

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010
OR

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

For the transition period from _____ to _____

Commission File No. 15525

Magna Bank

(Exact name of registrant as specified in its charter)

Federal Charter
(State of incorporation)



62-1760666
(IRS Employer Identification No.)

MAGNA BANK

6525 Quail Hollow Suite 513
Memphis, Tennessee 38120

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Class
Common Stock, par
value \$1 per share

Outstanding at November 12, 2010
5,488,116



MAGNA BANK

September 30, 2010 Form 10-Q
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* Item not applicable

Forward Looking Statements

A cautionary note about forward-looking statements. Magna Bank (“Magna”) from time to time makes forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements about estimated cost savings, plans and objectives for future operations, and expectations about performance and economic and market conditions and trends. They often can be identified by the use of words like “*expect,*” “*may,*” “*could,*” “*intend,*” “*project,*” “*estimate,*” “*believe*” or “*anticipate.*” Magna includes forward-looking statements in filings with the Office of 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. Consolidated Financial Statements (Unaudited)

Consolidated Balance Sheets
September 30, 2010 and December 31, 2009



	(Unaudited)	
	September 30, 2010	December 31, 2009
<u>ASSETS</u>		
Cash and due from banks	\$ 5,477,042	\$ 2,749,695
Interest-bearing deposits at other financial institutions	2,491,863	1,207,765
Federal funds sold	16,655,295	2,492,737
Securities:		
Available-for-sale, at fair value (amortized cost of \$30,543,686 and \$46,061,333, respectively)	30,661,112	45,399,735
Held-to-maturity, at amortized cost (fair value of \$7,605,823 and \$7,694,539, respectively)	8,375,323	8,977,002
Loans held for sale, at lower of cost or fair value	38,469,103	21,161,283
Loans, less allowance for loan losses of \$8,569,901 and \$5,174,731, respectively	323,092,034	321,655,694
Accrued interest receivable - securities	147,945	268,538
- loans	1,705,743	1,556,632
Premises and equipment, net	4,781,520	5,044,902
Mortgage servicing rights, net	9,476,309	10,415,334
Foreclosed real estate, net	4,132,579	3,166,008
Investment in Federal Home Loan Bank, at cost	3,981,400	3,981,400
Other assets	10,765,550	7,727,242
TOTAL ASSETS	\$ 460,212,818	\$ 435,803,967
<u>LIABILITIES</u>		
Deposits		
Non-interest-bearing transaction accounts	\$ 17,968,357	\$ 16,456,767
Servicing escrow and custodial accounts	22,918,225	10,431,503
Interest-bearing transaction accounts	84,141,806	72,339,820
Savings accounts	78,944,414	69,184,820
Time deposits	136,786,064	147,291,702
Total deposits	340,758,866	315,704,612
Federal Home Loan Bank borrowings	63,000,000	63,000,000
Accrued interest payable	965,894	1,162,947
Accounts payable	2,039,557	2,039,436
Other liabilities	360,680	572,030
TOTAL LIABILITIES	407,124,997	382,479,025
Commitments and contingencies	-	-
<u>SHAREHOLDERS' EQUITY</u>		
Preferred stock (\$1 par value (liquidation preference \$1,000); 10,000,000 shares authorized; 11,030 shares issued and outstanding)	10,716,731	10,644,437
Common stock (\$1 par value; 10,000,000 shares authorized; 5,514,225 and 5,506,559 shares issued and 5,488,116 and 5,480,450 shares outstanding, respectively)	5,514,225	5,506,559
Treasury stock, 26,109 shares at cost	(200,374)	(200,374)
Additional paid-in capital	31,651,517	31,591,226
Retained earnings	6,519,775	7,473,586
Accumulated other comprehensive loss, net of taxes	(1,114,053)	(1,690,492)
TOTAL SHAREHOLDERS' EQUITY	53,087,821	53,324,942
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 460,212,818	\$ 435,803,967

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

Consolidated Income Statements (Unaudited)
Three and Nine Months Ended September 30, 2010 and 2009



	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
INTEREST INCOME:				
Short-term investments	\$ 11,988	\$ 8,689	\$ 33,543	\$ 13,327
Securities: Available-for-sale	379,856	633,128	1,419,904	2,033,939
Held-to-maturity	96,460	128,181	299,419	447,713
Loans held for sale	310,352	294,305	753,192	990,669
Loans, including fees and discounts	4,565,625	4,800,857	13,404,311	15,224,470
TOTAL INTEREST INCOME	5,364,281	5,865,160	15,910,369	18,710,118
INTEREST EXPENSE:				
Deposits	1,194,099	1,664,427	3,712,522	6,606,265
Borrowings	556,420	673,800	1,652,584	2,032,616
TOTAL INTEREST EXPENSE	1,750,519	2,338,227	5,365,106	8,638,881
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES				
Provision for loan losses	3,613,762	3,526,933	10,545,263	10,071,237
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	1,905,762	3,480,722	6,693,263	9,210,366
NON-INTEREST INCOME:				
Service charges and other branch income	79,257	67,225	220,179	197,924
Servicing fee income	907,575	955,605	2,776,734	2,744,973
Loan brokerage and SBA fees	59,698	-	395,548	78,750
Gain on sale of mortgage loans, net	2,968,195	2,194,877	6,692,774	7,454,341
(Loss) gain on sale of securities available-for-sale	-	(2,061)	207,651	(2,061)
Other-than-temporary impairment on securities	-	(453,071)	(19,000)	(453,071)
Less: non-credit component of impairment	-	315,071	-	315,071
Credit component of impairment charge	-	(138,000)	(19,000)	(138,000)
Gain on branch sale	-	1,756,559	-	1,756,559
(Impairment) recovery of mortgage servicing rights	-	-	(600,000)	1,060,000
Other income	32,568	94,624	166,143	239,469
TOTAL NON-INTEREST INCOME	4,047,293	4,928,829	9,840,029	13,391,955
NON-INTEREST EXPENSE:				
Salary, wages and commission	2,813,012	2,657,744	7,873,764	8,324,426
Benefits and taxes	423,623	424,417	1,328,414	1,379,870
Professional services	112,870	86,345	343,765	251,730
Occupancy and equipment	690,801	763,984	2,053,633	2,319,486
Amortization of servicing rights	1,021,376	513,201	1,977,406	2,058,914
Marketing and business development	150,299	97,691	393,871	361,147
Regulatory fees and deposit insurance assessments	163,511	172,631	447,450	762,146
Debt prepayment penalty	-	504,866	-	504,866
Foreclosure expense	61,667	46,169	471,429	94,881
Other	740,605	725,291	2,339,317	2,127,868
TOTAL NON-INTEREST EXPENSE	6,177,764	5,992,339	17,229,049	18,185,334
(LOSS) INCOME BEFORE TAXES				
Income tax (benefit) expense	(63,945)	931,415	(248,565)	1,729,061
NET (LOSS) INCOME	(160,764)	1,485,797	(447,192)	2,687,926
LESS: DIVIDENDS AND ACCRETION OF PREFERRED STOCK				
	168,873	185,874	506,619	578,507
NET (LOSS) INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ (329,637)	\$ 1,299,923	\$ (953,811)	\$ 2,109,419
Net (loss) income per common share:				
Basic	\$ (0.06)	\$ 0.24	\$ (0.17)	\$ 0.39
Diluted	\$ (0.06)	\$ 0.24	\$ (0.17)	\$ 0.39
Comprehensive income:				
Net (loss) income	\$ (160,764)	\$ 1,485,797	\$ (447,192)	\$ 2,687,926
Change in net unrealized gain (loss) on securities, net of taxes	85,481	678,089	576,439	(681,594)
TOTAL COMPREHENSIVE (LOSS) INCOME	\$ (75,283)	\$ 2,163,886	\$ 129,247	\$ 2,006,332

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

Consolidated Statement of Cash Flows (Unaudited)
Nine Months Ended September 30, 2010 and 2009



	September 30,	
	2010	2009
Cash flows from operating activities:		
Net (loss) income	\$ (447,192)	\$ 2,687,926
<i>Reconciliation of net (loss) income to cash (used in) provided by operating activities:</i>		
Provision for loan losses	3,852,000	860,871
Provision for servicing and mortgage origination losses	377,100	288,000
Impairment (recovery) of mortgage servicing rights	600,000	(1,060,000)
Charges for other-than-temporary impairment of securities	19,000	138,000
Depreciation of premises and equipment	454,730	612,377
Capitalization of mortgage servicing rights	(1,635,381)	(2,195,354)
Stock-based compensation expense	67,958	104,466
Amortization of mortgage servicing rights	1,977,406	2,058,914
Net discount accretion on securities	(58,007)	(274,288)
Net premium amortization on loans	33,573	40,302
(Benefit) provision for deferred income tax	(969,550)	3,739,992
(Increase) decrease in other assets	(2,437,303)	1,791,323
Decrease in accounts payable and other liabilities ¹	(588,329)	(4,199,670)
Proceeds from sales and repayments of loans held for sale	306,943,509	349,608,725
Gain on sale of mortgage loans	(6,692,774)	(7,454,341)
(Gain) loss on sale of securities available-for-sale	(207,651)	2,061
Loss on sale of real estate owned	44,371	15,853
Origination of loans held for sale	(317,558,555)	(341,261,060)
Gain on branch sale	-	(1,756,559)
Decrease in accrued interest payable ¹	(197,053)	(1,283,228)
(Increase) decrease in accrued interest receivable ¹	(28,518)	305,709
Net cash (used in) provided by operating activities	<u>(16,450,666)</u>	<u>2,770,019</u>
Cash flows from investing activities:		
Purchases of securities available-for-sale	(3,998,125)	(7,350,998)
Proceeds from sale of securities available-for-sale	7,800,696	1,043,529
Principal repayments of securities available-for-sale	11,937,244	9,481,873
Principal repayments of securities held-to-maturity	792,128	1,286,033
Net (increase) decrease in loans ¹	(8,391,214)	17,927,170
Proceeds from sale of foreclosed real estate	2,058,359	276,161
Proceeds from sale of branch	-	(4,877,580)
Purchase of FHLB stock	-	(78,800)
Purchases of mortgage servicing rights	(3,000)	(15,906)
Purchases of premises and equipment ¹	(191,348)	(190,743)
Net cash provided by investing activities	<u>10,004,740</u>	<u>17,500,739</u>
Cash flows from financing activities:		
Net increase (decrease) in deposits ¹	25,054,254	(6,018,511)
Repayments of long-term borrowings	-	(12,500,000)
Net decrease in federal funds purchased	-	(2,600,000)
Dividends on preferred stock	(434,325)	(578,507)
Proceeds from stock options	-	285,825
Net cash provided by (used in) financing activities	<u>24,619,929</u>	<u>(21,411,193)</u>
Net increase (decrease) in cash and cash equivalents	18,174,003	(1,140,435)
Cash and equivalents at beginning of period	6,450,197	8,195,017
Cash and equivalents at end of period	<u>\$ 24,624,200</u>	<u>\$ 7,054,583</u>
Cash paid during the period for:		
Interest	\$ 5,562,159	\$ 10,160,330
Income taxes	1,325,000	240,000
Loans transferred to other real estate	3,069,301	1,679,714
Loans held for sale transferred to loans	5,275,450	1,000,750

¹ - 2009 amounts are presented net of branch sale

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

1. Basis of Presentation. The consolidated balance sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date. The accompanying unaudited interim consolidated financial statements reflect all adjustments (consisting only of normally recurring accruals) that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the rules of the Securities and Exchange Commission. The condensed consolidated financial statements of the Company as of September 30, 2010, and for the three and nine months ended September 30, 2010 and 2009 are unaudited. Results of operations for the three and nine months ended September 30, 2010 and 2009 are not necessarily indicative of the results that may be achieved for the full year or for any future period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2009. Certain prior period amounts have been reclassified to conform to the current period presentation, although such reclassifications had no effect on net (loss) income, total assets or shareholder's equity.

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

In July 2010, the FASB issued Accounting Standards Update 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses" ("ASU 2010-20"). ASU 2010-20 provides enhanced disclosures related to the credit quality of financing receivables and the allowance for credit losses, and provides that new and existing disclosures should be disaggregated based on how an entity develops its allowance for credit losses and how it manages credit exposures. Under the provisions of ASU 2010-20, additional disclosures required for financing receivables include information regarding the aging of past due receivables, credit quality indicators, and modifications of financing receivables. The provisions of ASU 2010-20 are effective for periods ending after December 15, 2010, with the exception of the amendments to the roll-forward of the allowance for credit losses and the disclosures about modifications which are effective for periods beginning after December 15, 2010. Comparative disclosures are required only for periods ending subsequent to initial adoption. Magna is currently assessing the effects of adopting the provisions of ASU 2010-20.

2. Earnings Per Share. Earnings per share is computed by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding for each period. Diluted earnings per share in net income periods is computed by dividing net income attributable to common shareholders by the weighted average number of common shares adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares resulting from outstanding share-based awards had been issued utilizing the treasury stock method. Diluted earnings per share do not reflect an adjustment for potentially dilutive shares in net loss periods. Stock options outstanding as of September 30, 2010 have no intrinsic value; therefore, the options have no dilutive impact (antidilutive) and are not included in the earnings per share calculations.

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net (loss) income	\$ (160,764)	\$ 1,485,797	\$ (447,192)	\$ 2,687,926
Less: Dividends and accretion of preferred stock	(168,873)	(185,874)	(506,619)	(578,507)
Numerator: Net (loss) income attributable to common shareholders	\$ (329,637)	\$ 1,299,923	\$ (953,811)	\$ 2,109,419
Denominator for basic earnings per share:				
Weighted average common shares outstanding	5,488,116	5,477,100	5,487,414	5,459,780
Add dilutive common shares:				
Share-based awards	-	-	-	-
Denominator for diluted earnings per share	<u>5,488,116</u>	<u>5,477,100</u>	<u>5,487,414</u>	<u>5,459,780</u>
Basic (loss) income per common share	<u>\$ (0.06)</u>	<u>\$ 0.24</u>	<u>\$ (0.17)</u>	<u>\$ 0.39</u>
Diluted (loss) income per common share	<u>\$ (0.06)</u>	<u>\$ 0.24</u>	<u>\$ (0.17)</u>	<u>\$ 0.39</u>

3. Securities Portfolio.

The following summarizes the investment securities portfolio as of September 30, 2010 and December 31, 2009:

	Amortized	Unrealized		Fair
	Cost	Gain	Loss	Value
September 30, 2010:				
<i>Available-for-sale:</i>				
U.S. Agency	3,965,654	96,415	79	4,061,991
Collateralized mortgage obligations	11,205,191	176,802	641,554	10,740,440
Commercial mortgage-backed securities	2,723,125	13,115	2,480	2,733,760
Agency Mortgage-backed securities	12,649,715	475,206	-	13,124,922
Subtotal available-for-sale	<u>30,543,686</u>	<u>761,539</u>	<u>644,113</u>	<u>30,661,112</u>
<i>Held-to-maturity:</i>				
Corporate Debt Obligations	1,977,506	126,820	232,976	1,871,350
Collateralized mortgage obligations	2,843,441	10,244	950,751	1,902,935
Agency Mortgage-backed securities	3,554,376	277,162	-	3,831,538
Subtotal held-to-maturity	<u>8,375,323</u>	<u>414,226</u>	<u>1,183,726</u>	<u>7,605,823</u>
Total at September 30, 2010	<u>\$ 38,919,010</u>	<u>\$ 1,175,764</u>	<u>\$ 1,827,839</u>	<u>\$ 38,266,935</u>
December 31, 2009:				
<i>Available-for-sale:</i>				
U.S. Agency securities	8,632,903	292,073	401	8,924,575
Collateralized mortgage obligations	15,215,654	18,994	1,615,883	13,618,765
Commercial mortgage-backed securities	2,984,847	30,233	12,023	3,003,057
Agency Mortgage-backed securities	19,227,929	635,883	10,474	19,853,338
Subtotal available-for-sale	<u>46,061,333</u>	<u>977,183</u>	<u>1,638,781</u>	<u>45,399,735</u>
<i>Held-to-maturity:</i>				
Corporate Debt Obligations	1,896,370	-	356,589	1,539,781
Collateralized mortgage obligations	3,170,671	2,703	1,178,368	1,995,006
Agency Mortgage-backed securities	3,909,961	249,791	-	4,159,752
Subtotal held-to-maturity	<u>8,977,002</u>	<u>252,494</u>	<u>1,534,957</u>	<u>7,694,539</u>
Total at December 31, 2009	<u>\$ 55,038,335</u>	<u>\$ 1,229,677</u>	<u>\$ 3,173,738</u>	<u>\$ 53,094,274</u>

The following table summarizes the components of unrealized loss by reference to the period of time such unrealized losses have been incurred as of September 30, 2010:

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
<i>September 30, 2010:</i>						
U.S. Agency	\$ -	\$ -	\$ 20,390	\$ 79	\$ 20,390	\$ 79
Corporate Debt Obligations	-	-	1,038,850	232,976	1,038,850	232,976
Collateralized mortgage obligations	1,280,234	94,733	6,124,729	1,497,572	7,404,963	1,592,305
Commercial mortgage-backed securities	-	-	142,915	2,480	142,915	2,480
	<u>\$ 1,280,234</u>	<u>\$ 94,733</u>	<u>\$ 7,326,884</u>	<u>\$ 1,733,106</u>	<u>\$ 8,607,119</u>	<u>\$ 1,827,839</u>

The losses which have existed for more than twelve months are primarily related to the Company's investment in non-agency residential mortgage backed securities. Management has reviewed all debt securities with losses which have existed for more than twelve months for evidence of impairment. We do not intend to sell such investments, nor is it more likely than not that the company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, except that we may sell securities for which other-than-temporarily impairment has already been recorded.

Accounting standards require us to evaluate our securities portfolio periodically for evidence of "other-than-temporary" impairment. The guidance provides for significant amounts of judgment to be applied in this process. Magna followed what we consider to be a - conservative yet appropriate approach utilizing third-party analytics tools to assist in the evaluation process and identified securities that we deemed to be other than temporarily impaired. All securities in our portfolio are currently paying in accordance with their terms. A portion of Magna's securities portfolio is backed by the full faith and credit of the United States or its agencies, but a large portion is not. Full collection of our investment is possible, as is the possibility of further losses on these, or other, securities in our portfolio, but it is not possible to predict the ultimate collectability of all of our investments. Management is actively monitoring each issue.

The unrealized loss in non-agency collateralized mortgage obligations ("CMO") is primarily attributable to default concerns caused by the economic recession. These securities are collateralized by residential mortgages that were originated during a period of reduced credit underwriting standards (2004 – 2007) and, in some cases, are secured by real estate that has seen significant declines in value due to oversupply and high levels of foreclosure. The nationally recognized rating agencies have revised their rating methodologies for this class of asset to introduce more severe loss scenario outcomes when collateral performance metrics (i.e. default rate, foreclosure frequency and loss severity) are stressed, resulting in a significant number of tranches within these securities being either downgraded outright or placed on watch list for possible downgrade. Magna uses a third-party analytics firm to evaluate the possibility of credit loss in these securities each quarter end, which resulted in an OTTI credit charge related to one CMO security totaling \$19,000 in the first quarter of 2010. There were no OTTI credit charges recorded in the second or third quarter of 2010.

The components of accumulated other comprehensive loss, which is presented net of tax in the consolidated statements of financial condition, are presented in the following tables. The components of net unrealized gain (loss) on available-for-sale securities at September 30, 2010 and December 31, 2009 are as follows:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Pretax gain (loss)	\$ 117,426	\$ (316,502)
Income tax (expense) benefit	(45,796)	123,436
Net of tax gain (loss)	<u>\$ 71,630</u>	<u>\$ (193,066)</u>

The non credit components of other-than-temporary impairment on securities as of September 30, 2010 and December 31, 2009 are as follows:

	<u>September 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Available-for-sale</u>	<u>Held-to-maturity</u>	<u>Available-for-sale</u>	<u>Held-to-maturity</u>
Pretax loss	\$ -	\$ (1,943,768)	\$ (345,097)	\$ (2,109,700)
Income tax benefit	-	758,085	134,588	822,783
Net of tax loss	<u>\$ -</u>	<u>\$ (1,185,683)</u>	<u>\$ (210,509)</u>	<u>\$ (1,286,917)</u>

The amortized cost and estimated fair value of securities at September 30, 2010 by contractual maturity are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Available-for-sale		Held-to-maturity	
	Amortized		Amortized	
	Cost	Fair Value	Cost	Fair Value
Due in one year or less	\$ -	\$ -	\$ -	\$ -
Due after one year through five years	2,099,042	2,159,430	1,962,478	1,873,637
Due after five years through ten years	2,531,759	2,583,514	693,261	739,592
Due after ten years	25,912,885	25,918,168	5,719,584	4,992,594
	<u>\$ 30,543,686</u>	<u>\$ 30,661,112</u>	<u>\$ 8,375,323</u>	<u>\$ 7,605,823</u>

All eligible investment securities have been pledged to the Federal Home Loan Bank of Cincinnati (FHLB) as collateral for current or future borrowings. The carrying value of eligible investment securities pledged to the FHLB as of September 30, 2010 and December 31, 2009 totaled \$18.4 million and \$24.6 million, respectively. The carrying value of non-eligible investment securities as of September 30, 2010 and December 31, 2009 totaled \$20.6 million and \$29.8 million, respectively.

4. **Loans.** Major categories of loans at September 30, 2010 and December 31, 2009 are summarized as follows:

	September 30, 2010		December 31, 2009		Change	
Commercial Loans:						
Mortgage	\$ 131,174,177	40.6%	\$ 117,120,112	36.4%	\$ 14,054,065	12.0%
Construction	23,898,123	7.4%	33,990,660	10.6%	(10,092,537)	-29.7%
Other	29,446,459	9.1%	22,381,622	7.0%	7,064,837	31.6%
	<u>184,518,759</u>	<u>57.1%</u>	<u>173,492,394</u>	<u>54.0%</u>	<u>11,026,365</u>	<u>6.4%</u>
Consumer Loans:						
First Mortgage	79,112,927	24.5%	82,025,890	25.5%	(2,912,963)	-3.6%
Junior Mortgage, Primarily HELOC	54,996,075	17.0%	54,804,498	17.0%	191,577	0.3%
Construction	10,830,833	3.4%	13,775,740	4.2%	(2,944,907)	-21.4%
Other	2,203,341	0.7%	2,731,903	0.8%	(528,562)	-19.3%
	<u>147,143,176</u>	<u>45.6%</u>	<u>153,338,031</u>	<u>47.6%</u>	<u>(6,194,855)</u>	<u>-4.0%</u>
Total loans	331,661,935	102.7%	326,830,425	101.6%	4,831,510	1.5%
Allowance for loan losses	(8,569,901)	-2.7%	(5,174,731)	-1.6%	(3,395,170)	65.6%
Net loans	\$ 323,092,034	100.0%	\$ 321,655,694	100.0%	\$ 1,436,340	0.4%

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Beginning balance	\$ 7,284,550	\$ 5,744,611	\$ 5,174,731	\$ 5,283,639
Provision for loan losses	1,708,000	46,211	3,852,000	860,871
Charge-off of uncollectible loans	(441,155)	(777,193)	(604,285)	(1,130,881)
Recovery of loans previously charged-off	18,506	11,737	147,455	11,737
Net charge-off	<u>(422,649)</u>	<u>(765,456)</u>	<u>(456,830)</u>	<u>(1,119,144)</u>
Ending balance	<u>\$ 8,569,901</u>	<u>\$ 5,025,366</u>	<u>\$ 8,569,901</u>	<u>\$ 5,025,366</u>

6. **Segment Information.** The Bank operates two divisions: banking and mortgage. The banking division focuses on originating loans for its portfolio. These include first and second residential mortgages, revolving home equity loans, residential and commercial construction loans, commercial real estate loans and non-real estate commercial loans. The banking division funds its operations by gathering customer savings and transactional deposits and through wholesale brokered deposits. Additional funding comes from borrowings at the Federal Reserve Bank of St. Louis, the Federal Home Loan Bank and fed funds lines. The mortgage division originates and delivers residential first mortgages to investors (including, in certain instances, to the banking division) and services residential mortgage loans for others. Transactions between business segments are conducted at fair value and are eliminated for

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

Three Months ended September 30,

	2010			2009		
	Banking	Mortgage	Total	Banking	Mortgage	Total
Net interest income	\$ 3,281,950	\$ 331,812	\$ 3,613,762	\$ 3,160,656	\$ 366,277	\$ 3,526,933
Provision for loan losses	(1,708,000)	-	(1,708,000)	(49,211)	3,000	(46,211)
Net interest income after provision for loan losses	1,573,950	331,812	1,905,762	3,111,445	369,277	3,480,722
Impairment charge	-	-	-	(138,000)	-	(138,000)
Other non-interest income	233,156	3,814,137	4,047,293	1,998,123	3,068,706	5,066,829
Non-interest expense	2,667,670	3,510,094	6,177,764	3,179,979	2,812,360	5,992,339
(Loss) income before taxes	(860,564)	635,855	(224,709)	1,791,589	625,623	2,417,212
Income tax (benefit) expense	(314,590)	250,645	(63,945)	690,332	241,083	931,415
Net (loss) income	\$ (545,974)	\$ 385,210	\$ (160,764)	\$ 1,101,257	\$ 384,540	\$ 1,485,797
Average assets	\$ 415,537,699	\$ 48,649,504	\$ 464,187,203	\$ 427,339,840	\$ 53,596,716	\$ 480,936,556
Operating Efficiency	75.89%	84.66%	80.64%	63.34%	81.87%	70.87%

Nine Months ended September 30,

	2010			2009		
	Banking	Mortgage	Total	Banking	Mortgage	Total
Net interest income	\$ 9,665,601	\$ 879,662	\$ 10,545,263	\$ 9,033,801	\$ 1,037,436	\$ 10,071,237
Provision for loan losses	(3,836,000)	(16,000)	(3,852,000)	(846,271)	(14,600)	(860,871)
Net interest income after provision for loan losses	5,829,601	863,662	6,693,263	8,187,530	1,022,836	9,210,366
Impairment (charge) recovery	(19,000)	(600,000)	(619,000)	(138,000)	1,060,000	922,000
Other non-interest income	1,099,549	9,359,480	10,459,029	2,445,736	10,024,219	12,469,955
Non-interest expense	8,349,061	8,879,988	17,229,049	8,889,742	9,295,592	18,185,334
(Loss) income before taxes	(1,438,911)	743,154	(695,757)	1,605,524	2,811,463	4,416,987
Income tax (benefit) expense	(538,838)	290,273	(248,565)	623,685	1,105,376	1,729,061
Net (loss) income	\$ (900,073)	\$ 452,881	\$ (447,192)	\$ 981,839	\$ 1,706,087	\$ 2,687,926
Average assets	\$ 408,917,531	\$ 46,352,109	\$ 455,269,640	\$ 448,119,594	\$ 57,436,206	\$ 505,555,800
Operating Efficiency	77.69%	92.12%	84.52%	78.38%	76.69%	77.51%

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

Each quarter the Company evaluates its investment in MSRs for evidence of impairment resulting from changes in the estimated rate of prepayment, cost to service, market discount rate and other factors. This process involves stratifying the underlying mortgages into tranches based upon interest type, term, and interest rate. These tranches are then evaluated using estimates for the aforementioned factors provided by third party brokers knowledgeable in the execution of exchanges of MSR's. If the derived fair value is less than

the remaining book value, a valuation allowance is established through a charge to earnings. If the derived fair value is greater than the remaining book value, a valuation allowance is reduced through a recovery to earnings.

At June 30, 2010, due primarily to a decline in residential mortgage rates averaging between 4.00% and 4.50%, and to the expected impact of changes in agency refinance programs which allow previously non-qualified borrowers to refinance their mortgages to current interest rates, our estimates of forward prepayment speeds increased dramatically. Consequently, Magna recognized an impairment charge of \$600,000 as of June 30, 2010. No additional impairment or recovery of prior impairment was recognized during the quarter ended September 30, 2010. MSR impairment is reviewed quarterly, but even though the critical estimates will change, there can be no assurance that any recovery will ever be recognized.

The September 30, 2009 quarter and year to date results of operations were also impacted by the impairment calculation process. In the fourth quarter of 2008, Magna recorded an impairment charge against the carrying value of MSR's totaling \$1.2 million, also as a result of expectations of more rapid prepayment activity. During the first quarter of 2009, \$400,000 of this impairment was recovered as mortgage rates increased slightly. By the June 30, 2009 quarter end, the calculation resulted in an additional recovery of \$660,000. The following tables summarize changes in servicing rights during the three and nine month periods ended September 30, 2010 and 2009, respectively:

	Three months ended September 30,					
	2010			2009		
	Commercial	Residential	Total	Commercial	Residential	Total
Beginning balance	\$ 101,232	\$ 9,474,117	\$ 9,575,349	\$ 132,668	\$ 10,470,279	\$ 10,602,947
Add: Purchased mortgage servicing rights	-	-	-	-	1,749	1,749
Capitalized mortgage servicing rights	-	922,336	922,336	-	408,626	408,626
Less: Amortization of mortgage servicing rights	(7,740)	(1,013,636)	(1,021,376)	(7,847)	(505,354)	(513,201)
Ending balance	\$ 93,492	\$ 9,382,817	\$ 9,476,309	\$ 124,821	\$ 10,375,300	\$ 10,500,121

	Nine months ended September 30,					
	2010			2009		
	Commercial	Residential	Total	Commercial	Residential	Total
Beginning balance	\$ 116,897	\$ 10,298,437	\$ 10,415,334	\$ 149,026	\$ 9,138,749	\$ 9,287,775
Add: Purchased mortgage servicing rights	-	3,000	3,000	-	15,906	15,906
Capitalized mortgage servicing rights	-	1,635,381	1,635,381	-	2,195,354	2,195,354
Less: Amortization of mortgage servicing rights	(23,405)	(1,954,001)	(1,977,406)	(24,205)	(2,034,709)	(2,058,914)
(Impairment) recovery of impairment charges	-	(600,000)	(600,000)	-	1,060,000	1,060,000
Ending balance	\$ 93,492	\$ 9,382,817	\$ 9,476,309	\$ 124,821	\$ 10,375,300	\$ 10,500,121

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

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

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

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

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

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

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

Mortgage servicing rights: The Company records MSR's at the lower of cost or estimated fair value. The Company reviews the portfolio of MSR's 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 September 30, 2010 and December 31, 2009, respectively.

Foreclosed real estate: Foreclosed real estate ("REO") is comprised of commercial and residential real estate obtained in partial or total satisfaction of loan obligations. REO acquired in settlement of indebtedness is recorded at the lower of the carrying amount of the loan or the discounted fair value of the real estate less costs to sell. Fair value is determined based on appraisals by qualified licensed appraisers and is adjusted for management's estimates of costs to sell and holding period discounts. Subsequently, it may be necessary to record non-recurring fair value adjustments, which are classified as Level 3. The Company recorded losses on the sale of REO of \$19,981 and \$44,371 for the three and nine months ended September 30, 2010.

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

The balances and levels of the assets measured at fair value on both a recurring and non-recurring basis as of September 30, 2010 are presented in the following table.

	At September 30, 2010			
	Level 1	Level 2	Level 3	Total
Recurring valuation:				
Securities available-for-sale	\$ -	\$ 30,661,112	\$ -	\$ 30,661,112
Non-recurring valuation:				
Mortgage servicing rights	-	-	\$ 9,476,309	\$ 9,476,309
Foreclosed real estate	-	-	4,132,579	4,132,579
Loans held for sale	-	38,469,103	-	38,469,103
Impaired loans	-	-	17,024,975	17,024,975
Total Non-recurring	\$ -	\$ 38,469,103	\$ 30,633,863	\$ 69,102,966

The securities with recorded OTTI as of September 30, 2010 that are classified as held-to-maturity securities are not reflected in the table above because the Company does not record held-to-maturity securities at fair value. However, held-to-maturity securities are analyzed each reporting period for potential impairment. The Company had no level 3 assets measured at fair value on a recurring basis for the three or nine month period ended September 30, 2010.

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

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

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

Loans. Magna uses an instrument-level discounted cash flow model to estimate the fair value of all loans. The model takes into account prepayment rates on loans containing such options using OTS prepayment tables. The discount rate on each loan is based on the yield curve observed by reference to the fixed rate term advance rates posted by the FHLB of Cincinnati, which approximates the swap curve. All loans are discounted at 2.50% over this hypothetical funding rate.

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

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

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

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

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

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Securities available for sale	\$ 30,661,112	\$ 30,661,112	\$ 45,399,735	\$ 45,399,735
Securities held to maturity	8,375,323	7,605,823	8,977,002	7,694,539
Commercial Loans:				
Mortgage	131,174,177	121,121,451	117,120,112	107,481,230
Construction	23,898,123	21,607,666	33,990,660	32,902,111
Other	29,446,459	27,594,324	22,381,622	20,972,523
Consumer Loans:				
First Mortgage	79,112,927	73,007,461	82,025,890	75,574,573
Junior Mortgage, Primarily HELOC	54,996,075	43,190,027	54,804,498	40,434,190
Construction	10,830,833	8,877,984	13,775,740	13,571,474
Other	2,203,341	2,091,236	2,731,903	2,596,953
Mortgage loans held for sale	38,469,103	38,469,103	21,161,283	21,161,283
Mortgage servicing rights	9,476,309	9,726,992	10,415,334	10,543,897
Financial Liabilities				
Non interest-bearing deposits	40,886,582	34,926,105	26,888,270	22,624,654
Interest-bearing deposits with no stated maturity	147,336,220	129,578,411	125,774,640	108,147,830
Interest-bearing deposits with a stated maturity	132,993,064	132,478,039	142,498,702	141,547,275
Brokered deposits	19,543,000	19,540,451	20,543,000	20,522,067
Federal Home Loan Bank advances	63,000,000	67,493,988	63,000,000	66,102,541

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

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

11. Subsequent Events. Subsequent events have been evaluated through November 12, 2010, which is the date the financial statements were issued.

Selected Quarterly Data (Unaudited)
Five Consecutive Quarters



	Quarter Ended				
	September-10	June-10	March-10	December-09	September-09
Operating data:					
Net interest income	\$ 3,613,762	\$ 3,545,401	\$ 3,386,100	\$ 3,427,842	\$ 3,526,933
Provision for loan losses	1,708,000	1,883,000	261,000	520,510	46,211
Net interest income after provision for loan losses	1,905,762	1,662,401	3,125,100	2,907,332	3,480,722
Non-interest income	4,047,293	3,747,352	2,664,384	3,182,808	5,066,829
Impairment charges	-	600,000	19,000	27,000	138,000
Non-interest expense	6,177,764	5,816,656	5,234,629	5,741,504	5,992,339
(Loss) income before taxes	(224,709)	(1,006,903)	535,855	321,636	2,417,212
Income tax (benefit) expense	(63,945)	(396,009)	211,389	175,763	931,415
Net (loss) income	\$ (160,764)	\$ (610,894)	\$ 324,466	\$ 145,873	\$ 1,485,797
Other comprehensive income	85,481	101,946	389,012	154,001	678,089
Total comprehensive (loss) income	\$ (75,283)	\$ (508,948)	\$ 713,478	\$ 299,874	\$ 2,163,886
Net (loss) income attributable to common shareholders	\$ (329,637)	\$ (779,767)	\$ 155,593	\$ (329,256)	\$ 1,299,923
Per share data:					
(Loss) income per share - diluted	\$ (0.06)	\$ (0.14)	\$ 0.03	\$ (0.06)	\$ 0.24
Weighted average shares outstanding - diluted	5,488,116	5,488,116	5,485,987	5,477,391	5,477,100
Book value per common share (at period end)	\$ 7.72	\$ 7.76	\$ 7.88	\$ 7.79	\$ 7.80
Balance sheet data (at period end):					
Total assets	\$ 460,212,818	\$462,299,410	\$ 448,109,998	\$ 435,803,967	\$ 457,657,601
Cash and short-term investments	24,624,200	25,992,243	12,393,825	6,450,197	7,054,583
Total securities	39,036,435	44,645,654	51,930,032	54,376,737	59,291,632
Loans held for sale	38,469,103	25,577,089	22,789,267	21,161,283	23,321,583
Total loans	331,661,935	339,952,982	334,198,506	326,830,425	341,460,473
Total loans-adjusted ¹	319,812,557	327,952,643	320,769,414	312,845,186	327,584,613
Allowance for loan losses	8,569,901	7,284,550	5,478,804	5,174,731	5,025,366
Mortgage servicing rights, net	9,476,309	9,575,349	10,258,251	10,415,334	10,500,121
Foreclosed real estate, net	4,132,579	3,120,166	3,816,656	3,166,008	3,279,335
Servicing escrows	22,918,225	17,379,422	12,823,240	10,431,503	18,651,668
Brokered deposits	19,543,000	20,543,000	20,543,000	20,543,000	25,045,000
Total deposits	340,758,866	340,935,548	327,670,643	315,704,612	325,529,761
Borrowings	63,000,000	63,000,000	63,000,000	63,000,000	71,000,000
Equity	53,087,821	53,285,802	53,912,740	53,324,942	56,605,593
Common equity	42,371,090	42,593,169	43,244,205	42,680,505	42,707,093
Financial ratios:					
Equity to assets	11.54%	11.53%	12.03%	12.24%	12.37%
Common equity to assets	9.21%	9.21%	9.65%	9.79%	9.33%
Loans to deposits	108.62%	107.21%	108.95%	110.23%	112.06%
Allowance for loan losses to loans	2.58%	2.14%	1.64%	1.58%	1.47%
Allowance for loan losses to non-performing loans	50.34%	44.58%	84.92%	67.88%	81.13%
Non-performing loans to loans	5.13%	4.81%	1.93%	2.33%	1.81%
Non-performing loans to loans-adjusted ¹	4.49%	4.20%	0.87%	1.28%	0.52%
Non-performing assets to total assets	4.60%	4.21%	2.29%	2.48%	2.07%
Non-performing assets to total assets-adjusted ¹	4.12%	3.75%	1.52%	1.70%	1.12%
Operating efficiency	80.6%	79.8%	86.5%	86.9%	69.7%
Return on average assets	-0.14%	-0.54%	0.29%	0.13%	1.24%
Return on average equity	-1.20%	-4.48%	2.42%	1.05%	10.35%
Net interest spread	3.10%	3.08%	3.01%	2.92%	2.81%
Net interest margin	3.39%	3.37%	3.30%	3.26%	3.18%

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 September 30, 2010 and December 31, 2009 and the consolidated results of operations for the three and nine month periods ended September 30, 2010 and 2009. The discussion should be read in conjunction with the unaudited consolidated financial statements and the notes thereto as of and for the quarters then ended.

EXECUTIVE OVERVIEW

Net loss attributable to common shareholders for the third quarter of 2010 was \$329,637 compared to net income of \$1.3 million in the same quarter of 2009. Year to date amounts were a net loss of \$953,811 for 2010 compared to net income of \$2.1 million for 2009, which includes a gain of \$1.8 million from the sale of a retail branch in Brentwood. The primary drivers of the net loss in 2010 were provisions for loan losses and recognition of impairment on mortgage servicing rights. Net interest income was up over the year ago quarter and year to date amounts. Excluding the impact of the aforementioned servicing impairment, securities impairment, and one-time gains and losses on sales of securities and a retail branch, non-interest income improved 22.2% and declined 4.3%, respectively, from the year ago quarter and year to date amounts. This improvement was primarily the result of increased mortgage banking revenue in the current quarter due mostly to refinance volume. Comparing the year over year periods, the decline in mortgage banking revenue was partially offset by improvement in commercial brokerage and SBA fee revenue, which had been stagnant throughout the recession.

Operating expenses increased during the three-month period ended September 30, 2010 compared to 2009 primarily due to increases in commission expense associated with higher mortgage origination volume and increases in amortization expense of mortgage servicing rights resulting from the increase in mortgage refinance activity. Operating expenses declined during the nine-month period ended September 30, 2010 compared to 2009, primarily due to lower bonus expense, lower occupancy and equipment expense due to the closing of our mortgage origination offices in Arkansas and East Tennessee on July 31, 2010, and to the FDIC insurance special assessment and debt prepayment penalty, both of which occurred in 2009. These expense improvements were partially offset by increases in the costs associated with revaluation and maintenance of foreclosed real estate, which has increased significantly over 2009.

Total assets at September 30, 2010 were \$460.2 million, up \$24.4 million (5.6%) from the end of 2009. Growth in the loan portfolio totaled \$4.8 million, mortgage loans held for sale increased \$17.3 million, and cash and cash equivalents increased \$18.2 million. The securities portfolio declined by \$15.3 million from a combination of paydowns and sales. Deposits grew by \$25.1 million, with transaction accounts contributing \$23.1 million of that growth and the balance shared by time deposits, which declined \$10.5 million and seasonal escrow deposit growth of \$12.5 million.

An increase in problem loans necessitated a provision for possible loan losses of \$1.7 million for the quarter ended September 30, 2010 compared to \$46,211 for the year ago quarter. Comparable year to date amounts are \$3.9 million and \$860,871, respectively. The allowance for loan losses represented 2.58% of total loans at September 30, 2010 compared to 1.58% at December 31, 2009 and 1.47% at September 30, 2009. Excluding full-faith and credit FHA/VA loans, the allowance for loan losses was 2.68% of total loans outstanding at September 30, 2010 compared to 1.65% at December 31, 2009, and 1.53% at September 30, 2009.

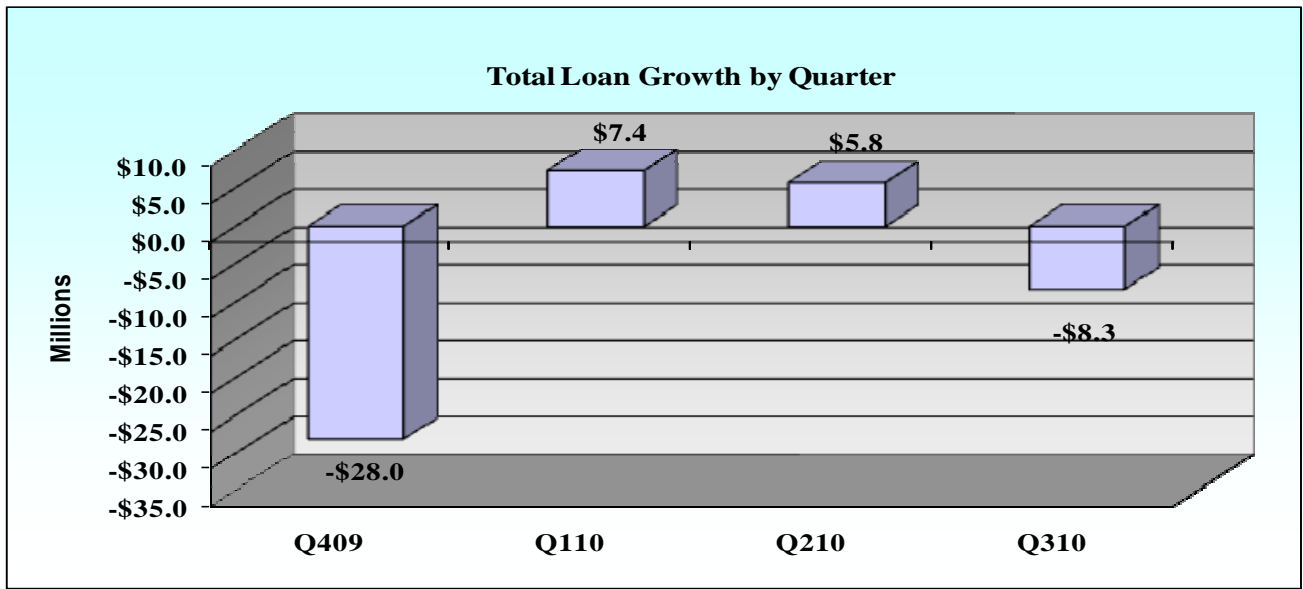
Non-performing loans totaled \$17.0 million at September 30, 2010, an increase of \$684,136 (4.2%) from the preceding quarter end, and an increase of \$9.4 million (123.3%) from the end of 2009. The ratio of non-performing loans to loans (excluding loans insured by the FHA) increased significantly from 1.28% at December 31, 2009 to 4.49% at September 30, 2010 and the ratio of total non-performing assets to assets (again excluding loans insured by the FHA) increased from 1.70% at December 31, 2009 to 4.12% at September 30, 2010. The increase in both the provision for possible loan losses and non performing loans is primarily the result of specific loan loss recognition related to impaired loans resulting from updated appraisals and obligor financial information received in the course of preparing for loan maturities which will occur before year end 2010. A substantial portion of the total loan loss provision relates to loans secured by raw land and developed residential lots and construction loans, which continue to experience a decline in collateral value. Net charge-offs of uncollectible loans totaled \$422,649 during the quarter and \$456,830 for the year to date period. These amounts represent an annualized charge-off rate of .50% and .18%, respectively, of average loans outstanding.

Each quarter, we use independently developed third party models to apply stress testing to our residential mortgage backed securities portfolio. Corporate debt obligations are similarly tested using internally developed models. Based on the results of these stress tests, the company identified no additional other-than-temporary losses as of September 30, 2010. 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 achieved a modest two basis point improvement in net interest spread and net interest margin during the third quarter of 2010 compared to the second quarter, as the yield on assets and the cost of funds both declined slightly. The yield on loans is being negatively impacted by increasing non-accrual loans, which reduced the yield on total loans by approximately thirteen basis points for the three

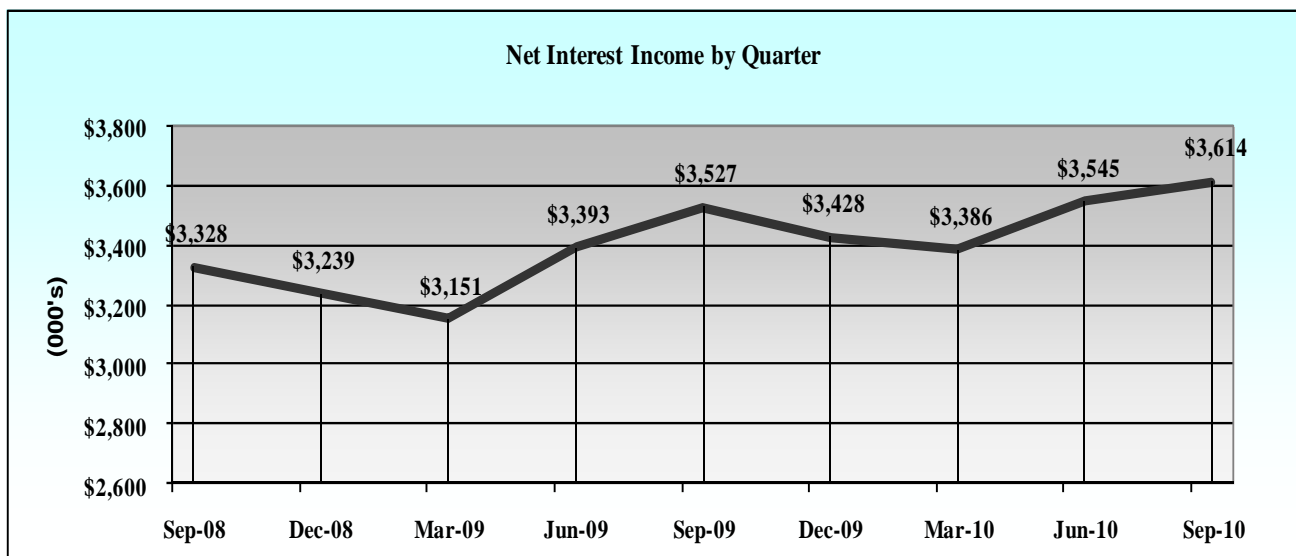
months ended September 30, 2010. The improvement for the nine month period ended September 30, 2010 compared to September 30, 2009 was more pronounced with a 59 basis point improvement in interest spread and a 51 basis point improvement in margin. Between September 30, 2009 and September 30, 2010, the cost of interest bearing liabilities fell from 2.79% to 1.98%. Net interest income increased from \$3.5 million in the second quarter to \$3.6 million in the third quarter of this year. Absent a change in the current interest rate environment, we expect marginal improvement in net interest spread and margin during the remainder of 2010. Net interest margin for the third quarter was 3.39%, an increase of .11% from the 3.18% achieved in the preceding third quarter.

The following chart shows sequential changes in the amount of loans outstanding:

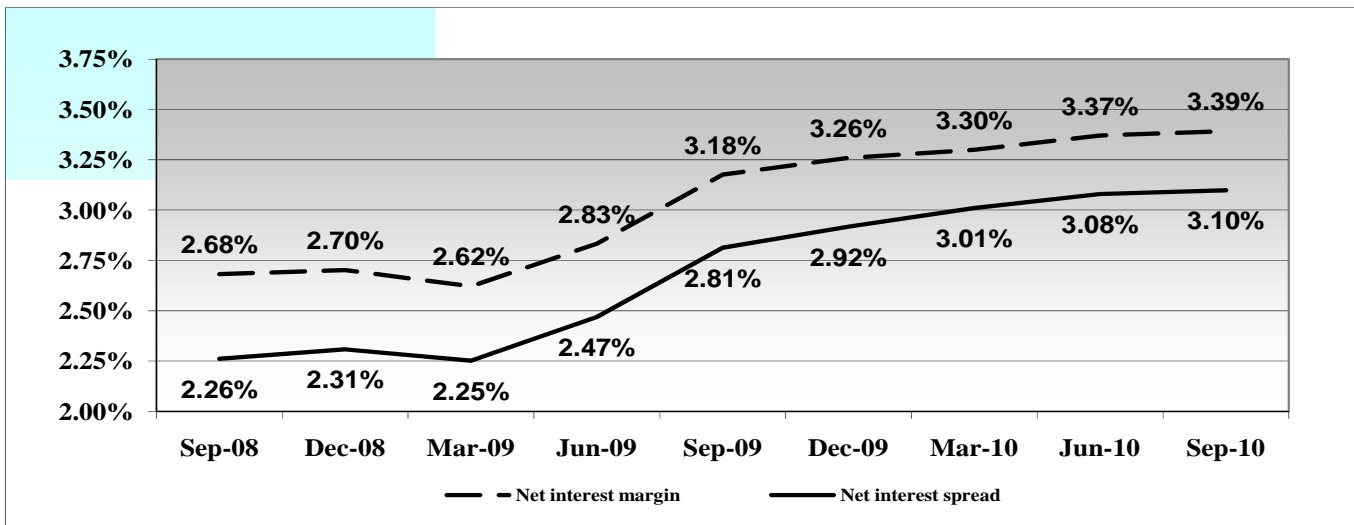


The decline in total loans for the quarter ended September 30, 2009 includes \$35.0 million in loans sold in connection with the sale of the Brentwood branch in Brentwood Tennessee.

Net interest income for the quarter ended September 30, 2010 totaled \$3.6 million compared to \$3.5 million for the quarter ended September 30, 2009. Net interest spread and net interest margin improved from 3.08% and 3.37% for the quarter ended June 30, 2010 to 3.10% and 3.39%, respectively, for the quarter ended September 30, 2010. We expect additional improvement in these two metrics over the remainder of 2010 if the general level of market interest rates remains unchanged. The following chart shows the changes in quarterly net interest income over the past two years:



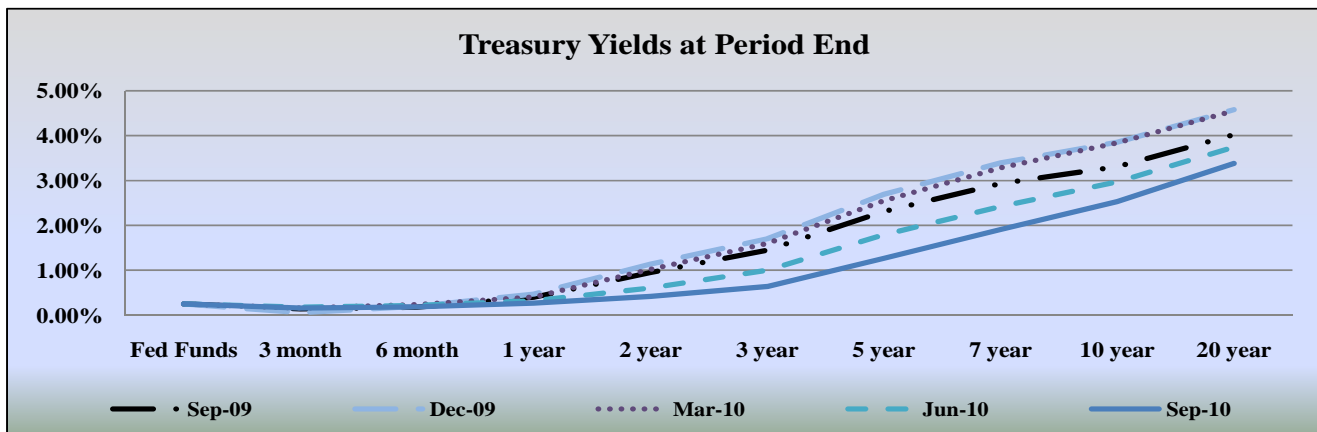
The improvement in our net interest margin and net interest spread is detailed in the following chart:



On a fully-diluted basis, loss per common share for the quarter ended September 30, 2010 was \$0.06, compared to income per common share of \$0.24 for the same quarter in 2009. To our knowledge, there were only 3,000 shares of Magna stock traded during the quarter ended September 30, 2010 at a price of \$5.75 per share.

Economic trends. A number of key economic reports have declared that the recession that began in December of 2007 has come to an end, making it one of the longest and deepest recessions since the great depression of 1929. Consensus forecasts of leading economists indicate the economic recovery will be slow to materialize. The impact of this recession on the general health of the U.S. economy, most notably the unemployment rate which has leveled out around 10%, is expected to remain weak for many years. Certain economic indicators that were beginning to trend positively in the prior quarter have flattened out and become neutral. Consumer confidence, which had been trending positively for several months, took an unexpected drop in September 2010 to 48.6, its lowest level since February 2010, and increased only slightly in October 2010 to 50.2.

The decline in consumer confidence coupled with worse than expected jobs reports have led to increased fear of a double dip recession. Bank failures continue above historical levels. Through October 22, 2010, 139 banks have failed, compared to 140 and 25 bank failures in all of 2009 and 2008, respectively. In 2009, the FDIC's deposit insurance reserve fund dipped to its lowest level since 1994 and a three year prepayment of bank insurance premiums was implemented in the fourth quarter of 2009 to increase the reserve fund. The reserve fund has been depleted by bank failures over the last three years even with the special assessments and 3 year prepayment, and it is expected that the FDIC will take additional steps in the future to maintain adequate reserves via additional special assessments or other means. Core inflation remains muted and the FOMC maintained its accommodative posture by leaving the targeted federal funds rate at 0% to .25%. No increase in the short term targeted rate is expected during the remainder of 2010. The liquidity measures enacted by the Federal Reserve have kept mortgage rates at historic lows and spread in U.S. agency securities historically tight to the treasury curve. The following chart depicts the shape of the yield curve over the last five quarters:



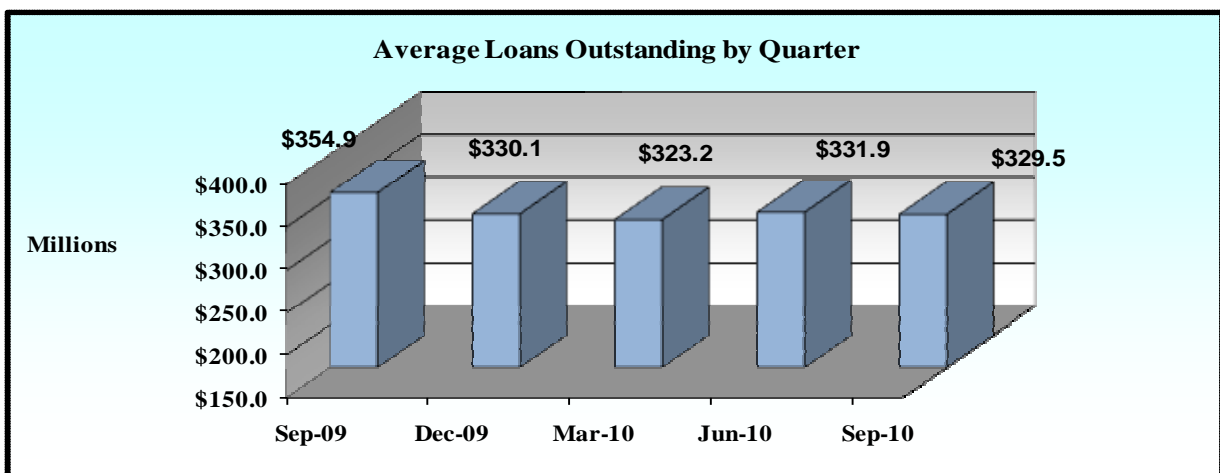
Regulatory reform. The passage of the Dodd-Frank Wall Street Reform (“DFR”) and Consumer Protection Act (“CPA”) will, to a large extent, reshape the financial services industry. Final regulations for implementing these reforms are currently being written. Management expects the DFR will require changes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

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

Actual and expected consequences. At the end of the first and second quarters of 2010, we communicated our expectation of slight improvement in net interest spread and margin absent a change in market interest rates and/or a significant change in competitive pricing pressures. As neither of those two events occurred, both spread and margin improved in the third quarter of 2010. Assuming rates remain stable, we expect a slightly improved net interest margin and spread throughout the remainder of the year; 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.

We are closely monitoring credit quality in both the loan and securities portfolios. We mentioned in our last report that certain residential mortgage backed securities were showing signs of increasing delinquency and foreclosure, which might lead to impairment charges; however, no additional impairment was recorded in the current quarter. Quarter end analysis of one of those securities did result in impairment charges totaling \$19,000 in the first quarter of 2010. Magna recorded prior impairment charges of \$45,000 and \$27,000 on this security in the third and fourth quarter of 2009, respectively. These impairment charges reflect the *forecasted* amount of principal loss we *expect* to incur, as opposed to any actual losses we are currently experiencing. Consequently, the actual amount of loss we incur in the future may be higher or lower than what we have recorded. Further deterioration in the performance of the underlying collateral on this security or other securities, which did not exhibit any forecasted losses at the end of September, may result in impairment charges in the future.

We are actively monitoring the quality of the loan portfolio, especially those loans secured by asset classes that have been most affected by the recession. In that regard, we are in regular contact with our borrowers, and attempt to strengthen our collateral position or encourage debt reduction as each loan matures. Average loans outstanding for the third quarter of 2010 totaled \$329.5 million, a decrease of \$2.4 million from the prior quarter. Given the trend of deleveraging by both consumers and businesses, we expect to see modest growth in the level of loans outstanding during the remainder of 2010. The following chart shows the sequential quarterly change in average loans outstanding:



In the third quarter of 2010, due primarily to historically low interest rates, which resulted in increased refinance volumes, we experienced a 30.1% increase in residential mortgage origination volume, from \$88.0 million in the third quarter of 2009 to \$114.5 million in the third quarter of 2010. Refinance activity increased from 12.8% (68 units) of total origination volume in the third quarter of 2009 to 56.9% (331 units) in the current quarter. Because of the volatile nature of the mortgage origination business, the expiration of the homebuyers credit, and weakness in the national economy (particularly the housing market), it is difficult to project mortgage origination volumes in future periods; however, we anticipate refinance activity will continue for the remainder of 2010 if mortgage rates hold in the 4.00% to 4.50% range. Mortgage loan origination volume by operating region and non-interest income are presented in subsequent tables.

Brokerage fee income from our commercial real estate group totaled \$19,625 in the third quarter of 2010 and \$355,475 year to date. Prior period amounts totaled \$78,750, which were earned in the second quarter. Activity in commercial real estate brokerage is very volatile and the recession, coupled with turmoil in the credit markets, has had a negative impact on the commercial real estate brokerage business.

Magna gained approval in the first quarter of 2010 to participate in the U. S. government insured Small Business Lending (SBA) program. Our commercial lending group hired a vice-president who brings to Magna 20 years experience in SBA and small business lending. We provide SBA loans in addition to traditional commercial loan and cash management services to small and mid-size businesses in the Memphis area. Our commercial lending group closed two SBA loans totaling \$764,000 and recognized \$40,073 in fee income in the third quarter of 2010.

Along with the addition of SBA lending to our product line, we also launched a relationship checking product in 2010 which has exceeded our forecasts for both growth and profitability and we added a mobile banking capability for our debit card customers. These initiatives have added to our core customer base and will continue to be promoted throughout the remainder of 2010.

Financial condition analysis. Total assets were \$460.2 million at September 30, 2010 compared to \$435.8 million at December 31, 2009. The carrying value of liquid assets, which include cash, cash equivalents and securities available for sale, increased by \$3.4 million from year end 2009, to \$55.3 million, while securities held to maturity paid down by an additional \$601,679. At September 30, 2010, Magna performed a detailed analysis of all securities we own, evaluating each security on the basis of current collateral performance (base case) and a forecasted worsening scenario (stressed case). Both of these performance forecasts project a worsening economic environment for the next two years, followed by a stabilizing environment for an additional two years, followed by a gradually improving economic environment thereafter. No securities met the criteria for OTTI recognition in the second or third quarter of 2010 and one of our securities met the criteria for OTTI recognition as of March 31, 2010. We will diligently review these securities each quarter for evidence of a meaningful principal loss occurring within a foreseeable time frame and will recognize other than temporary impairment if such condition exists. Magna does not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost bases, which may be maturity.

Loan balances increased \$4.8 million during 2010 primarily as a result of an increase in commercial mortgage loans of \$14.1 million and other commercial loans of \$7.1 million. Commercial construction loans declined by \$10.1 million and consumer construction loans declined by \$2.9 million. First mortgage consumer loans also declined by \$2.9 million during 2010.

Total non-performing loans increased \$684,136 and \$9.4 million, respectively, in the third quarter and year to date periods ended September 30, 2010. The significant increase in non-performing loans occurred during the second quarter of 2010, as updated appraisal valuations and obligor financial information caused all of the loans associated with one of our largest borrower relationships to be classified and deemed impaired due to collateral dependency and lack of borrower financial strength. The loan loss reserve related to these specific loans totaled approximately \$2.5 million as of the period ended September 30, 2010, and total specific reserves were \$3.3 million. Negotiations are ongoing regarding alternatives which may improve Magna's assessment of possible loss; there can be no assurance that the amount of loss we have recognized will be the amount of loss realized.

The Company is proactively monitoring our loan portfolio for impairment. The following table summarizes non-performing and past due loans as of September 30, 2010 and December 31, 2009:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Non-accrual loans:		
Recorded investment with related allowance for credit losses:		
Single family residential, first mortgage, without insurance	\$ 255,000	\$ 40,000
Junior Mortgage, Primarily HELOC	186,000	-
Loans secured by land	2,489,612	-
Recorded investment without related allowance for credit losses:		
Single family residential, first mortgage, with insurance	661,825	604,560
Single family residential, first mortgage, without insurance	3,032,064	2,392,637
Single family residential, junior mortgage, without insurance	280,617	166,683
Loans secured by land	5,448,391	476,462
Commercial loans	150,124	283,278
Residential construction	1,850,633	-
Total non-accrual loans	14,354,266	3,963,620
Past due 90 or more days and still accruing interest:		
Single family residential, first mortgage, FHA/VA insured	2,670,709	3,606,739
Single family residential, first mortgage, without insurance	-	52,813
Total loans past due and still accruing interest	2,670,709	3,659,552
Total non-performing loans	\$ 17,024,975	\$ 7,623,172
Average non-performing loans	\$ 11,860,189	\$ 7,515,243
Non-performing loans as a % of total loans	<u>5.13%</u>	<u>2.33%</u>
Non-performing loans exclusive of FHA/VA insured loans	\$ 14,354,266	\$ 4,016,434
Non-performing loans as a % of total loans, excluding FHA/VA insured loans	<u>4.49%</u>	<u>1.28%</u>
Non-performing assets	\$ 21,157,554	\$ 10,789,180
Non-performing assets as a % of total assets	<u>4.60%</u>	<u>2.48%</u>
Non-performing assets exclusive of FHA/VA insured loans	\$ 18,486,845	\$ 7,182,442
Non-performing assets as a % of total assets exclusive of FHA/VA insured loans	<u>4.12%</u>	<u>1.70%</u>

The Bank has established an allowance for loan losses based on past loan performance, the level of past due and non-accrual loans, the size and mix of the portfolio, loan growth trends, adverse classification at recent regulatory examinations, general economic conditions in the market area, and a review of individual loans to identify potential credit problems. In evaluating the adequacy of the allowance, management makes certain estimates and assumptions which are susceptible to change in the near term. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based upon changes in borrower financial condition, further deterioration in collateral values or worsening economic conditions.

The following table summarizes the components of the allowance for loan losses at September 30, 2010 and December 31, 2009.

	<u>September 30,</u>	<u>% of outstanding</u>	<u>December 31,</u>	<u>% of outstanding</u>
	<u>2010</u>	<u>balance ⁽¹⁾</u>	<u>2009</u>	<u>balance ⁽¹⁾</u>
One-to-four family residential	\$ 918,759	1.37%	\$ 641,800	0.94%
Construction and land development	894,953	2.58%	999,954	2.09%
Other, primarily revolving home equity	1,495,476	2.72%	1,228,511	2.24%
Commercial real estate	4,816,578	3.67%	1,953,591	1.67%
Commercial & Industrial	408,022	1.39%	297,245	1.33%
Consumer	36,113	1.64%	53,630	1.96%
Total	\$ 8,569,901	2.68%	\$ 5,174,731	1.65%

1: Denominator excludes FHA/VA loans in the one-to-four family residential category totaling \$11.8 million and \$14.0 million at September 30, 2010 and December 31, 2009, 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 two years, one of the LPOC’s risk management initiatives is to reduce Magna’s investment in real estate secured loans with high LTV ratios, generally greater than 90%, to no more than 100% of capital. The ratio of high LTV loans to total capital was 91% at September 30, 2009, 86% at December 31, 2009, and 69% at September 30, 2010. These high LTV percentages may not reflect current LTV ratios because the ratios are calculated using the value from the last appraisal performed, which may be an older appraisal that does not reflect an accurate current value given the general decline in real estate values.

Magna has originated certain mortgage loans for its portfolio which were based on limited or unverified documentation relating to borrower income or assets (“Low Doc” loans). Low Doc loans exhibit a higher risk of loss due to the unsubstantiated nature of the borrower’s ability to repay but were limited to borrowers with very high credit scores, considered a reliable measure of ability and intent to meet the loan’s terms. Low Doc loans totaled approximately \$8.8 million of the Bank’s single family mortgage portfolio as of September 30, 2010. Magna no longer originates Low Doc loans.

Another category of high risk loans include so-called “Option ARM” loans which are:

1. Adjustable rate loans with low “teaser” interest rates that reset without limit at the expiration of the teaser period,
2. Adjustable rate loans that allow the borrower to skip payments, pay interest only, or choose the amount of the payment to make, or
3. Loans that allow the borrower to pay less than the amount of interest due each month, with the shortfall being added back into the loan balance and thus increasing the total debt (negative amortizing loans).

Magna has not originated Option ARM loans for its portfolio.

The OTS limits loans to one borrower to 15% of capital plus general allowances for loan losses, subject to exceptions for loans to small businesses, small farms, or 1-4 dwelling first liens less than 80% LTV under the Pilot Program, and exceptions for domestic housing development loans (“Programs”). These Programs increase the limit of loans to one borrower to 25% and 30% of capital plus loan loss reserves. As of September 30, 2010, the amount loaned under both Programs totaled approximately \$16.1 million, or approximately 26% of total capital plus loan loss reserves.

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 \$9.5 million at September 30, 2010 compared to \$10.4 million at December 31, 2009. The net decrease resulted from \$2.6 million of amortization and impairment charges offset by \$1.6 million of new purchased or capitalized servicing rights.

At September 30, 2010, the Company serviced 8,228 residential first mortgage loans totaling \$981.6 million for third party investors compared to 8,434 loans totaling \$985.4 million at December 31, 2009. The value of MSRs is directly affected by changes in mortgage interest rates, as mortgage prepayment tends to slow when mortgage interest rates rise. Conversely, declining rates generally result in rising prepayments and therefore diminished servicing fee income and market values. Management reviews the valuation of the MSRs on a quarterly basis and as of September 30, 2010, there was \$750,000 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>September 30, 2010</u>	<u>December 31, 2009</u>
Number of loans serviced for others	8,228	8,434
Unpaid principal balance of loans serviced for others	\$ 981,567,157	\$ 985,431,793
Average balance per loan	\$ 119,296	\$ 116,840
Weighted average servicing fee	0.291%	0.296%
Weighted average mortgage note rate	5.58%	5.82%
Net book value of servicing rights	\$ 9,382,817	\$ 10,298,437
Net book value as a multiple of annual servicing fee	3.29	3.53

Total liabilities increased \$24.6 million during the nine months ended September 30, 2010. Customer deposits accounted for the majority of the increase in total liabilities with growth of \$13.6 million, including \$13.3 million of growth in transaction accounts, savings account growth of \$9.8 million, which was offset by a decline in time deposits of \$9.5 million, and seasonal growth in servicing escrow accounts of \$12.5 million. Brokered deposits of \$19.5 million declined by \$1.0 million from the year ended December 31, 2009. Borrowings of \$63.0 million were unchanged from December 31, 2009.

The following tables present total deposits by type and percentage of total deposits for the most recent five quarters:

As of the quarter ended

	<u>Sep-10</u>	<u>Jun-10</u>	<u>Mar-10</u>	<u>Dec-09</u>	<u>Sep-09</u>
Non-interest bearing	\$ 17,968,357	\$ 17,178,190	\$ 16,878,252	\$ 16,456,767	\$ 16,764,193
Escrow Accounts	22,918,225	17,379,422	12,823,240	10,431,503	18,651,668
Interest bearing transaction	68,391,806	66,240,182	57,397,886	56,589,820	54,009,933
Savings	78,944,414	68,372,346	69,526,803	69,184,820	69,371,790
Time deposits	132,993,064	151,222,408	150,501,462	142,498,702	141,687,177
Brokered deposits	19,543,000	20,543,000	20,543,000	20,543,000	25,045,000
Total deposits	<u>\$ 340,758,866</u>	<u>\$ 340,935,548</u>	<u>\$ 327,670,643</u>	<u>\$ 315,704,612</u>	<u>\$ 325,529,761</u>

Percent of total deposits at quarter ended

	<u>Sep-10</u>	<u>Jun-10</u>	<u>Mar-10</u>	<u>Dec-09</u>	<u>Sep-09</u>
Non-interest bearing	5.3%	5.0%	5.2%	5.2%	5.1%
Escrow Accounts	6.7%	5.1%	3.9%	3.3%	5.7%
Interest bearing transaction	20.1%	19.4%	17.5%	17.9%	16.6%
Savings	23.2%	20.1%	21.2%	21.9%	21.3%
Time deposits	39.0%	44.4%	45.9%	45.1%	43.5%
Brokered deposits	<u>5.7%</u>	<u>6.0%</u>	<u>6.3%</u>	<u>6.5%</u>	<u>7.7%</u>
Total deposits	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The following table sets forth the maturities of interest-bearing deposits at September 30, 2010 and December 31, 2009:

Maturing within:	At September 30, 2010			At December 31, 2009		
	Amount	Average Rate	% of total	Amount	Average Rate	% of total
One year	\$ 100,867,628	1.84%	33.6%	\$ 105,801,109	2.12%	36.5%
Two years	26,762,981	2.41%	8.9%	29,573,051	2.62%	10.2%
Three years	7,214,961	2.47%	2.4%	10,427,621	2.96%	3.6%
Four years	1,349,549	2.87%	0.5%	199,221	3.67%	0.1%
Five years	613,338	2.83%	0.2%	1,290,700	3.20%	0.5%
Subtotal time deposits	136,808,458	2.00%	45.5%	147,291,700	2.29%	50.9%
Interest bearing deposits with no stated maturity	163,086,220	1.09%	54.5%	141,524,640	1.35%	49.1%
Total interest-bearing deposits	<u>\$ 299,894,678</u>	<u>1.51%</u>	<u>100.0%</u>	<u>\$ 288,816,340</u>	<u>1.83%</u>	<u>100.0%</u>

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

	At September 30, 2010			At December 31, 2009		
	Balance	Average Rate	% of total	Balance	Average Rate	% of total
Due in three months or less	\$ 21,278,730	1.84%	26.0%	\$ 10,096,018	2.31%	11.6%
Due after three through six months	17,420,800	2.10%	21.3%	11,842,488	2.02%	13.7%
Due after six through twelve months	23,486,996	1.78%	28.7%	38,176,731	2.05%	44.2%
Due after twelve months	19,566,235	2.56%	23.9%	26,322,671	2.70%	30.5%
	<u>\$ 81,752,762</u>	<u>2.05%</u>	<u>100.0%</u>	<u>\$ 86,437,907</u>	<u>2.28%</u>	<u>100.0%</u>
Percent of total deposits		<u>24.0%</u>			<u>27.4%</u>	

At September 30, 2010, the Company's loan-to-deposit ratio excluding loans held for sale was 97.3% compared to 103.5% at December 31, 2009, the result of deposit growth exceeding loan growth by \$20.2 million during 2010. Liquidity provided by deposit growth in excess of loan growth, net proceeds from sales of securities and principal pay-downs on securities was primarily invested in cash and cash equivalents, which increased by \$18.2 million from December 31, 2009 to September 30, 2010. The loan-to-deposit ratio is a useful measure of a Bank's liquidity indicating the percentage of a bank's loans funded through deposits. A decrease in the ratio may indicate that a bank has more of a cushion to fund its growth and to protect itself against a sudden decline of funding sources.

Total shareholders' equity as of September 30, 2010 and December 31, 2009 was \$53.1 million and \$53.3 million, respectively. Changes in equity were due to a net loss attributable to common shareholders for the nine month period ended September 30, 2010 and a decrease in accumulated other comprehensive loss of \$576,439, which represents the after tax effect of the increase in the market value of the Bank's available-for-sale securities portfolio and changes in the non credit components of securities with recorded OTTI. The Company has neither declared nor paid dividends to common shareholders since its inception and does not expect to do so in the near future. Furthermore, the Company is restricted under federal regulations as to the amount of dividends that may be paid to its shareholders.

The Company's equity to assets ratio was 11.54% at September 30, 2010 compared to 12.24% at December 31, 2009. At September 30, 2010, Magna's regulatory core capital and total risk based capital ratios were 11.7% and 15.6% respectively, compared to 12.6% and 16.1% at December 31, 2009. These ratios exceed minimum regulatory levels at September 30, 2010 and December 31, 2009 and place Magna in the "well-capitalized" category as of both dates.

Results of operation – three and nine months ended September 30, 2010 and 2009. Interest income, including dividends earned on FHLB stock, for the three months ended September 30, 2010, was \$5.4 million, a \$505,843 million decrease from 2009. Overall, average asset yield decreased by 23 basis points to 5.02%, while the yield on the loan portfolio remained flat at 5.41%. Interest expense decreased \$587,710 to \$1.7 million for the third quarter of 2010 compared to the year earlier period. The average rate incurred on interest bearing liabilities decreased by 52 basis points to 1.92%. Net interest income for the quarter ended September 30, 2010 was \$3.7 million compared to \$3.6 million for 2009, an \$81,867 (2.3%) increase. Net interest margin increased by 11 basis points and was attributable to an average interest earning asset decline of \$19.0 million combined with the increase in net interest income. The following table summarizes the average yields earned on interest earning assets and the average rates paid on interest bearing liabilities for the three months ended September 30, 2010 and 2009:

	Three Months Ended September 30,					
	2010			2009		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS						
Short-term investments	\$ 19,179,709	\$ 11,988	0.25%	\$ 12,498,275	\$ 8,689	0.28%
Securities available-for-sale	33,509,644	379,857	4.53%	45,112,866	633,128	5.61%
Securities held-to-maturity	<u>8,447,002</u>	<u>96,460</u>	<u>4.57%</u>	<u>10,633,613</u>	<u>128,181</u>	<u>4.82%</u>
Total securities	41,956,646	476,317	4.54%	55,746,479	761,309	5.46%
Loans held for sale	28,670,890	310,352	4.33%	23,326,017	294,305	5.05%
Commercial Loans:						
Mortgage	135,722,641	1,901,316	5.60%	122,051,525	1,686,182	5.53%
Construction	27,063,298	315,446	4.66%	45,368,605	516,116	4.55%
Other	28,185,070	367,575	5.22%	25,944,766	323,691	4.99%
Consumer Loans:						
First Mortgage	76,193,266	1,106,628	5.81%	85,282,567	1,310,866	6.15%
Junior Mortgage, Primarily HELOC	55,675,835	694,613	4.99%	59,089,931	777,043	5.26%
Construction	12,474,456	148,930	4.78%	13,985,969	147,185	4.21%
Other	<u>2,307,147</u>	<u>31,115</u>	<u>5.39%</u>	<u>3,150,447</u>	<u>39,774</u>	<u>5.05%</u>
Total loans	337,621,713	4,565,623	5.41%	354,873,810	4,800,857	5.41%
Investment in Federal Home Loan Bank	<u>3,981,400</u>	<u>44,668</u>	<u>4.49%</u>	<u>3,981,400</u>	<u>49,631</u>	<u>4.99%</u>
Total interest earning assets	431,410,358	5,408,948	5.02%	450,425,981	5,914,791	5.25%
Non interest earning assets	<u>32,776,845</u>			<u>30,510,575</u>		
Total assets	<u>\$ 464,187,203</u>			<u>\$ 480,936,556</u>		
LIABILITIES						
Interest bearing transaction accounts	\$ 64,992,006	170,742	1.05%	\$ 56,504,594	177,687	1.26%
Savings deposits	72,679,419	220,069	1.21%	71,973,870	302,448	1.68%
Customer Time deposits	144,295,457	754,370	2.09%	148,406,309	1,039,505	2.80%
Brokered deposits	<u>20,309,667</u>	<u>48,916</u>	<u>0.96%</u>	<u>32,281,785</u>	<u>144,786</u>	<u>1.79%</u>
Total deposits	302,276,549	1,194,097	1.58%	309,166,558	1,664,426	2.15%
Federal funds purchased and other short-term borrowings	10,753	21	0.78%	77,778	96	0.49%
Term FHLB Advances	<u>63,000,000</u>	<u>556,398</u>	<u>3.53%</u>	<u>74,066,667</u>	<u>673,704</u>	<u>3.64%</u>
Total interest bearing liabilities	365,287,302	1,750,516	1.92%	383,311,003	2,338,226	2.44%
Non interest bearing liabilities	45,176,447			40,206,457		
Shareholders' equity	<u>53,723,454</u>			<u>57,419,096</u>		
Total liabilities and shareholders' equity	<u>\$ 464,187,203</u>			<u>\$ 480,936,556</u>		
Net interest income/net interest spread		<u>\$ 3,658,432</u>	<u>3.10%</u>		<u>\$ 3,576,565</u>	<u>2.81%</u>
Net interest margin			<u>3.39%</u>			<u>3.18%</u>

The following table shows the components of each change attributable to rate and volume variances for the three months ended September 30, 2010 and 2009. The changes in interest due to both rate and volume have been allocated to change due to rate and change due to volume in proportion to the absolute amounts of the changes in each.

	Increase (decrease) due to		
	Rate	Volume	Total
Interest earning assets:			
Short-term investments	\$ (952)	\$ 4,251	\$ 3,299
Securities available-for-sale	(108,345)	(144,926)	(253,271)
Securities held-to-maturity	(6,468)	(25,253)	(31,721)
Total securities	(114,813)	(170,179)	(284,992)
Loans held for sale	(45,476)	61,523	16,047
Commercial Loans:			
Mortgage	23,912	191,222	215,134
Construction	12,400	(213,070)	(200,670)
Other	15,102	28,781	43,884
Consumer Loans:			
First Mortgage	(69,602)	(134,636)	(204,238)
Junior Mortgage, Primarily HELOC	(38,753)	(43,676)	(82,430)
Construction	18,605	(16,860)	1,745
Other	2,566	(11,225)	(8,659)
Total loans	(35,771)	(199,463)	(235,234)
Investment in Federal Home Loan Bank	(4,963)	-	(4,963)
Total change in interest income	(201,974)	(303,868)	(505,843)
Interest bearing liabilities:			
Interest bearing transaction accounts	(31,539)	24,594	(6,945)
Savings deposits	(85,316)	2,937	(82,379)
Customer Time deposits	(257,060)	(28,075)	(285,135)
Brokered deposits	(53,230)	(42,639)	(95,870)
Total deposits	(427,146)	(43,183)	(470,329)
Federal funds purchased and other short-term borrowings	36	(111)	(75)
Term FHLB Advances	(19,092)	(98,214)	(117,306)
Total change in interest expense	(446,202)	(141,508)	(587,710)
Increase in net interest income	\$ 244,227	\$ (162,361)	\$ 81,867

Interest income, including dividends earned on FHLB stock, for the nine months ended September 30, 2010, was \$16.0 million, a \$2.8 million decrease from 2009. Overall, average asset yield decreased by 23 basis points to 5.06%, while the yield on the loan portfolio increased by 4 basis points to 5.40%. Interest expense decreased by \$3.3 million to \$5.4 million for the nine months ended September 30, 2010 compared to the year earlier period. The average rate incurred on interest bearing liabilities decreased by 81 basis points. Net interest income for the year to date period ended September 30, 2010 was \$10.7 million compared to \$10.2 million for 2009, a \$470,903 (4.6%) increase. Net interest margin increased 51 basis points. The following table summarizes the average yields earned on interest earning assets and the average rates paid on interest bearing liabilities for the nine months ended September 30, 2010 and 2009:

Nine Months Ended September 30,

	2010			2009		
	Average Balance	Interest Income/Expense	Average Rate	Average Balance	Interest Income/Expense	Average Rate
ASSETS						
Short-term investments	\$ 18,051,601	\$ 33,543	0.25%	\$ 6,551,146	\$ 13,327	0.27%
Securities available-for-sale	39,780,582	1,419,904	4.76%	47,475,284	2,033,939	5.71%
Securities held-to-maturity	8,646,569	299,419	4.62%	11,045,562	447,713	5.40%
Total securities	48,427,151	1,719,323	4.73%	58,520,846	2,481,652	5.65%
Loans held for sale	21,759,141	753,192	4.62%	27,189,141	990,669	4.86%
Commercial Loans:						
Mortgage	125,146,800	5,173,220	5.51%	128,124,175	5,193,763	5.40%
Construction	31,042,105	1,153,293	4.95%	47,363,772	1,671,355	4.71%
Other	25,394,842	959,999	5.04%	29,880,506	1,056,203	4.71%
Consumer Loans:						
First Mortgage	77,742,991	3,459,712	5.93%	88,771,343	4,156,230	6.24%
Junior Mortgage, Primarily HELOC	54,931,035	2,057,902	5.00%	66,165,761	2,542,304	5.12%
Construction	14,161,859	501,596	4.72%	15,505,988	478,414	4.11%
Other	2,483,760	98,589	5.29%	3,218,384	126,201	5.23%
Total loans	330,903,392	13,404,311	5.40%	379,029,929	15,224,470	5.36%
Investment in Federal Home Loan Bank	3,981,400	134,004	4.49%	3,957,154	137,127	4.62%
Total interest earning assets	423,122,685	16,044,373	5.06%	475,248,216	18,847,245	5.29%
Non interest earning assets	32,146,955			30,307,584		
Total assets	\$ 455,269,640			\$ 505,555,800		
LIABILITIES						
Interest bearing transaction accounts	\$ 59,116,177	484,792	1.09%	\$ 59,394,974	741,908	1.67%
Savings deposits	70,114,386	686,573	1.31%	64,873,698	1,009,240	2.07%
Customer Time deposits	147,635,201	2,394,583	2.16%	166,413,419	4,082,026	3.27%
Brokered deposits	20,466,077	146,574	0.95%	43,243,473	773,091	2.38%
Total deposits	297,331,841	3,712,522	1.66%	333,925,564	6,606,265	2.64%
Federal funds purchased and other short-term borrowings	1,362,637	1,532	0.15%	3,795,128	16,737	0.59%
Term FHLB Advances	63,000,000	1,651,052	3.49%	74,664,835	2,015,879	3.60%
Total interest bearing liabilities	361,694,478	5,365,106	1.98%	412,385,527	8,638,881	2.79%
Non interest bearing liabilities	39,591,225			37,983,049		
Shareholders' equity	53,983,937			55,187,224		
Total liabilities and shareholders' equity	\$ 455,269,640			\$ 505,555,800		
Net interest income/net interest spread		\$ 10,679,267	3.08%		\$ 10,208,364	2.49%
Net interest margin			3.37%			2.86%

The following table shows the components of each change attributable to rate and volume variances for the nine months ended September 30, 2010 and 2009. The changes in interest due to both rate and volume have been allocated to change due to rate and change due to volume in proportion to the absolute amounts of the changes in each.

	<u>Increase (decrease) due to</u>		
	<u>Rate</u>	<u>Volume</u>	<u>Total</u>
Interest earning assets:			
Short-term investments	\$ (1,249)	\$ 21,465	\$ 20,216
Securities available-for-sale	(311,482)	(302,553)	(614,035)
Securities held-to-maturity	(59,533)	(88,761)	(148,294)
Total securities	(371,015)	(391,314)	(762,329)
Loans held for sale	(47,538)	(189,939)	(237,477)
Commercial Loans:			
Mortgage	101,439	(121,982)	(20,543)
Construction	84,282	(602,344)	(518,062)
Other	69,883	(166,087)	(96,204)
Consumer Loans:			
First Mortgage	(198,453)	(498,065)	(696,518)
Junior Mortgage, Primarily HELOC	(62,128)	(422,274)	(484,402)
Construction	66,920	(43,738)	23,182
Other	1,530	(29,142)	(27,612)
Total loans	63,473	(1,883,632)	(1,820,159)
Investment in Federal Home Loan Bank	(3,959)	836	(3,123)
Total change in interest income	(360,288)	(2,442,584)	(2,802,872)
Interest bearing liabilities:			
Interest bearing transaction accounts	(253,650)	(3,466)	(257,116)
Savings deposits	(398,789)	76,122	(322,667)
Customer Time deposits	(1,265,814)	(421,629)	(1,687,443)
Brokered deposits	(333,475)	(293,042)	(626,517)
Total deposits	(2,251,728)	(642,015)	(2,893,743)
Federal funds purchased and other short-term borrowings	(8,174)	(7,031)	(15,205)
Term FHLB Advances	(57,665)	(307,162)	(364,827)
Total change in interest expense	(2,317,567)	(956,208)	(3,273,775)
Increase in net interest income	\$ 1,957,279	\$ (1,486,376)	\$ 470,903

Magna recorded a provision for loan losses of \$1.7 million in the third quarter of 2010 compared to \$46,211 in 2009. The 2010 year to date provision of \$3.9 million includes approximately \$3.3 million of specifically identified losses and approximately \$600,000 of general provisions. At September 30, 2010 and December 31, 2009, respectively, the non-specific component of the allowance for loan losses totaled \$5.3 million. The non-specific component of the allowance for loan losses includes an amount related to the general economic environment, as measured by the trend observed in twelve national and local economic metrics. This factor is assessed on a scale of 1 (very positive environment) to 7 (very negative environment), with a 1 rating decreasing the general allowance by 15% and a 7 rating increasing the allowance by 20%. At September 30, 2010, the trend in the above described economic metrics resulted in no change in the environmental factor of 6.5 from the previous quarter end. The environmental factor of 6.5 results in an increase in the allowance for loan losses of 17.5% or \$725,100 as of September 30, 2010. 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 and SBA fees, totaled \$3.0 million and \$7.9 million for the three and nine months ended September 30, 2010 compared to \$4.4 million and \$11.3 million for the three and nine months ended September 30, 2009. The amounts reported for 2009 include the profit from the sale of the Brentwood branch and the negative impact of other than temporary impairment charges on securities. The following table shows the components of net non-interest income for the three and nine month periods ended September 30, 2010 and 2009. For purposes of this table, amortization expense and impairment or recovery related to mortgage servicing rights has been deducted from or added to mortgage servicing revenue to give a clearer picture of the net contribution of servicing revenues.

	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>	<u>2010</u>	<u>2009</u>	<u>Increase (Decrease)</u>
Mortgage banking	\$ 2,968,195	\$ 2,194,877	\$ 773,318	\$ 6,692,774	\$ 7,454,341	\$ (761,567)
Mortgage servicing, net	(113,801)	442,404	(556,205)	199,328	1,746,059	(1,546,731)
Loan brokerage and SBA fees	59,698	-	59,698	395,548	78,750	316,798
OTTI on securities	-	(138,000)	138,000	-	(138,000)	138,000
Gain on branch sale	-	1,756,559	(1,756,559)	-	1,756,559	(1,756,559)
Other income	111,825	159,788	(47,963)	574,973	435,332	139,641
	<u>\$ 3,025,917</u>	<u>\$ 4,415,628</u>	<u>\$ (1,389,711)</u>	<u>\$ 7,862,623</u>	<u>\$ 11,333,041</u>	<u>\$ (3,470,418)</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. Magna closed our mortgage origination offices in Little Rock, Arkansas and Chattanooga, Tennessee on July 30, 2010 as a result of a change in Crye-Leike's operating strategy. The closing of these mortgage origination offices is not expected to have a material impact on the consolidated financial statements, and the impact of closing these office can be see in the tables below. In October, our Nashville region hired an experienced renovation lender who specializes in 203K loans. The addition of this division is expected to offset a portion of the lost volume from the closed offices. The following tables summarize changes in mortgage loan origination volume, by operating region, for the periods indicated:

	<u>Memphis</u>	<u>Nashville</u>	<u>Little Rock</u>	<u>Chattanooga</u>	<u>Total</u>
Three months ended September 30:					
2009	\$ 50,930,596	\$ 20,972,199	\$ 7,888,395	\$ 8,183,595	\$ 87,974,785
2010	<u>81,870,755</u>	<u>25,830,848</u>	<u>3,967,358</u>	<u>2,806,032</u>	<u>114,474,993</u>
Increase (decrease):	<u>\$ 30,940,159</u>	<u>\$ 4,858,649</u>	<u>\$ (3,921,037)</u>	<u>\$ (5,377,563)</u>	<u>\$ 26,500,208</u>
Percent Change	<u>60.7%</u>	<u>23.2%</u>	<u>-49.7%</u>	<u>-65.7%</u>	<u>30.1%</u>
Nine months ended September 30:					
2009	\$ 205,995,448	\$ 73,813,307	\$ 27,980,886	\$ 22,971,419	\$ 330,761,060
2010	<u>173,960,306</u>	<u>57,314,803</u>	<u>12,579,401</u>	<u>14,563,367</u>	<u>258,417,877</u>
Increase (decrease):	<u>\$ (32,035,142)</u>	<u>\$ (16,498,505)</u>	<u>\$ (15,401,485)</u>	<u>\$ (8,408,052)</u>	<u>\$ (72,343,183)</u>
Percent Change	<u>-15.6%</u>	<u>-22.4%</u>	<u>-55.0%</u>	<u>-36.6%</u>	<u>-21.9%</u>

Mortgage loan origination volume is volatile and fluctuates from period to period based largely on the number loans originated for the purpose of refinancing existing home loans. Total origination production for the third quarter and year to date periods of 2010 and 2009 is broken down between purchase and refinance volume as follows:

	Three months ended September 30,				Nine months ended September 30,			
	2010		2009		2010		2009	
Purchase money mortgage	251	43.1%	462	87.2%	986	68.8%	1,179	66.0%
Refinance mortgage	<u>331</u>	<u>56.9%</u>	<u>68</u>	<u>12.8%</u>	<u>447</u>	<u>31.2%</u>	<u>608</u>	<u>34.0%</u>
Total units produced	<u>582</u>	<u>100.0%</u>	<u>530</u>	<u>100.0%</u>	<u>1,433</u>	<u>100.0%</u>	<u>1,787</u>	<u>100.0%</u>

Our residential mortgage production division relies heavily on our affiliation with the Crye-Leike realtor network. The mortgage division operates in production offices that are leased from Crye-Leike or Crye-Leike affiliated entities. Many of these offices are leased on a month-to-month basis. Magna has sourced from Crye-Leike approximately 65% and 62% of its total mortgage loan origination volume for the nine months ended September 30, 2010 and 2009, respectively, largely due to the marketing efforts and positioning of loan officers in prime locations for mortgage origination activity.

We have had a cooperative marketing agreement in place with Crye-Leike since 2004, for which we pay an equitable annual fee for marketing and promotional services. The marketing agreement was amended in the first quarter of 2010 to increase its term from one year to three years and to add a termination clause that allows the non-selling party to terminate the agreement and receive a \$250,000 fee if the other party experiences a change in control. While we believe the marketing agreement, coupled with the leases in the Crye-Leike offices, enhances our ability to derive loans from Crye-Leike agents, there is no exclusive mortgage origination arrangement between the two companies; therefore, we can provide no assurance that historical mortgage origination volume derived from the Crye-Leike relationship will continue in the future.

In addition to residential mortgage banking activities, the Company operates a commercial real estate mortgage banking group whose investors include life insurance companies and Freddie Mac. This group originated \$3.9 million for the brokered market during the third quarter of 2010 and \$28.1 million for the year to date period. Originations of brokered loans totaled \$10.5 million in 2009, all of which closed in the second quarter of 2009. Total brokerage fees earned in 2009 were \$78,750 compared to \$19,625 and \$355,475 for the three and nine months ended September 30, 2010. Our commercial lending group closed two SBA loans totaling \$764,000 and recognized \$40,073 in fee income in the third quarter of 2010.

Another significant component of non-interest income is mortgage loan servicing, both commercial and residential. Gross fees and direct (non-operating) expenses related to these two areas for the three and nine months ended September 30, 2010 and 2009, are shown in the following table (an impairment charge of \$600,000 in the second quarter of 2010 and recoveries of \$660,000 and \$400,000 in the first and second quarters of 2009, respectively, increase or decrease servicing asset amortization for the three and nine month periods presented, respectively):

	<u>Three months ended September 30,</u>			<u>Nine months ended September 30,</u>		
	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
<u>2009</u>						
Gross servicing fees	\$ 746,563	\$ 67,947	\$ 814,510	\$ 2,170,920	\$ 205,385	\$ 2,376,305
Late charges and other ancillary revenue	169,273	-	169,273	495,248	-	495,248
Gross servicing revenue	915,836	67,947	983,783	2,666,168	205,385	2,871,554
Servicing asset amortization	505,217	7,984	513,201	974,709	24,205	998,914
Guaranty fees and loan pay-off interest	15,624	-	15,624	50,959	-	50,959
Other servicing expenses	12,554	-	12,554	75,620	-	75,620
Gross servicing expenses	533,395	7,984	541,379	1,101,288	24,205	1,125,493
Net servicing revenue	\$ 382,441	\$ 59,963	\$ 442,404	\$ 1,564,880	\$ 181,180	\$ 1,746,060
<u>2010</u>						
Gross servicing fees	\$ 716,848	79,487	\$ 796,335	\$ 2,167,193	223,617	2,390,810
Late charges and other ancillary revenue	153,751	-	153,751	514,032	-	514,032
Gross servicing revenue	870,599	79,487	950,086	2,681,225	223,617	2,904,842
Servicing asset amortization	1,013,635	7,740	1,021,375	2,554,001	23,405	2,577,406
Guaranty fees and loan pay-off interest	23,038	-	23,038	51,452	-	51,452
Other servicing expenses	19,474	-	19,474	76,656	-	76,656
Gross servicing expenses	1,056,147	7,740	1,063,887	2,682,109	23,405	2,705,514
Net servicing revenue	\$ (185,548)	\$ 71,747	\$ (113,801)	\$ (884)	\$ 200,212	\$ 199,328
<u>Increase (decrease)</u>						
Gross servicing fees	\$ (29,715)	11,540	(18,175)	\$ (3,727)	18,232	14,505
Late charges and other ancillary revenue	(15,522)	-	(15,522)	18,784	-	18,784
Gross servicing revenue	(45,237)	11,540	(33,697)	15,057	18,232	33,289
Servicing asset amortization	508,418	(244)	508,174	1,579,292	(800)	1,578,492
Guaranty fees and loan pay-off interest	7,414	-	7,414	493	-	493
Other servicing expenses	6,920	-	6,920	1,036	-	1,036
Gross servicing expenses	522,752	(244)	522,508	1,580,822	(800)	1,580,022
Net servicing revenue	\$ (567,989)	\$ 11,784	\$ (556,205)	\$ (1,565,764)	\$ 19,032	\$ (1,546,732)

Non-interest expense increased during the three-month period ended September 30, 2010 compared to 2009 primarily due to increases in commission expense associated with higher mortgage volume and increases in amortization expense of mortgage servicing rights due to the increase in mortgage refinance activity. Non-interest expenses declined during the nine-month period ended September 30, 2010 compared to 2009, primarily due to lower bonus expense, lower occupancy and equipment expense due to the closing of several mortgage origination offices in Arkansas and East Tennessee on July 31, 2010, and to the FDIC insurance special assessment of \$230,000 and debt prepayment penalty of \$504,866, both of which occurred in 2009. These expense improvements were partially offset by increases in the costs associated with revaluation and maintenance of foreclosed real estate, which has increased significantly over 2009.

The following table summarizes the components of occupancy and equipment expense for the three and nine months ended September 30, 2010 and 2009:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Rent & office occupancy	\$ 458,011	\$ 481,901	\$ 1,377,161	\$ 1,461,781
Maintenance & repairs	61,488	52,312	163,995	152,433
Depreciation expense	152,497	199,208	454,730	612,377
Telecommunications	18,805	30,563	57,747	92,895
Total occupancy and equipment expense	<u>\$ 690,801</u>	<u>\$ 763,984</u>	<u>\$ 2,053,633</u>	<u>\$ 2,319,486</u>

The following table summarizes the components of other expense for the three and nine months ended September 30, 2010 and 2009:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Data processing	\$ 265,806	\$ 233,520	\$ 795,223	\$ 702,152
Printing and office supplies	30,513	32,339	120,480	142,130
Directors' Fees	71,525	57,750	219,300	200,250
Postage, shipping and delivery	51,148	52,410	172,796	164,607
Travel and entertainment	41,020	45,954	135,968	120,809
Bank fees and service charges	39,808	44,697	117,348	123,260
Provision for loan repurchase and FHA/VA claim losses	100,600	134,000	377,100	288,000
Other	140,185	124,621	401,102	386,660
Total other expense	<u>\$ 740,605</u>	<u>\$ 725,291</u>	<u>\$ 2,339,317</u>	<u>\$ 2,127,868</u>

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

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

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Commitments under:		
Undisbursed term loans	\$ 10,130,663	\$ 11,189,381
Undrawn revolving lines of credit	42,502,976	42,017,994
Undrawn letters of credit	7,262,827	4,619,449
	<u>\$ 59,896,466</u>	<u>\$ 57,826,824</u>

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

Derivative Instruments. The Company may use derivative financial instruments to manage interest rate risk and to facilitate asset/liability management strategies. The derivative instruments held by the Company include commitments to fund fixed-rate mortgage loans to customers and forward commitments to sell fixed-rate mortgage loans, which are limited internally to \$15 million in outstanding commitments. Both the commitments to fund fixed-rate mortgage loans and the forward commitments to sell fixed-rate mortgage loans are reported at fair value with adjustments being recorded in current period earnings (if material), and are not accounted for as hedges. The Company enters into interest rate swaps or caps to manage interest risk and is approved for \$25 million in outstanding contracts.

Liquidity and capital resources. For the nine months ended September 30, 2010, the Company’s operating activities used \$16.5 million of available cash primarily as a result of cash from origination of loans held for sale exceeding proceeds by \$10.6 million and a gain on sale of mortgage loans of \$6.7 million. Investing activities provided \$10.0 million in cash consisting primarily of net sales, paydowns, or payoffs in securities, which provided \$16.5 million. Proceeds from sales of foreclosed real estate provided \$2.1 million, but was offset by a net increase in loans of \$8.4 million. Financing activities provided \$24.6 million of available cash due primarily to net deposit growth of \$25.1 million. Because brokered deposits are readily available, aid in asset/liability re-pricing strategies and are often a cheaper source of funds than retail customer deposits, we intend to continue their use as part of our overall balance sheet funding strategy. While we expect to be able to continue to attract new retail customer deposits, the Company may continue to mix borrowings (including brokered deposits) and deposits to fund balance sheet growth over the next year.

In December of 2008, the Company issued and sold \$13,795,000 of its Series A and Series B preferred stock. The issuance occurred in connection with, and is governed by, the Treasury Capital Purchase Program administered by the U.S. Treasury. The preferred stock carries certain restrictions. The preferred stock has a liquidation preference senior to our common stockholders and also provides limitations on certain compensation arrangements of executive officers and provides restrictions on dividends. In November of 2009, the Company redeemed 3,455 shares of Series A preferred stock and it is our intent to gradually repay the Treasury investment, while still remaining well capitalized. The preferred stock qualifies as Tier 1 capital and is presented in shareholders’ equity in the accompanying Consolidated Balance Sheet.

The following table summarizes the principal terms of the offering:

	<u>Series A</u>	<u>Series B</u>
Redemption value at date of issuance	\$13,795,000	\$690,000
Less: Value of shares redeemed	<u>(3,455,000)</u>	
Redemption value at September 30, 2010	\$10,340,000	\$690,000
Dividend rate	5.0% until December 23, 2013; 9.0% thereafter	9.0%
Stated life	Perpetual	
Voting rights	Non-voting	
Transferability	Transferable at any time	
Dividend payment dates	Feb 15, May 15, Aug 15, Nov 15 (or first business day thereafter)	
Dividend type	Non-cumulative	
Redemption	Redeemable in whole or part subject to approval by the Treasury	
Dividend restrictions	No dividends may be declared on Magna’s common stock without the prior consent of the U.S. Treasury. After 10 years, no dividends may be paid on common stock unless all preferred stock held by the U.S Treasury has been redeemed.	
Other provisions	For as long as the U.S. Treasury holds any preferred stock, Magna’s executive compensation structure must comply with section 111 of the EESA, as amended from time to time. Magna is also subject to any future regulations promulgated under the EESA.	

Magna maintains secured borrowing facilities with both the Federal Reserve Bank of St. Louis (the “Fed Facility”) and the Federal Home Loan Bank of Cincinnati (the “FHLB Facility”). The Fed Facility is secured by loans not otherwise eligible as collateral for the FHLB Facility. Effectively, all of Magna’s qualifying loans and securities are pledged at one of the two institutions. Magna’s borrowing capacity was reduced by approximately \$17 million in the third quarter as a result of a downgrade in our credit rating profile as calculated by the FHLB, which is based on four categories including asset quality, capitalization, profitability, and liquidity. The decline in the Company’s available borrowing capacity of \$36.2 million for the nine months ended September 30, 2010 is the result of a combination of declines in pledged loans and securities balances, increased haircuts on pledged assets, which have negatively impacted the borrowing capacity of all financial institutions who borrow from the Fed and the FHLB facilities, and the credit rating profile downgrade discussed above. The FHLB performs the credit rating profile review of Magna on a semi-annual basis each June and December period end. Total available borrowing capacity at September 30, 2010 was \$95.0 million, as follows:

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
<i>Short-term credit facilities:</i>		
Twenty-one days or less (unsecured)	52,300,000	\$ 52,300,000
Up to thirty days (secured)	<u>30,322,131</u>	<u>33,492,402</u>
Subtotal, short term	82,622,131	85,792,402
Long term credit facilities (secured)	<u>12,385,978</u>	<u>45,412,759</u>
Total credit facilities	<u>\$ 95,008,109</u>	<u>\$ 131,205,161</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 September 30, 2010, the percentage of time deposits \$100,000 and over to total deposits was 24.0% compared to 27.4% at December 31, 2009. The acquisition of retail deposits is from customers within the Company’s market area. Management believes that the rates offered on deposits are competitive with other financial institutions in the Company’s market area.

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

Management believes the Company is well capitalized, given our risk profile, but internal growth will be moderated due to general economic conditions in our market and nationally. We discussed in our Annual Report and Proxy Statement for the year ended December 31, 2009 that some Memphis based community banks have been negatively impacted by the lingering effects of the recession. Given this fact, Magna’s board of directors and executive management will be actively evaluating merger and acquisition opportunities with other community banks in the Memphis area in 2010.

Critical Accounting Policies. During the nine months ended September 30, 2010, there was no significant change in the Company’s critical accounting policies and no significant change in the application of critical accounting policies as presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

During the nine months ended September 30, 2010, there were no significant changes to the quantitative and qualitative disclosures about market risks presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2009, except for changes in market risks discussed in the “Regulatory reform” section of this report.

**Item 4.
Controls and Procedures**

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

Part II. Other Information

**Item 6.
Exhibits
Description**

Item Number

3(i)	Amended and restated charter of Registrant (incorporated by reference to exhibit 3(i) of Magna Bank's report on Form 10-K filed March 31, 2010)
3(ii)	Amended and restated by-laws of Registrant (incorporated by reference to exhibit 3(iv) of Magna Bank's report on Form 10-K filed March 31, 2010)
3(iii)	Certificate of designation of fixed rate non-cumulative perpetual preferred stock, Series A (incorporated by reference to exhibit 3(iv) of Magna Bank's report on Form 10-K filed March 31, 2009)
3(iv)	Certificate of designation of fixed rate non-cumulative perpetual preferred stock, Series B (incorporated by reference to exhibit 3(v) of Magna Bank's report on Form 10-K filed March 31, 2009)
4(i)	Form of common stock certificate (incorporated by reference to exhibit 4(i) of Magna Bank's amended report on Form 10-K filed June 19, 2001)
4(ii)	Form of Warrant issued to Treasury ((incorporated by reference to exhibit 4(ii) of Magna Bank's report on Form 10-K filed March 31, 2009)
31.1	Chief Executive Officer's §13a-14(a) certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.
31.2	Chief Financial Officer's §13a-14(a) certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.
32.1	Chief Executive Officer's §1350 certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.
32.2	Chief Financial Officer's §1350 certification of appropriateness of financial statements and disclosures contained in report on form 10-Q.

SIGNATURES

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

Magna Bank
(Registrant)

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

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

Date: November 12, 2010

I, Kirk P. Bailey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Magna Bank;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows as of, and for the periods presented in, this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(f) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial report and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Board of Directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect our ability to record, process, summarize and report financial data; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in our internal control over financial reporting.

/S/ Kirk P. Bailey

Kirk P. Bailey, Chief Executive Officer

Date: November 12, 2010

I, David C. Wadlington, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Magna Bank;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows as of, and for the periods presented in, this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial report and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Board of Directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls which are reasonably likely to adversely affect our ability to record, process, summarize and report financial data; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in our internal control over financial reporting.

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

Date: November 12, 2010

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

In connection with the Quarterly Report of Magna Bank (the "Company") on Form 10-Q for the period ending September 30, 2010 as filed with the Office of Thrift Supervision on the date hereof (the "Report"), I, Kirk P. Bailey, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/S/ Kirk P. Bailey

Kirk P. Bailey, Chief Executive Officer

November 12, 2010

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

In connection with the Quarterly Report of Magna Bank (the "Company") on Form 10-Q for the period ending September 30, 2010 as filed with the Office of Thrift Supervision on the date hereof (the "Report"), I, David C. Wadlington, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/S/ David C. Wadlington

David C. Wadlington, Chief Financial Officer

November 12, 2010