established a reserve for possible servicing losses related to these loans. The FHA/VA reserve is included in other assets in the Consolidated Balance Sheet and the provision for claim losses is included in other non-interest expense in the Consolidated Income Statement. The following table summarizes the activity in this reserve for the three and six month periods ended June 30, 2009 and 2008:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 208,275	\$ 127,906	\$ 199,213	\$ 136,514
Provision for losses	39,000	120,000	79,000	145,000
Claim losses	<u>(27,363)</u>	<u>(81,341)</u>	<u>(58,301)</u>	<u>(114,949)</u>
Ending balance	<u>\$ 219,912</u>	<u>\$ 166,565</u>	<u>\$ 219,912</u>	<u>\$ 166,565</u>

Total shareholders' equity as of June 30, 2009 and December 31, 2008 was \$54.6 million and \$53.3 million, respectively. The increase was attributable to the sale of stock from the exercise of stock options and earnings for the six months ended June 30, 2009. 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 10.81% at June 30, 2009 compared to 10.24% at December 31, 2008. At June 30, 2009, Magna's regulatory core capital and total risk based capital ratios were 11.19% and 13.65%, respectively. These ratios exceed minimum regulatory levels at June 30, 2009 and December 31, 2008 and place Magna in the "well-capitalized" category as of both dates.

Results of operation – three and six months ended June 30, 2009 and 2008. Interest income, including dividends earned on FHLB stock, for the three months ended June 30, 2009, was \$6.4 million, a \$649,276 decrease from 2008. Overall, average asset yield decreased by 60 basis points to 5.27%, while the yield on the loan portfolio decreased by 63 basis points to 5.33%. Interest expense decreased by \$854,002 to \$3.0 million for the second quarter of 2009 compared to the year earlier period. The average rate incurred on interest bearing liabilities decreased by 82 basis points. Net interest income for the quarter ended June 30, 2009 was \$3.4 million compared to \$3.2 million for 2008, a \$204,726 (6.3%) increase. Net interest margin increased by 14 basis points, partially attributable to average interest earning asset growth of \$5.2 million year over year. 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, 2009 and 2008:

	Three Months Ended June 30,					
	2009			2008		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS						
Short-term investments	\$ 4,825,041	\$ 3,384	0.28%	\$ 2,278,923	\$ 11,841	2.08%
Securities available-for-sale	46,773,647	672,683	5.75%	38,777,903	528,561	5.45%
Securities held-to-maturity	11,070,289	144,310	5.21%	17,194,413	236,223	5.50%
Total securities	57,843,936	816,993	5.65%	55,972,316	764,784	5.47%
Loans held for sale	31,211,025	368,000	4.72%	20,547,571	294,105	5.73%
Commercial Loans:						
Mortgage	130,760,335	1,776,997	5.44%	90,938,224	1,445,827	6.36%
Construction	47,891,987	554,392	4.63%	78,232,409	1,071,133	5.48%
Other	30,618,574	357,866	4.68%	38,963,535	506,280	5.20%
Consumer Loans:						
First Mortgage	89,895,122	1,402,474	6.24%	100,281,506	1,265,894	5.05%
Junior Mortgage, Primarily HELOC	68,774,265	874,242	5.08%	63,921,768	1,326,641	8.30%
Construction	16,230,355	156,089	3.85%	21,651,763	256,325	4.74%
Other	3,072,930	39,548	5.15%	3,269,952	50,361	6.16%
Total loans	387,243,568	5,161,608	5.33%	397,259,157	5,922,461	5.96%
Investment in Federal Home Loan Bank	3,981,400	43,351	4.36%	3,801,849	49,421	5.20%
Total interest earning assets	485,104,970	6,393,336	5.27%	479,859,816	7,042,612	5.87%
Non interest earning assets	30,166,781			26,694,902		
Total assets	\$ 515,271,751			\$ 506,554,718		
LIABILITIES						
Interest bearing transaction accounts	\$ 60,679,877	251,056	1.65%	\$ 84,061,222	528,939	2.52%
Savings deposits	71,767,818	369,971	2.06%	3,856,744	25,267	2.62%
Customer Time deposits	171,597,503	1,418,693	3.31%	164,459,335	1,779,584	4.33%
Brokered deposits	41,389,933	229,142	2.21%	47,151,491	494,648	4.20%
Total deposits	345,435,131	2,268,862	2.63%	299,528,792	2,828,438	3.78%
Federal funds purchased and other short term borrowings	2,028,638	18,733	3.69%	47,367,287	317,907	2.68%
Term FHLB Advances	74,500,000	669,386	3.59%	73,677,778	664,638	3.61%
Total interest bearing liabilities	421,963,769	2,956,981	2.80%	420,573,857	3,810,983	3.62%
Non interest bearing liabilities	39,761,909			41,645,669		
Shareholders' equity	53,546,073			44,335,192		
Total liabilities and shareholders' equity	\$ 515,271,751			\$ 506,554,718		
Net interest income/net interest spread		\$ 3,436,355	2.47%		\$ 3,231,629	2.25%
Net interest margin			2.83%			2.69%

The following table shows the components of each change attributable to rate and volume variances for the three months ended June 30, 2009 and 2008. 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	\$ (15,236)	\$ 6,779	\$ (8,457)
Securities available-for-sale	30,397	113,725	144,122
Securities held-to-maturity	(11,540)	(80,373)	(91,913)
Total securities	18,857	33,352	52,209
Loans held for sale	(58,654)	132,549	73,895
Commercial Loans:			
Mortgage	(232,906)	564,076	331,170
Construction	(147,233)	(369,508)	(516,741)
Other	(47,399)	(101,015)	(148,414)
Consumer Loans:			
First Mortgage	277,128	(140,548)	136,580
Junior Mortgage, Primarily HELOC	(546,716)	94,317	(452,399)
Construction	(42,939)	(57,297)	(100,236)
Other	(7,912)	(2,901)	(10,813)
Total loans	(747,977)	(12,876)	(760,853)
Investment in Federal Home Loan Bank	(8,319)	2,249	(6,070)
Total change in interest income	(811,329)	162,053	(649,276)
Interest bearing liabilities:			
Interest bearing transaction accounts	(153,342)	(124,541)	(277,883)
Savings deposits	(6,519)	351,223	344,704
Customer Time deposits	(435,300)	74,409	(360,891)
Brokered deposits	(210,931)	(54,575)	(265,506)
Total deposits	(806,092)	246,516	(559,576)
Federal funds purchased and other short term borrowings	87,249	(386,423)	(299,174)
Term FHLB Advances	(2,647)	7,395	4,748
Total change in interest expense	(721,490)	(132,512)	(854,002)
Increase in net interest income	\$ (89,839)	\$ 294,565	\$ 204,726

Interest income, including dividends earned on FHLB stock, for the six months ended June 30, 2009, was \$12.9 million, a \$1.4 million decrease from 2008. Overall, average asset yield decreased by 86 basis points to 5.30%, while the yield on the loan portfolio decreased by 94 basis points to 5.33%. Interest expense decreased by \$1.7 million to \$6.3 million for the first half of 2009 compared to the year earlier period. The average rate incurred on interest bearing liabilities decreased by 96 basis points. Net interest income for the year to date period ended June 30, 2009 was \$6.6 million compared to \$6.4 million for 2008, a \$251,828 (4.0%) increase. Net interest margin decreased by 1 basis point. 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, 2009 and 2008:

	Six Months Ended June 30,					
	2009			2008		
	Average Balance	Interest Income/Expense	Average Rate	Average Balance	Interest Income/Expense	Average Rate
<u>ASSETS</u>						
Short-term investments	\$ 3,522,524	\$ 4,638	0.26%	\$ 2,327,529	\$ 28,453	2.44%
Securities available-for-sale	48,684,176	1,400,811	5.75%	32,200,950	889,030	5.52%
Securities held-to-maturity	<u>11,254,379</u>	<u>319,532</u>	<u>5.68%</u>	<u>17,464,701</u>	<u>508,722</u>	<u>5.83%</u>
Total securities	59,938,555	1,720,343	5.74%	49,665,651	1,397,752	3.75%
Loans held for sale	29,144,138	696,365	4.78%	18,413,592	532,664	5.79%
<i>Commercial Loans:</i>						
Mortgage	131,195,961	3,507,581	5.35%	91,890,810	2,995,580	6.52%
Construction	48,366,740	1,155,239	4.78%	77,183,221	2,266,243	5.87%
Other	31,874,276	732,512	4.60%	37,376,763	1,076,662	5.76%
<i>Consumer Loans:</i>						
First Mortgage	90,536,191	2,845,364	6.29%	99,127,788	2,644,978	5.34%
Junior Mortgage, Primarily HELOC	69,736,916	1,765,261	5.06%	61,741,648	2,624,366	8.50%
Construction	16,275,132	331,228	4.07%	22,133,090	601,397	5.43%
Other	<u>3,252,671</u>	<u>86,427</u>	<u>5.31%</u>	<u>3,585,305</u>	<u>115,696</u>	<u>6.45%</u>
Total loans	391,237,887	10,423,613	5.33%	393,038,625	12,324,922	6.27%
Investment in Federal Home Loan Bank	3,944,830	87,496	4.44%	3,709,129	96,595	5.21%
Total interest earning assets	487,787,934	12,932,452	5.30%	467,154,526	14,380,386	6.16%
Non interest earning assets	<u>30,203,056</u>			<u>26,242,539</u>		
Total assets	\$ 517,990,990			\$ 493,397,065		
<u>LIABILITIES</u>						
Interest bearing transaction accounts	\$ 60,850,785	564,221	1.85%	\$ 81,652,714	1,204,203	2.95%
Savings deposits	61,247,546	706,792	2.31%	2,874,804	37,880	2.64%
Customer Time deposits	175,535,390	3,042,521	3.47%	160,435,282	3,622,650	4.52%
Brokered deposits	<u>48,791,409</u>	<u>586,568</u>	<u>2.40%</u>	<u>47,701,066</u>	<u>1,067,727</u>	<u>4.48%</u>
Total deposits	346,425,130	4,900,102	2.83%	292,663,866	5,932,460	4.05%
Federal funds purchased and other short term borrowings	5,685,470	58,377	2.05%	50,322,159	840,795	3.34%
Term FHLB Advances	<u>74,964,088</u>	<u>1,342,176</u>	<u>3.58%</u>	<u>66,258,242</u>	<u>1,227,161</u>	<u>3.70%</u>
Total interest bearing liabilities	427,074,688	6,300,655	2.95%	409,244,267	8,000,416	3.91%
Non interest bearing liabilities	37,181,553			39,793,921		
Shareholders' equity	<u>53,734,749</u>			<u>44,358,877</u>		
Total liabilities and shareholders' equity	\$ 517,990,990			\$ 493,397,065		
Net interest income/net interest spread		<u>\$ 6,631,798</u>	<u>2.35%</u>		<u>\$ 6,379,970</u>	<u>2.25%</u>
Net interest margin			<u>2.72%</u>			<u>2.73%</u>

The following table shows the components of each change attributable to rate and volume variances for the six months ended June 30, 2009 and 2008. 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.

	<u>Increase (decrease) due to</u>		
	<u>Rate</u>	<u>Volume</u>	<u>Total</u>
Interest earning assets:			
Short-term investments	\$ (33,662)	\$ 9,847	\$ (23,815)
Securities available-for-sale	38,963	472,818	511,781
Securities held-to-maturity	(12,564)	(176,626)	(189,190)
Total securities	26,399	296,192	322,591
Loans held for sale	(105,114)	268,815	163,701
Commercial Loans:			
Mortgage	(607,071)	1,119,072	512,001
Construction	(370,142)	(740,862)	(1,111,004)
Other	(199,150)	(145,000)	(344,150)
Consumer Loans:			
First Mortgage	442,991	(242,604)	200,386
Junior Mortgage, Primarily HELOC	(1,165,613)	306,508	(859,105)
Construction	(131,503)	(138,666)	(270,169)
Other	(19,188)	(10,081)	(29,269)
Total loans	(2,049,676)	148,367	(1,901,309)
Investment in Federal Home Loan Bank	(14,964)	5,865	(9,099)
Total change in interest income	(2,177,017)	729,086	(1,447,932)
Interest bearing liabilities:			
Interest bearing transaction accounts	(379,549)	(260,432)	(639,982)
Savings deposits	(5,286)	674,198	668,912
Customer Time deposits	(898,251)	318,122	(580,129)
Brokered deposits	(505,033)	23,874	(481,158)
Total deposits	(1,788,119)	755,762	(1,032,357)
Federal funds purchased and other short term borrowings	(237,012)	(545,405)	(782,417)
Term FHLB Advances	(41,942)	156,957	115,015
Total change in interest expense	(2,067,073)	367,314	(1,699,759)
Increase in net interest income	\$ (109,944)	\$ 361,772	\$ 251,828

Magna recorded a provision for loan losses of \$398,970 in the second quarter of 2009 compared to \$484,300 in 2008. The 2009 provision includes approximately \$275,000 of specifically identified probable losses and approximately \$540,000 of unallocated general reserve provisions. At June 30, 2009, the general reserve component of the allowance for loan losses totaled \$4.9 million compared to \$4.6 million at December 31, 2008. In arriving at the level of allowance for loan loss at June 30, 2009, Magna maintained its “worst case” economic outlook, which resulted in an environmental factor loan loss allowance of approximately \$825,000 or 20% of general loan loss reserves. The environmental factor impacts the loan loss reserve by decreasing the allowance by 15% of general loan loss reserves in a strong economy and by increasing the allowance by 20% in a weak economy.

The following table summarizes the activity in the Bank’s allowance for loan losses for the three and six month periods ended June 30, 2009 and 2008:

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 5,684,688	\$ 3,484,730	\$ 5,283,639	\$ 3,132,332
Provision for loan losses	398,970	484,300	814,660	894,487
Charge-off of uncollectible loans	(339,047)	(91,264)	(353,688)	(149,053)
Ending balance	<u>\$ 5,744,611</u>	<u>\$ 3,877,766</u>	<u>\$ 5,744,611</u>	<u>\$ 3,877,766</u>

Management considers the level of the allowance for loan losses to be adequate based upon our current assessment of the portfolio and the economy.

Total non-interest income, which is sourced primarily from mortgage banking, mortgage servicing, and loan brokerage, totaled \$3.9 million and \$3.6 million and \$7.4 million and \$6.5 million for the three and six months ended June 30, 2009 and 2008, respectively. The following table shows the components of net non-interest income for the three and six month periods ended June 30, 2009 and 2008. For purposes of this table, amortization expense and impairment 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.

	<u>Three months ended June 30,</u>		<u>Increase</u>	<u>Six months ended June 30,</u>		<u>Increase</u>
	<u>2009</u>	<u>2008</u>	<u>(Decrease)</u>	<u>2009</u>	<u>2008</u>	<u>(Decrease)</u>
Mortgage banking	\$ 2,806,454	\$ 2,186,491	\$ 619,963	\$ 5,259,464	\$ 3,913,613	\$ 1,345,851
Mortgage servicing, net	751,692	472,825	278,867	1,303,656	987,713	315,943
Loan brokerage	78,750	304,565	(225,815)	78,750	412,565	(333,815)
Other income	152,300	146,373	5,927	275,543	265,602	9,941
	<u>\$ 3,789,196</u>	<u>\$ 3,110,254</u>	<u>\$ 678,942</u>	<u>\$ 6,917,413</u>	<u>\$ 5,579,492</u>	<u>\$ 1,337,921</u>

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 tables summarize changes in mortgage loan origination volume, by operating region, for the periods indicated:

	<u>Memphis</u>	<u>Little Rock</u>	<u>Nashville</u>	<u>Chattanooga</u>	<u>Total</u>
<i>Three months ended June 30:</i>					
2008	\$ 51,400,943	\$ 6,110,160	\$ 26,251,329	\$ 6,733,203	\$ 90,495,635
2009	81,733,266	9,697,407	24,847,441	7,264,090	123,542,204
<i>Increase (decrease):</i>	<u>\$ 30,332,323</u>	<u>\$ 3,587,247</u>	<u>\$ (1,403,888)</u>	<u>\$ 530,887</u>	<u>\$ 33,046,569</u>
<i>Percent Change</i>	<u>59.0%</u>	<u>58.7%</u>	<u>-5.3%</u>	<u>7.9%</u>	<u>36.5%</u>
	<u>Memphis</u>	<u>Little Rock</u>	<u>Nashville</u>	<u>Chattanooga</u>	<u>Total</u>
<i>Six months ended June 30:</i>					
2008	\$ 100,588,088	\$ 9,813,157	\$ 47,426,131	\$ 10,870,632	\$ 168,698,008
2009	154,777,352	20,092,491	52,841,108	15,075,324	242,786,275
<i>Increase (decrease):</i>	<u>\$ 54,189,264</u>	<u>\$ 10,279,334</u>	<u>\$ 5,414,977</u>	<u>\$ 4,204,692</u>	<u>\$ 74,088,267</u>
<i>Percent Change</i>	<u>53.9%</u>	<u>104.8%</u>	<u>11.4%</u>	<u>38.7%</u>	<u>43.9%</u>

The increase in volume is directly linked to the increase in the number loans originated for the purpose of refinancing existing home loans. Total origination production for the second quarter and year to date periods of 2009 and 2008 is broken down as follows:

	<u>Three months ended</u>				<u>Six months ended</u>			
	<u>2009</u>		<u>2008</u>		<u>2009</u>		<u>2008</u>	
Purchase mortgage	423	63.2%	454	87.8%	716	57.0%	794	83.1%
Refinance mortgage	246	36.8%	63	12.2%	541	43.0%	162	16.9%
	<u>669</u>	<u>100.0%</u>	<u>517</u>	<u>100.0%</u>	<u>1,257</u>	<u>100.0%</u>	<u>956</u>	<u>100.0%</u>

In addition to its residential mortgage banking activities, the Company operates a commercial real estate mortgage banking group whose investors include life insurance companies and other banks. This group originated \$11.0 million for the brokered market during the second quarter of 2009 (none in the first quarter) and \$43.7 million and \$74.8 million for the three and six months ended June 30, 2008. Total brokerage fees earned in 2009 were \$78,750 compared to \$304,565 and \$412,565 for the three and six months ended June 30, 2008.

Another significant component of non-interest income is mortgage loan servicing, both commercial and residential. Gross fees and non-interest expenses related to these two areas for the three and six months ended June 30, 2009 and 2008, are shown in the following table (impairment recovery of \$660,000 and \$1.1 million reduces servicing asset amortization for the three and six months ended, respectively):

	<u>Three months ended June 30,</u>			<u>Six months ended June 30,</u>		
	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
2008						
Gross servicing fees	\$ 765,369	\$ 59,169	\$ 824,538	\$ 1,614,098	\$ 100,848	\$ 1,714,946
Late charges and other ancillary revenue	151,210	-	151,210	324,242	-	324,242
Gross servicing revenue	916,579	59,169	975,748	1,938,340	100,848	2,039,188
Servicing asset amortization	449,878	8,442	458,320	883,650	16,959	900,609
Guaranty fees and loan pay-off interest	51,148	-	51,148	101,673	-	101,673
Other servicing expenses	(6,545)	-	(6,545)	49,193	-	49,193
Gross servicing expenses	494,481	8,442	502,923	1,034,516	16,959	1,051,475
Net servicing revenue	422,098	50,727	472,825	903,824	83,889	987,713
2009						
Gross servicing fees	\$ 712,548	70,240	\$ 782,788	\$ 1,424,359	137,438	1,561,797
Late charges and other ancillary revenue	152,049	-	152,049	325,973	-	325,973
Gross servicing revenue	864,597	70,240	934,837	1,750,332	137,438	1,887,770
Servicing asset amortization	117,803	8,179	125,982	469,492	16,221	485,713
Guaranty fees and loan pay-off interest	16,259	-	16,259	35,335	-	35,335
Other servicing expenses	40,904	-	40,904	63,066	-	63,066
Gross servicing expenses	174,966	8,179	183,145	567,893	16,221	584,114
Net servicing revenue	689,631	62,061	751,692	1,182,439	121,217	1,303,656
Increase (decrease)						
Gross servicing fees	\$ (52,821)	11,071	(41,750)	\$ (189,739)	36,590	(153,149)
Late charges and other ancillary revenue	839	-	839	1,731	-	1,731
Gross servicing revenue	(51,982)	11,071	(40,911)	(188,008)	36,590	(151,418)
Servicing asset amortization	(332,075)	(263)	(332,338)	(414,158)	(738)	(414,896)
Guaranty fees and loan pay-off interest	(34,889)	-	(34,889)	(66,339)	-	(66,339)
Other servicing expenses	47,449	-	47,449	13,873	-	13,873
Gross servicing expenses	(319,516)	(263)	(319,779)	(466,622)	(738)	(467,360)
Net servicing revenue	\$ 267,534	\$ 11,334	\$ 278,868	\$ 278,615	\$ 37,328	\$ 315,943

The following tables summarize changes in servicing rights during the three and six month periods ended June 30, 2009 and 2008, respectively:

	Three months ended June 30,					
	2009			2008		
	Commercial	Residential	Total	Commercial	Residential	Total
Beginning balance	\$ 140,847	\$ 9,782,192	\$ 9,923,039	\$ 174,130	\$ 11,116,752	\$ 11,290,882
Add: Purchased mortgage servicing rights	-	10,308	10,308	-	39,223	39,223
Recovery of prior impairment charges	-	660,000	660,000	-	-	-
Capitalized mortgage servicing rights	-	795,582	795,582	-	675,788	675,788
Gross additions to mortgage servicing rights	-	1,465,890	1,465,890	-	715,011	715,011
Less: Amortization of mortgage servicing rights	8,179	777,803	785,982	8,442	449,878	458,320
Ending balance	\$ 132,668	\$ 10,470,279	\$ 10,602,947	\$ 165,688	\$ 11,381,885	\$ 11,547,573

	Six months ended June 30,					
	2009			2008		
	Commercial	Residential	Total	Commercial	Residential	Total
Beginning balance	\$ 149,026	\$ 9,138,749	\$ 9,287,775	\$ 182,647	\$ 10,616,761	\$ 10,799,408
Add: Purchased mortgage servicing rights	-	14,157	14,157	-	62,401	62,401
Recovery of prior impairment charges	-	1,060,000	1,060,000	-	-	-
Capitalized mortgage servicing rights	-	1,786,728	1,786,728	-	1,586,373	1,586,373
Gross additions to mortgage servicing rights	-	2,860,885	2,860,885	-	1,648,774	1,648,774
Less: Amortization of mortgage servicing rights	16,221	1,529,492	1,545,713	16,959	883,650	900,609
Ending balance	\$ 132,805	\$ 10,470,142	\$ 10,602,947	\$ 165,688	\$ 11,381,885	\$ 11,547,573

Non-interest expense for the quarter and year to date periods ended June 30, 2009 decreased by \$176,257 and \$239,159, respectively, compared to the year earlier periods. Lower commissions earned on lower brokerage revenue accounted for a large portion of this decline. In addition, the \$660,000 recovery of impairment of servicing rights during the second quarter (\$1.1 million for the year to date period) also accounted for this decrease. These savings were significantly offset by increased servicing amortization expense (increases of \$327,662 and \$374,526 for the three and six month periods, respectively) and the FDIC deposit insurance assessment of \$230,000 in the second quarter of 2009. Occupancy expenses were also higher for the quarter and year to date periods due to opening the Poplar/Forest Hill branch in November of 2008.

The following table summarizes the components of occupancy and equipment expense for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended		Six Months Ended June	
	2009	2008	2009	2008
Rent & office occupancy	\$ 491,990	\$ 498,788	\$ 979,879	\$ 924,610
Maintenance & repairs	71,164	38,166	100,121	73,063
Depreciation expense	206,558	185,096	413,169	354,842
Telecommunications	30,751	32,404	62,332	66,402
Total occupancy and equipment expense	\$ 800,463	\$ 754,456	\$ 1,555,502	\$ 1,418,916

The following table summarizes the components of other expense for the three and six months ended June 30, 2009 and 2008:

	<u>Three Months Ended</u>		<u>Six Months Ended June</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Data processing	\$ 241,366	\$ 203,660	\$ 468,631	\$ 383,080
Printing and office supplies	53,695	60,578	109,791	133,337
Directors' Fees	67,000	58,750	142,500	150,250
Postage, shipping and delivery	51,434	48,429	112,197	112,079
Travel and entertainment	34,531	50,903	74,855	106,646
Bank fees and service charges	38,701	41,122	78,563	75,773
Provision for loan repurchase and FHA/VA claim losses	114,000	120,000	154,000	151,103
Other	131,601	160,220	310,752	331,007
Total other expense	<u>\$ 732,328</u>	<u>\$ 743,662</u>	<u>\$ 1,451,289</u>	<u>\$ 1,443,274</u>

Income taxes. The primary difference between the Company's effective combined federal and state rates and the statutory corporate income tax rate is due primarily to state income taxes and certain expenses not deductible for income tax purposes. Deferred taxes are provided for in accordance with accounting principles generally applied in the United States of America. Deferred tax assets are reviewed quarterly for recoverability.

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

At June 30, 2009 and December 31, 2008, the total amount of un-drawn lines and letters of credit was \$73.9 and \$89.1 million, as follows:

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Commitments under:		
Term loan obligations	\$ 8,730,864	\$ 17,131,289
Undrawn letters of credit	6,491,599	7,061,703
Revolving lines, primarily home equity lines of credit	58,709,640	64,901,471
	<u>\$ 73,932,103</u>	<u>\$ 89,094,463</u>

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

Liquidity and capital resources. For the six months ended June 30, 2009, the Company's operating activities used \$2.7 million of available cash. Investing activities, primarily paydowns or payoffs in securities and loans, provided \$22.4 million. Financing activities used \$14.4 million of available cash to retire short term unsecured advances. During the second quarter of 2009, we retired \$8.2 million of brokered deposits as we sought to reduce this source of funding to not more than 10% of total deposits. Because brokered deposits are readily available, aid in asset/liability re-pricing strategies and are often a cheaper source of funds than retail customer deposits, we intend to continue their use as part of our overall balance sheet funding strategy. While we expect to be able to continue to attract new retail customer deposits, it is anticipated that the Company will continue to mix borrowings (including brokered deposits) and deposits to fund balance sheet growth over the next year.

On December 23, 2008, the Company issued \$13,795,000 of its Series A and Series B preferred stock. The issuance occurred in connection with, and is governed by, the Treasury Capital Purchase Program administered by the U.S. Treasury under the Troubled Asset Relief Program (“TARP”). The preferred stock carries certain restrictions. The preferred stock has a senior rank and also provides limitations on certain compensation arrangements of executive officers and provides restrictions on dividends. The preferred stock qualifies as Tier 1 capital and is presented in shareholders’ equity on the Consolidated Statements of Financial Condition. The following table summarizes the principal terms of the offering:

	<u>Series A</u>	<u>Series B</u>
Redemption value	\$13,795,000	\$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	
Dividend type	Non-cumulative	
Redemption	Redeemable in whole or part subject to approval by the Treasury	
Dividend restrictions	No dividends may be declared on Magna's common stock without the prior consent of the U.S. Treasury. After 10 years, no dividends may be paid on common stock unless all preferred stock held by the U.S Treasury has been redeemed.	
Other provisions	For as long as the U.S. Treasury holds any preferred stock, Magna's executive compensation structure must comply with section 111 of the EESA, as amended from time to time. Magna is also subject to any future regulations promulgated under the EESA.	

Magna maintains secured borrowing facilities with both the Federal Reserve Bank of St. Louis (the “Fed Facility”) and the Federal Home Loan Bank of Cincinnati (the “FHLB Facility”). The Fed Facility is secured by loans not otherwise eligible as collateral for the FHLB Facility. Effectively, all of Magna’s qualifying loans and securities are pledged at one of the two institutions. Total available borrowing capacity at June 30, 2009 was \$186.6 million, as follows:

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
<i>Short-term credit facilities:</i>		
Twenty-one days or less (unsecured)	\$ 52,300,000	\$ 40,400,000
Up to ninety days (secured)	<u>55,251,319</u>	<u>67,857,849</u>
Subtotal, short term	107,551,319	108,257,849
Long term credit facilities (secured)	<u>79,087,820</u>	<u>60,373,530</u>
Total credit facilities	<u>\$ 186,639,139</u>	<u>\$ 168,631,379</u>

The Company has a variety of sources of funds available, but its primary source is deposits from customers. The Company's deposit acquisition strategy is to rely on a core base of retail time deposits supplemented by lesser amounts of demand and savings deposits. Next, the Company seeks to attract non-retail time deposits (\$100,000 and over) and public deposits. At June 30, 2009, the percentage of time deposits \$100,000 and over to total deposits was 29.9% compared to 37.9% at December 31, 2008. 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.

Effects of inflation. The Company's asset and liability structure is primarily monetary in nature, that is, fixed in terms of monetary amounts. Consequently, the impact of inflation on a bank differs significantly from an industrial company. Factors such as interest rates have a more significant impact on a bank's performance than does general inflation. Interest rates do not necessarily move in the same direction, or at the same magnitude, as the price of other goods and services.

Item 3.
Quantitative and Qualitative Disclosures About Market Risk

This item outlines specific risks that could affect our ability to compete, change our risk profile, or eventually impact our financial results. The risks we face generally are similar to those experienced, to varying degrees, by all financial services companies. Our strategies and management's ability to react to changing competitive and economic environments have enabled us historically to compete effectively and manage risks to acceptable levels. We have outlined potential risk factors below that we presently believe could be important to us; however, other risks may prove to be important in the future. New risks may emerge at any time and we cannot predict with certainty all potential developments which could affect our financial performance. The following discussion highlights potential risks which could intensify over time or shift dynamically in a way that might change our risk profile.

Competition Risks

The market in which we compete is crowded with community banks seeking to provide a service oriented banking experience to individuals and businesses compared with, what we believe, is the more rigid and less friendly environment found in large banks. This requires us to offer most, if not all, of the products and conveniences that are offered by the larger banks with a service differentiation. In doing so, it is imperative that we identify the lines of business that we can excel in, prudently utilize our available capital to acquire the people and platforms required thereof and execute on the strategy. As a result of the significant number of bank failures in 2009, we believe the banking public is becoming increasingly aware of individual bank's capital strength. Any weakness in Magna's capital and results of operations, whether real or perceived, could result in an erosion of confidence on the part of our customers and cause us to lose market share and harm future results of operations.

Credit Risks

Like all lenders, we face the risk that our customers may not repay their loans and that the realizable value of collateral may be insufficient to avoid a loss of principal. In our business, some level of credit loss is unavoidable and overall levels of credit loss can vary over time. Our ability to manage credit risks depends upon our ability to (i) assess the creditworthiness of customers and the value of collateral at the time a loan is made and to (ii) monitor the loan relationship to adjust our terms as the borrower's conditions change. We control credit risk by diversifying our loan portfolio and managing its composition, and by recording and managing an allowance for loan losses in accordance with applicable accounting rules. At the end of June 2009, we had \$4.9 million of available general reserves to cover such losses. The models and approaches we use to originate and manage loans are regularly updated to take into account changes in the competitive environment, in real estate prices and other collateral values, and in the economy, among other things, based on our experience originating loans and servicing loan portfolios.

Financing, Funding, and Liquidity Risks

One of the most important aspects of management's efforts to sustain long-term profitability for the Company is the management of interest rate risk (asset/liability management). Management's goal is to maximize net interest income within acceptable levels of interest-rate risk and liquidity. To achieve this goal, management has established guidelines within which it attempts to maintain the amount of "mismatch" between repricing assets and liabilities within specified time frames. At March 31, 2009 (the latest date for which information is available), the Company's net portfolio value, defined as the net present value of all assets and liabilities, both on and off balance sheet, as determined by the Office of Thrift Supervision exceeded 9.0%. Instantaneous rate increases of $\pm 2\%$ at both dates placed the Bank in the "minimal" category for interest rate sensitivity.

Through its Asset/Liability Management Committee ("ALCO"), the Company manages its sensitivity to changes in interest rates by means of computer-based modeling of the balance sheet. Monthly, the model is revised for changes in instrument-level detail, current interest rate and new volume projections, and pricing changes. The ALCO committee reviews projected results in terms of both maturity mismatch, which is an indicator of liquidity needs, and repricing mismatch, which drives net interest income changes. In addition, ALCO reviews the model's projected change in net portfolio value (the fair value of net equity) under a variety of interest rate change scenarios and determines the Bank's compliance with Board-established limits in the change thereof.

Management maintains back-up lines of credit with its principal correspondent banks as a supplemental short-term source of liquidity. Management does not presently foresee any particular matters which might immediately threaten its ability to meet its ongoing liquidity needs. Our funding requirements currently are met principally by deposits, financing from other financial institutions, and financing using

wholesale funds. The costs of our funding directly impact our costs of doing business and, therefore, can positively or negatively affect our financial results.

The Company's assets and liabilities are principally financial in nature and the resulting earnings thereon are subject to significant variability due to the timing and extent to which the Company can reprice the yields on interest-earning assets and the costs of interest-bearing liabilities as a result of changes in market interest rates. Interest rates in the financial markets affect the Company's decisions on pricing its assets and liabilities which impacts net interest income, an important cash flow stream for the Company. As a result, a substantial part of the Company's risk-management activities are devoted to managing interest-rate risk. There is also focus on managing the risks associated with the volatility of fair value in both mortgage loan servicing rights and mortgage banking assets. Currently, the Company does not have any significant risks related to foreign exchange, commodities or equity risk exposures.

A number of factors could make such funding more difficult, more expensive, or unavailable on affordable terms, including, but not limited to, our financial results, organizational changes, adverse impacts on our reputation, changes in the activities of our business partners, specific events that adversely impact the financial services industry, counterparty availability, changes affecting our loan portfolio or other assets, changes affecting our corporate and regulatory structure, interest rate fluctuations, ratings agency actions, general economic conditions, and the legal, regulatory, accounting, and tax environments governing our funding transactions.

Regulatory laws or rules that establish minimum capital levels, regulate deposit insurance, and govern related funding matters for banks could be changed in a manner that could increase our overall cost of capital and thus reduce our earnings.

Interest Rate and Yield Curve Risks

A significant portion of our business involves borrowing and lending money. Accordingly, changes in interest rates directly impact our revenues and expenses, and potentially could compress our net interest margin. We actively manage our balance sheet to control the risks of a reduction in net interest margin brought about by ordinary fluctuations in rates.

Our mortgage lending and servicing businesses also are affected by changes in interest rates. Generally, when rates increase, demand for mortgage loans decreases (and our revenues from new originations fall), and when rates decrease, demand increases (and our origination revenues increase). In a contrary fashion, when interest rates increase, the value of mortgage servicing rights (MSR) that we retain generally increases, and when rates decline the value of MSR declines. Within our mortgage businesses, therefore, there is a partial natural hedge against ordinary interest rate changes.

Like all financial services companies, we face the risks of abnormalities in the yield curve. The yield curve simply shows the interest rates applicable to short and long term debt. The curve is steep when short-term rates are much lower than long-term rates; it is flat when short-term rates are equal, or nearly equal, to long-term rates; and it is inverted when short-term rates exceed long-term rates. Historically, the yield curve is positively sloped. A flat or inverted yield curve tends to decrease net interest margin, as funding costs increase relative to the yield on assets.

Regulatory and Legal Risks

We operate in a heavily regulated industry and therefore are subject to many banking, deposit, and consumer lending regulations in addition to the rules applicable to all companies publicly traded in the U.S. securities markets. Failure to comply with applicable regulations could result in financial, structural, and operational penalties. In addition, efforts to comply with applicable regulations may increase our costs and/or limit our ability to pursue certain business opportunities. Federal and state regulations significantly limit the types of activities in which we, as a financial institution, may engage. In addition, we are subject to a wide array of other regulations that govern other aspects of how we conduct our business, such as in the areas of employment and intellectual property. Federal and state legislative and regulatory authorities occasionally consider changing these regulations or adopting new ones. Such actions could limit the amount of interest or fees we can charge, could restrict our ability to collect loans or realize on collateral, or could materially affect us in other ways. Additional federal and state consumer protection regulations also could expand the privacy protections afforded to customers of financial institutions, restricting our ability to share or receive customer information and increasing our costs. In addition, changes in accounting rules can significantly affect how we record and report assets, liabilities, revenues, expenses, and earnings. Some state authorities have challenged the position of the OTS that it is the exclusive regulator of various aspects of nationally chartered thrifts or their operating subsidiaries. If one or more of those challenges are successful or if Congress were to change the applicable banking laws, we could be impacted, due, among other things, to possible increased regulatory burdens, governmental and private party actions alleging non-compliance with state law, and the expense of tracking and complying with the different laws and regulations of various states. During 2008, Magna participated in the Capital Purchase Program under the Troubled Asset Relief Program administered by the U.S.

Treasury Department. The provisions of that participation required Magna to modify a number of its internal operations as it regards executive pay, reporting of lending initiatives, monitoring expenditures by category and other aspects of our operations. Consequently, we are exploring the advisability of redeeming the preferred shares we issued including the impact on our capital adequacy and other expansion issues we face. We also face litigation risks from customers, employees (singly or in class actions) and from federal or state regulators. Litigation is an unavoidable part of doing business, and we manage those risks through internal controls, personnel training, insurance, litigation management, our compliance and ethics processes, and other means. However, the commencement, outcome, and magnitude of litigation cannot be predicted or controlled with certainty.

Accounting Estimate Risks

The preparation of our consolidated financial statements in conformity with U.S generally accepted accounting principles requires management to make significant estimates that affect the financial statements. Two of our most critical estimates are the level of the allowance for credit losses and the valuation of mortgage servicing rights. However, other estimates occasionally become highly significant, especially in volatile situations such as litigation and other loss contingency matters. Recently, for example, the Financial Accounting Standards Board (the accounting rule-making body in the United States) promulgated several major pronouncements that will modify the accounting for recognition of other than temporary impairment that impacted Magna in the second quarter of 2009. Estimates are made at specific points in time; as actual events unfold, estimates are adjusted accordingly. Due to the inherent nature of these estimates, it is possible that, at some time in the future, we may significantly increase the allowance for credit losses and/or sustain credit losses that are significantly higher than the provided allowance, or we may recognize a significant provision for impairment of our securities or mortgage servicing rights, or we may make some other adjustment that will differ materially from the estimates that we make today.

Expense Control

Expenses and other costs directly affect our earnings. Our ability to successfully manage expenses is important to our long-term profitability. Many factors can influence the amount of our expenses. As our businesses change or expand, additional expenses can arise from asset purchases, structural reorganization, evolving business strategies, and changing regulations, among other things. We manage expense growth and risk through a variety of means, including actual versus budget management, imposition of expense authorization limits and procurement coordination and processes.

Lack of an Established Market for our Common Stock

Our common stock is not listed on any established stock trading exchange, including bulletin board or “pink slip” trading. All exchanges of our stock occur through negotiated transactions between buyers and sellers with Wunderlich Securities of Memphis. There is no market established settlement time frame for trades that are executed. As such, our stock trades in extremely limited amounts and there can be no assurance that shares can be bought or sold in an acceptable time frame at a reasonable price per share.

Concentration of Mortgage Business

The mortgage division operates in many offices owned by Crye-Leike. Approximately 80% of mortgage division origination volume is derived from referrals by Crye-Leike agents. The offices are leased by Magna with a lease term ranging from month-to-month up to five years. The mortgage division also has a marketing agreement with Crye-Leike, but it does not provide an exclusive mortgage origination network; therefore, we can provide no assurance that historical mortgage origination volume derived from the Crye-Leike relationship will continue in the future.

Insider Ownership

Approximately 41% of our common stock is owned or controlled by the members of the board of directors and named executive officers. Additionally, a significant number of our shares are owned by employees and others affiliated with our Company through the Crye-Leike relationship. This lack of a wide dispersion of ownership makes it likely that a substantial number of votes can be cast as a group when matters are put forward for a vote by shareholders.

Item 4.
Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information Magna Bank is required to disclose in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding timely disclosures.

The Company's Chief Executive Officer and its Chief Financial Officer have evaluated the effectiveness of these disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that Magna Bank's disclosure controls and procedures are effective.

There have been no significant changes in internal controls, or in other factors that could significantly affect internal controls during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II Other Information

Item 6.
Exhibits

<u>Item Number</u>	<u>Description</u>
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 14, 2009

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(e) and 15d-15(e)) 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 and our consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's second 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 14, 2009

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)) 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 and our consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's second 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 14, 2009

**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 June 30, 2009 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 14, 2009

**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 June 30, 2009 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 14, 2009