



Dear Shareholder:

The core operations of Magna Bank improved in the second quarter. For linked quarters, net interest income grew by 5% while non-interest income was up 42% due to the fees generated from the typical seasonal increase in mortgage banking activity. Operating expenses, excluding variable commission expense, increased by 8% for the quarter, primarily due to an increase in real estate owned expense. Quarterly income and expense comparisons are as follows:

	<u>June 30, 2010</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>Net interest income</b>	\$3,545,401	\$3,386,100	\$3,427,842
<b>Non-interest income</b>	\$3,747,352	\$2,645,384	\$3,155,808
<b>Operating expenses</b>	\$5,235,950	\$4,853,099	\$5,154,950
<b>Core Operating Earnings</b>	\$1,269,097	\$815,855	\$869,146
<b>Net Income (Loss)</b>	\$(610,894)	\$324,466	\$145,873

We show core operating earnings which remove income taxes, provision for loan losses, impairment charges, and security gains, because we believe that helps show a view of more normalized net revenues. The measure allows better comparability with prior periods, as well as with peers in the industry who also provide a similar presentation.

A decision was made at quarter end to make an additional contribution totaling \$2.4 million to our loan loss reserve and servicing impairment reserve due to concerns about loans to one large real estate borrower and a possible decline in the value of the Bank's mortgage servicing rights. As a result of this addition to reserves, Magna Bank incurred a net loss for the quarter ending June 30, 2010 of \$610,894, with a net loss year-to-date totaling \$286,428. Net loss available to common shareholders after the dividend payment on preferred shares for the second quarter was \$779,767 and \$624,174 year-to-date.

The largest addition to reserves was prompted by concern for lot, development, and residential construction loans to entities controlled by one of the Bank's largest borrowers. These loans have an aggregate outstanding principal balance totaling more than \$10 million with scheduled maturities in the third and fourth quarter of this year. The borrower has paid as agreed since loan inception. However, based upon updated borrower financial statements and newly obtained appraisals on the land and residential lots securing these loans, we consider these loans to now be collateral dependent. As a result of this review, the Bank recorded a specifically identified loan loss provision (addition to reserves) for these loans totaling approximately \$1.9 million. While management is hopeful that these loans will continue to perform, we feel it is prudent to provide this reserve.

The Bank also recorded in the second quarter an impairment charge (addition to reserves) of \$600,000 on our residential mortgage servicing rights. Interest rates on residential mortgage loans have declined in recent months resulting in increased mortgage refinance activity. Increased refinancing activity results in rising payoffs of existing mortgage loans which increases expected servicing amortization expense and negatively impacts the market value of servicing rights. This impairment charge can be recovered in the future, though there is no assurance that there will be any recovery. Additional income from our mortgage production group due to increased loan volume from refinances should offset some of this charge.

In the second quarter, assets, loans, and deposits all increased, while securities declined due to the sale of \$7.8 million of bonds. Annualized year-to-date, deposits have increased 15%, while loans outstanding have grown by 8%. Quarterly period end balance sheet data is as follows:

	<u>June 30, 2010</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>BALANCE SHEET DATA</b>			
<b>Loans</b>	\$339,952,982	\$334,198,506	\$326,830,425
<b>Securities</b>	\$44,645,654	\$51,930,032	\$54,376,737
<b>Assets</b>	\$462,299,410	\$448,109,998	\$435,803,967
<b>Deposits</b>	\$340,935,548	\$327,670,643	\$315,704,612
<b>Shareholders' equity</b>	\$53,285,802	\$53,912,740	\$53,324,942

Non-performing assets as a percentage of assets increased quarter over quarter. The \$10+ million in problem loans discussed above, for which we made additions to our reserves, have been included in non-performing assets. Our allowance for loan losses (reserve) as a percentage of assets increased significantly due to the provision made for this group of loans. Below are several key operating ratios:

	<u>June 30, 2010</u>	<u>March 31, 2010</u>	<u>December 31, 2009</u>
<b>PERIOD END RATIOS</b>			
Non-performing assets/assets*	3.75%	1.52%	1.70%
Allowance for loan losses/loans	2.14%	1.64%	1.58%
Shareholders' equity/assets	11.53%	12.03%	12.24%
Net interest margin	3.37%	3.30%	3.26%
Loans to deposits	107.2%	109.0%	110.2%

\*Excludes FHA/VA loans

The book value per share of the Bank's common stock at June 30, 2010 was \$ 7.76 per share, a decline from \$7.79 at December 31, 2009. To our knowledge 10,000 shares of stock traded during the quarter, with the last trade at a price of \$6.40 per share.

We continue to add products and services to better serve our growing customer base. Earlier this year we launched a new relationship checking account that has been very successful. Our new Small Business Lending group, featuring loans guaranteed by the SBA, continues to generate new business. In the second quarter, we added mobile banking capability for our debit card customers. A new and enhanced web site is in development and will be very customer friendly.

We do see some signs of improved economic activity. However, we expect the operating environment to remain difficult into 2011. Residential housing sales have slowed considerably in the past 90 days without federal stimulus, and it appears the federal government is reluctant to continue providing stimulus dollars without an identified funding source for the stimulus. We remain actively involved in properly assessing the risk on outstanding loans and will pay special attention to land, lot and housing sales over the coming months.<sup>1</sup>

Thank you for your continuing support of Magna Bank. Please contact me if you have any questions.

Sincerely,



Kirk Bailey  
Chairman & CEO

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<sup>1</sup> This letter contains forward-looking statements, as defined by federal securities laws, including statements about financial outlook and business environment. These statements are provided to assist in the understanding of future financial performance and such performance involves risks and uncertainties that may cause actual results to differ materially from those in such statements. Any such statements are based on current expectations and involve a number of risks and uncertainties. For a discussion of some factors that may cause such forward-looking statements to differ materially from actual results, please refer to the section entitled "Forward Looking Statements" on page 2 of our quarterly report filed on Form 10-Q with the Office of Thrift Supervision.