



Dear Shareholder:

Magna Bank is pleased to report that for the quarter ending March 31, 2011 net income totaled \$689,071. Net income available to common shareholders after the payment of the dividend on the preferred shares owned by the U. S. Treasury was \$520,198.

Net interest income for the quarter improved by 1.2% over the same period in 2010. Net interest margin improved to 3.49% at quarter end compared to 3.26% at December 31, 2010 and 3.33% one year earlier. Non-interest income grew by 9.1% compared to the same period in 2010, primarily as a result of fees generated from the origination and sale of SBA loans. The first quarter of 2011 saw a credit of \$165,000 to the provision for loan losses on lower balances of both total loans and non-performing loans and recoveries on charged off loans. Non-interest expense for the first quarter increased by 2.3% compared to the same period one year earlier. We experienced increased commission expense for SBA loans originated and sold, and salary expense increased due to additional staffing in our commercial real estate group resulting from the purchase of the servicing portfolio of the F. M. Crump Company in the fourth quarter of 2010. We continue to control all expense categories. Year-to-date, we have implemented a reduction in our work force affecting 15 budgeted positions, 9 in the residential mortgage group due to reduced loan volume and 6 in the banking group.

Loans outstanding declined in the first quarter by \$11.6 million, primarily as a result of \$10.3 million of loans moving to real estate owned. These troubled loans were reported in 2010 and involve a Memphis land developer and homebuilder. We now control the land, lots, and houses that secured our loan to the developer and are actively marketing the properties. Retail deposits decreased by \$19.8 million during the quarter, as we continue to focus on transaction account growth and allow single relationship certificate of deposit customers to withdraw their deposit at certificate maturity. Total assets at March 31, 2011 were \$412 million, down 3.1% from year-end 2010.

Capital levels at March 31 remained very strong with equity to assets of 12.79%, compared to 12.03% one year earlier. Equity includes the preferred shares representing the investment of the U. S. Treasury in Magna Bank. We have filed an application with our regulators and the U. S. Treasury to repurchase 25 % of the original preferred shares now owned by the Treasury. If the repurchase is approved by the Treasury, we will have repurchased 50% of the shares sold in 2008.

Non-performing assets, excluding FHA/VA insured loans, were 3.39% at quarter end, down from 5.70% at December 31, 2010. Our allowance for possible loan losses as a percentage of loans at March 31, again excluding FHA/VA insured loans, was 1.98%, down from 3.09% at December 31, 2010. Specific reserves related to the large credit mentioned above were charged off in the first quarter. The general allowance for loan losses, excluding FHA/VA insured loans was 1.84% at March 31, compared to 1.70% at year-end 2010. We continue to proactively monitor our assets for impairment.

To our knowledge, there were 9,300 shares of Magna Bank stock traded in the first quarter. The last trade handled by Wunderlich Securities was at a price of \$5.40 per share. Common book value per share at March 31 was \$7.63.

We believe the economy is recovering at a modest pace. Certain sectors of the international and domestic business community are experiencing rapid recovery. Loan demand from some local operating businesses is picking up. However, the far-reaching impact of the economic downturn has continued to weigh heavily on real estate values and, in turn, on the credit quality of many borrowers. We expect to continue to work closely with real estate secured borrowers experiencing cash flow challenges through 2011.

If you have any questions about this report please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Kirk Bailey".

Kirk Bailey
Chairman & CEO