

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, 2009
OR

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

For the transition period from _____ to _____

Commission File No. 15525

Magna Bank

(Exact name of registrant as specified in its charter)

Federal Charter
(State of incorporation)



62-1760666
(IRS Employer Identification No.)

MAGNA BANK

6525 Quail Hollow Suite 513
Memphis, Tennessee 38120

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

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

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

Indicate by check mark whether the registrant 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 of \$1 per share

OUTSTANDING on November 12, 2009
5,477,100



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* Not Applicable

Forward Looking Statements

A cautionary note about forward-looking statements. Magna Bank (“Magna”) from time to time makes forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements about estimated cost savings, plans and objectives for future operations, and expectations about performance and economic and market conditions and trends. They often can be identified by the use of words like “*expect*,” “*may*,” “*could*,” “*intend*,” “*project*,” “*estimate*,” “*believe*” or “*anticipate*.” Magna includes forward-looking statements in filings with the Office of Thrift Supervision (OTS), such as this Quarterly Report, in other written materials, and in oral statements made by senior management to analysts, investors, representatives of the media, and others. These forward-looking statements speak only to circumstances as of the date they are made, and Magna undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the forward looking statement is made or to reflect the occurrence of unanticipated events.

By their nature, forward-looking statements are based on assumptions and are subject to risks, uncertainties, and other factors. Actual results may differ materially from those contained in the forward-looking statement. The discussion in the “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” lists some of the factors which could cause Magna’s actual results to vary materially from those in the forward-looking statements. Other uncertainties which could affect Magna’s future performance include the effects of competition, technological changes and regulatory developments; changes in fiscal monetary and tax policies; changes in business conditions and inflation; changes in general economic conditions, either nationally or regionally, resulting in, among other things, credit quality deterioration; and changes in the securities markets.

Investors should consider these risks, uncertainties, and other factors in addition to those mentioned by Magna in its other filings from time to time when considering any forward-looking statement.

Part 1
Item 1. Financial Statements

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



	(Unaudited)	
	September 30, 2009	December 31, 2008
<u>ASSETS</u>		
Cash and due from banks	\$ 4,755,978	\$ 6,307,173
Interest bearing deposits at other financial institutions	281,822	331,740
Federal funds sold	2,016,783	1,556,104
Securities:		
Available-for-sale, at fair value (amortized cost of \$49,912,983 and \$52,851,312 respectively)	49,078,911	50,944,920
Held-to-maturity, at amortized cost (fair value of \$8,924,406 and \$10,874,986, respectively)	10,212,721	11,539,266
Loans held for sale, at lower of cost or fair value	23,321,583	24,214,907
Loans, less allowance for loan losses of \$5,025,366 and \$5,283,639, respectively	336,435,107	391,020,380
Accrued interest receivable	2,049,563	2,501,910
Premises and equipment, net	5,183,647	5,721,304
Mortgage servicing rights, net	10,500,121	9,287,775
Foreclosed real estate, net	3,279,335	2,793,875
Investment in Federal Home Loan Bank, at cost	3,981,400	3,902,600
Other assets	6,560,630	10,925,512
TOTAL ASSETS	\$ 457,657,601	\$ 521,047,466
<u>LIABILITIES</u>		
Deposits		
Non-interest bearing transaction accounts	\$ 16,764,193	15,015,948
Servicing escrow accounts	18,651,668	10,085,847
Interest bearing transaction accounts	69,759,933	77,817,106
Savings accounts	69,371,790	40,964,893
Time deposits	150,982,177	229,501,394
Total deposits	325,529,761	373,385,188
Federal funds purchased and short-term borrowings	8,000,000	10,600,000
Long-term borrowings	63,000,000	75,500,000
Accrued interest payable	1,246,526	2,767,975
Accounts payable and other liabilities	3,275,721	5,446,886
TOTAL LIABILITIES	401,052,008	467,700,049
Commitments and contingencies		
	-	-
<u>SHAREHOLDERS' EQUITY</u>		
Preferred Stock (\$1 par value; 10,000,000 shares authorized; 14,485 shares issued and outstanding)	13,898,500	13,795,000
Common stock (\$1 par value; 10,000,000 shares authorized; 5,503,209 and 5,448,209 shares issued and 5,477,100 and 5,422,100 shares outstanding, respectively)	5,503,209	5,448,209
Treasury stock, 26,109 shares at cost	(200,374)	(200,374)
Additional paid-in capital	31,549,408	31,214,117
Retained earnings	7,699,343	4,253,364
Accumulated other comprehensive loss, net of taxes:		
Net unrealized loss on available-for-sale securities	(243,524)	(1,162,899)
Other-than-temporary impairment, net of taxes:		
Available-for-sale securities	(270,932)	-
Held-to-maturity securities	(1,330,037)	-
Total accumulated other comprehensive loss, net of taxes	(1,844,493)	(1,162,899)
TOTAL SHAREHOLDERS' EQUITY	56,605,593	53,347,417
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 457,657,601	\$ 521,047,466

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

Consolidated Income Statements (Unaudited)
Three and Nine Months Ended September 30, 2009 and 2008



	<u>Three months ended September</u>		<u>Nine months ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
INTEREST INCOME:				
Short term investments	\$ 8,689	\$ 12,345	\$ 13,327	\$ 40,798
Securities: Available-for-sale	633,128	678,162	2,033,939	1,567,192
Held-to-maturity	128,181	222,674	447,713	731,396
Loans held for sale	294,305	285,090	990,669	817,754
Loans, including fees and discounts	4,800,857	6,058,480	15,224,470	18,383,402
TOTAL INTEREST INCOME	5,865,160	7,256,751	18,710,118	21,540,542
INTEREST EXPENSE:				
Deposits	1,664,427	3,078,576	6,606,265	9,081,850
Borrowings	673,800	850,638	2,032,616	2,847,780
TOTAL INTEREST EXPENSE	2,338,227	3,929,214	8,638,881	11,929,630
NET INTEREST INCOME BEFORE PROVISION FOR LOAN LOSSES	3,526,933	3,327,537	10,071,237	9,610,912
Provision for loan losses	46,211	515,960	860,871	1,410,447
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,480,722	2,811,577	9,210,366	8,200,465
NON-INTEREST INCOME:				
Service charges and other branch income	67,225	54,371	197,924	149,176
Servicing fee income	955,605	941,533	2,744,973	2,829,855
Loan brokerage fees	-	-	78,750	412,565
Gain on sale of mortgage loans, net	2,194,877	1,925,404	7,454,341	5,839,017
Loss on sale of securities available-for-sale	(2,061)	(3,944)	(2,061)	(3,944)
Other than temporary impairment of securities	(453,071)	(2,383,600)	(453,071)	(2,383,600)
Less: non-credit component of impairment	315,071	-	315,071	-
Credit component of impairment charge	(138,000)	(2,383,600)	(138,000)	(2,383,600)
Gain on sale of branch	1,756,559	-	1,756,559	-
Other income	94,624	264,789	239,469	435,586
TOTAL NON-INTEREST INCOME	4,928,829	798,553	12,331,955	7,278,655
NON-INTEREST EXPENSE:				
Salary, wages and commission	2,657,744	2,542,188	8,324,426	8,328,564
Benefits and taxes	424,417	352,772	1,379,870	1,472,303
Professional services	86,345	131,969	251,730	325,826
Occupancy and equipment	763,984	779,639	2,319,486	2,198,555
Amortization of servicing rights, net of impairment recovery	513,201	391,984	998,914	1,292,593
Marketing and business development	97,691	208,478	361,147	545,766
Regulatory fees and deposit insurance assessments	172,631	97,318	762,146	269,620
Debt prepayment penalty	504,866	-	504,866	-
Other	771,460	661,287	2,222,749	2,104,561
TOTAL NON-INTEREST EXPENSE	5,992,339	5,165,635	17,125,334	16,537,788
INCOME (LOSS) BEFORE TAXES	2,417,212	(1,555,505)	4,416,987	(1,058,668)
Income tax expense	931,415	314,893	1,729,061	509,063
NET INCOME (LOSS)	\$ 1,485,797	\$ (1,870,398)	\$ 2,687,926	\$ (1,567,731)
NET INCOME (LOSS) ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 1,299,923	\$ (1,870,398)	\$ 2,109,419	\$ (1,567,731)
Net income (loss) per common share:				
Basic	\$ 0.24	\$ (0.35)	\$ 0.39	\$ (0.29)
Diluted	\$ 0.24	\$ (0.35)	\$ 0.39	\$ (0.29)
Comprehensive income				
Net income (loss)	\$ 1,485,797	\$ (1,870,398)	\$ 2,687,926	\$ (1,567,731)
Change in net unrealized gain (loss) on securities, net of taxes	678,089	234	(681,594)	(288,777)
TOTAL COMPREHENSIVE INCOME (LOSS)	\$ 2,163,886	\$ (1,870,164)	\$ 2,006,332	\$ (1,856,508)

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

Consolidated Statement of Cash Flows (Unaudited)
Nine Months Ended September 30, 2009 and 2008



	September 30,	
	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Net income (loss)	\$ 2,687,926	\$ (1,567,731)
<i>Reconciliation of net income (loss) to cash provided by (used in) operating activities:</i>		
Provision for loan losses	860,871	1,410,447
Provision for servicing and mortgage origination losses	288,000	184,103
Depreciation of premises and equipment	612,377	555,033
Capitalization of mortgage servicing rights	(2,195,354)	(2,026,174)
Stock-based compensation expense	104,466	168,416
Amortization of mortgage servicing rights, net of impairment recovery	998,914	1,292,593
Net discount accretion on securities	(274,288)	(59,506)
Net premium amortization on loans	40,302	67,978
Provision (benefit) for deferred income tax	3,739,992	(364,405)
Decrease (increase) in other assets	1,791,323	(1,170,070)
Decrease in accounts payable and other liabilities ¹	(4,199,670)	(5,200,101)
Proceeds from sales and repayments of loans held for sale	349,608,725	289,687,670
Gain on sale of mortgage loans	(7,454,341)	(5,839,017)
Loss (gain) on sale of real estate owned	15,853	(5,150)
Origination of loans held for sale	(341,261,060)	(280,767,977)
Gain on sale of mortgage servicing rights	-	(190,949)
Loss on sale of securities available-for-sale	2,061	3,944
Other than temporary impairment charge on securities	138,000	2,383,600
Gain on sale of branch	(1,756,559)	-
(Decrease) increase in accrued interest payable ¹	(1,283,228)	54,283
Decrease in accrued interest receivable ¹	305,709	17,035
Net cash provided by (used in) operating activities	<u>2,770,019</u>	<u>(1,365,976)</u>
Cash flows from investing activities:		
Purchases of available-for-sale securities	(7,350,998)	(45,708,987)
Proceeds from sale of available-for-sale securities	1,043,529	1,224,609
Principal repayments of securities available-for-sale	9,481,873	7,590,930
Principal repayments of securities held-to-maturity	1,286,033	1,726,028
Net decrease (increase) in loans ¹	17,927,170	(28,433,045)
Proceeds from sale of foreclosed real estate	276,161	168,991
Proceeds from sale - mortgage servicing rights	-	1,421,150
Proceeds paid from sale of branch	(4,877,580)	-
Purchase of FHLB stock	(78,800)	(323,200)
Purchases of mortgage servicing rights	(15,906)	(105,380)
Purchases of premises and equipment ¹	(190,743)	(1,790,725)
Net cash provided by (used in) investing activities	<u>17,500,739</u>	<u>(64,229,629)</u>
Cash flows from financing activities:		
Net (decrease) increase in deposits ¹	(6,018,511)	88,385,702
Advances from long-term borrowings	-	35,000,000
Repayments of long-term borrowings	(12,500,000)	(1,000,000)
Net decrease in federal funds purchased	(2,600,000)	(53,637,000)
Dividends - preferred stock	(578,507)	-
Proceeds from stock options, net	285,825	284,200
Net cash (used in) provided by financing activities	<u>(21,411,193)</u>	<u>69,032,902</u>
Net (decrease) increase in cash and cash equivalents	(1,140,435)	3,437,296
Cash and equivalents at beginning of period	8,195,017	4,328,976
Cash and equivalents at end of period	<u>\$ 7,054,583</u>	<u>\$ 7,766,272</u>
Cash paid for interest	<u>\$ 10,160,330</u>	<u>\$ 11,875,347</u>
Cash paid for taxes	<u>\$ 240,000</u>	<u>\$ 1,070,000</u>
Foreclosure in satisfaction of loans	<u>\$ 1,679,714</u>	<u>\$ 2,544,742</u>

¹ - 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, 2008 has been derived from the audited consolidated financial statements at that date. The accompanying unaudited interim consolidated financial statements reflect all adjustments (consisting only of normally recurring accruals) that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted in accordance with the rules of the Securities and Exchange Commission. The condensed consolidated financial statements of the Company as of September 30, 2009, and for the three and nine months ended September 30, 2009 and 2008 are unaudited. Results of operations for the three and nine months ended September 30, 2009 and 2008 are not necessarily indicative of the results that may be achieved for the full year or for any future period. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2008. Certain prior period amounts have been reclassified to conform to the current period presentation, although such reclassifications had no effect on total shareholder's equity or net income.
2. **Recent Accounting Pronouncements.** In June 2009, the FASB issued Statement No. 168, "*The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*" ("Statement No. 168"). Statement No. 168 replaces FASB Statement No. 162, "*The Hierarchy of Generally Accepted Accounting Principles*". In July of 2009, the FASB's adoption of this comprehensive codification of generally accepted accounting standards ("GAAP") became effective. Statement No. 168 defines the new hierarchy for U.S. GAAP and explains how the FASB will use its Accounting Standards Codification as the sole source for all authoritative guidance. Beginning July 1, 2009, all references to accounting standards are based on this Accounting Standard Codification ("ASC") document which is organized along financial statement presentation lines and provides a "drill down" approach to the underlying concepts pertaining to any given reported item. More information, including a cross reference tool for identifying where legacy standards have been incorporated into the ASC, can be found at www.fasb.org.

In April 2009, the FASB issued an update to ASC 825.10, "*Interim Disclosures about Fair Value of Financial Instruments*" to require disclosures about fair value of financial instruments in interim financial statements. ASC 825.10 requires that disclosures be included in both interim and annual financial statements of the methods and significant assumptions used to estimate the fair value of financial instruments. ASC 825.10 is effective for periods ending after June 15, 2009, with early adoption permitted. Comparative disclosures are required only for periods ending subsequent to initial adoption. Magna Bank adopted the provisions of this FSP during the second quarter of 2009.

In April 2009, the FASB issued an update to ASC 320.10, "*Recognition and Presentation of Other-Than-Temporary Impairments*" to clarify the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price. In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, ASC 320.10 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income. This pronouncement is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. Magna Bank adopted this accounting standard during the second quarter of 2009.

Also in April of 2009, the FASB updated ASC 820.10, "*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*" This pronouncement provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. It also includes guidance on identifying circumstances that

indicate when a transaction is not orderly and provides entity latitude in determining the fair value of a security when an orderly market is deemed not to exist. The guidance is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. Magna owns a number of securities for which it has concluded that an orderly market does not exist and has adopted the guidance in deriving the fair values thereof. These securities are classified as “Level 3” securities disclosed elsewhere in this report.

In April 2009, the FASB updated ASC 805.20, “*Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*”. This guidance amends and clarifies guidance provided in ASC 805.10 regarding business combinations to address the initial recognition and measurement of an asset acquired or a liability assumed in a business combination that arises from a contingency provided the asset or liability's fair value on the date of acquisition can be determined. When the fair value, at the acquisition date, of an asset acquired or liability assumed cannot be determined, ASC 805.20 requires using the guidance under ASC 450.10 450.20 relating to loss contingencies and the estimation of the amount thereof. ASC 805.20 is effective for assets or liabilities arising from contingencies in business combinations that occur following the start of the first annual reporting period beginning on or after December 15, 2008. The adoption of this guidance will impact the Company’s accounting for and reporting of acquisitions completed, if any, after January 1, 2009.

In May 2009, the FASB updated ASC 855.10, “*Subsequent Events*”. The objective of this update is to clarify standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The guidance sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ASC 855.10 was effective for the Company for the quarterly period ended June 30, 2009. The Company has evaluated for consideration of recognition or disclosure, subsequent events that have occurred through November 12, 2009, the date of issuance of its financial statements, and has determined that any significant events that occurred subsequent to the balance sheet date but prior to the filing of these financial statements that would have a material impact on its financial statements have been disclosed. Compliance with ASC 855.10 had no material impact on the Company’s financial statements. Subsequent events are disclosed in Note 12.

In June 2009, the FASB updated ASC 860.10 to prescribe the information that a reporting entity must provide in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor’s continuing involvement in transferred financial assets. Specifically, among other aspects, it modifies the concept of a qualifying special-purpose entity. It also modifies the financial-components approach used in fiscal years beginning after November 15, 2009. The Company does not anticipate the adoption of this guidance to have a material impact on its consolidated financial statements.

- Earnings Per Share.** Earnings per share is computed by dividing net income or loss attributable to common shareholders by the weighted average number of common shares outstanding for each period. Diluted earnings per share in net income periods is computed by dividing net income available to common shareholders by the weighted average number of common shares adjusted to include the number of additional common shares that would have been outstanding if the dilutive potential common shares resulting from options granted under the Company’s stock option plan had been issued utilizing the treasury stock method. Diluted earnings per share does not reflect an adjustment for potentially dilutive shares in net loss periods.

Due to the net loss attributable to common shareholders for the three and nine month periods ended September 30, 2008, no potentially dilutive shares were included in the loss per share calculations as including such shares would have been antidilutive. Stock options of 107,833 and 113,282 were not included in the computation of diluted loss per common share.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Net income (loss)	\$ 1,485,797	\$(1,870,398)	\$ 2,687,926	\$(1,567,731)
Less: Preferred dividends	(185,874)	-	(578,507)	-
Numerator: Net income (loss) attributable to common shareholders	\$ 1,299,923	\$(1,870,398)	\$ 2,109,419	\$(1,567,731)
Denominator for basic earnings per share				
Weighted average common shares	5,477,100	5,382,100	5,459,780	5,382,100
Add dilutive common shares:				
Employee stock options	-	-	-	-
Denominator for diluted earnings per share	5,477,100	5,382,100	5,459,780	5,382,100
Basic earnings (loss) per share	\$ 0.24	\$(0.35)	\$ 0.39	\$(0.29)
Diluted earnings (loss) per share	\$ 0.24	\$(0.35)	\$ 0.39	\$(0.29)

4. ***Employee Stock Option Plan.*** Certain employees of the Company have been granted stock options under the Company's non-qualified share-based award plan. Options awarded under the plan are granted with an exercise price equal to the last observed exchange price prior to the date of grant; all shares issued pursuant to the plan are issued from the Company's authorized but un-issued common shares. There are currently 424,765 shares in the plan available for grant.

The compensation cost that has been recognized for our option plan was \$23,618 and \$104,466 for the three and nine months ended September 30, 2009, compared to a credit of (\$31,188) and a charge of \$168,416 for the three and nine months ended September 30, 2008, respectively. As of September 30, 2009, there was \$102,697 of total unrecognized compensation cost related to our option plan that is expected to be recognized over a weighted average period of 23 months. The weighted average remaining contractual term of options outstanding as of September 30, 2009 is 6.0 years. There was one exercise of vested options during each of the nine months ended September 30, 2009 and 2008, proceeds from which were \$275,000 and \$200,000, respectively.

The fair value of each option award is estimated on the grant date using the Black-Scholes-Merton option valuation model. The risk-free rate of return is the yield of a U.S. treasury note with a maturity most closely matching the expected term of each option as of the grant date. Since the Company's stock is not listed on any exchange nor actively traded, volatility is calculated as the standard deviation of the hypothetical price of our stock based on internal projections for growth in earnings, book value per share and expected trading multiple. The expected dividend yield used is zero, as the Company does not pay any dividends on its stock and anticipates retaining future earnings for internal growth. The expected term and forfeiture rate of options granted is estimated using historical experience.

The following table summarizes changes in both vested and non-vested options in the Plan during the nine month period ended September 30, 2009 (aggregate intrinsic value is based on \$4.50 per share value, the last observed exchange price for our stock):

	Vested	Average Exercise Price	Contractual Remaining Term (Years)	Aggregate Intrinsic Value
Balance December 31, 2008	242,078	\$ 6.99		\$ -
Options-exercised	(55,000)	\$ 5.00		
-forfeited	(50,333)	\$ 6.23		
-vested	<u>44,953</u>	<u>\$ 9.71</u>		
Balance September 30, 2009	181,698	\$ 8.48	5.0	\$ -
<u>Nonvested</u>				
Balance December 31, 2008	95,272	\$ 10.20		\$ -
Options-granted	12,500	\$ -		
-forfeited	(667)	\$ 11.25		
-vested	<u>(44,953)</u>	<u>\$ 9.71</u>		
Balance September 30, 2009	<u>62,152</u>	<u>\$ 8.73</u>	<u>8.9</u>	<u>\$ -</u>
Total	<u>243,850</u>	<u>\$ 8.54</u>	<u>6.0</u>	<u>\$ -</u>

5. **Securities Portfolio.** As of September 30, 2009 and December 31, 2008, the securities in the “Available-for-Sale” category included \$834,072 and \$1.9 million, respectively, in net unrealized losses. Accordingly, total stockholders’ equity was decreased by \$514,456 and \$1.2 million (net of taxes), to reflect the adjustment of the securities portfolio to fair value. All eligible investment securities have been pledged to the FHLB of Cincinnati as collateral for current or future borrowings.

The following tables summarize the investment securities portfolio as of September 30, 2009 and December 31, 2008:

	Amortized Cost	Unrealized		Fair Value
		Gain	Loss	
<i>September 30, 2009:</i>				
<i>Available-for-sale:</i>				
Agency Preferred stock	\$ 60,301	\$ 28,560	\$ -	\$ 88,861
U.S. Agency	8,948,538	343,411	16,869	9,275,080
Collateralized mortgage obligations	16,077,370	23,213	1,744,721	14,355,862
Commercial mortgage-backed securities	4,817,731	26,120	45,029	4,798,822
Agency Mortgage-backed securities	<u>20,009,043</u>	<u>562,449</u>	<u>11,206</u>	<u>20,560,286</u>
Subtotal available-for-sale	49,912,983	983,753	1,817,825	49,078,911
<i>Held to maturity:</i>				
Corporate Debt Obligations	2,893,750	187,778	584,450	2,497,078
Collateralized mortgage obligations	3,328,746	-	1,138,184	2,190,562
Agency Mortgage-backed securities	<u>3,990,225</u>	<u>246,541</u>	<u>-</u>	<u>4,236,766</u>
Subtotal held-to-maturity	<u>10,212,721</u>	<u>434,319</u>	<u>1,722,634</u>	<u>8,924,406</u>
Total at September 30, 2009	<u>\$ 60,125,704</u>	<u>\$ 1,418,072</u>	<u>\$ 3,540,459</u>	<u>\$ 58,003,317</u>

	Amortized Cost	Unrealized		Fair Value
		Gain	Loss	
December 31, 2008:				
<i>Available-for-sale:</i>				
Agency Preferred stock	\$ 60,301	\$ -	\$ 47,476	\$ 12,825
U.S. Agency	4,604,495	156,238	365	4,760,368
Collateralized mortgage obligations	19,905,258	7,774	1,763,478	18,149,554
Commercial mortgage-backed securities	5,703,544	-	338,989	5,364,555
Agency Mortgage-backed securities	22,577,714	265,847	185,943	22,657,618
Subtotal available-for-sale	52,851,312	429,859	2,336,251	50,944,920
<i>Held to maturity:</i>				
Corporate Debt Obligations	2,824,963	-	78,946	2,746,017
Collateralized mortgage obligations	4,053,212	-	768,591	3,284,621
Agency Mortgage-backed securities	4,661,091	183,257	-	4,844,348
Subtotal held-to-maturity	11,539,266	183,257	847,537	10,874,986
Total at December 31, 2008	\$ 64,390,578	\$ 613,116	\$ 3,183,788	\$ 61,819,906

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

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
September 30, 2009:						
U.S. Agency	\$ 2,238,029	\$ 16,261	\$ 34,158	\$ 608	\$ 2,272,187	\$ 16,869
Corporate Debt Obligations	16,560	60,317	2,250,000	524,133	2,266,560	584,450
Collateralized mortgage obligations	4,339,898	918,442	10,880,821	1,964,463	15,220,719	2,882,905
Commercial mortgage-backed securities	-	-	1,798,834	45,029	1,798,834	45,029
Agency Mortgage-backed securities	781,592	3,506	715,348	7,700	1,496,940	11,206
	<u>\$ 7,376,079</u>	<u>\$ 998,526</u>	<u>\$ 15,679,161</u>	<u>\$ 2,541,933</u>	<u>\$ 23,055,240</u>	<u>\$ 3,540,459</u>

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

Agency Preferred Stock. The action of the U.S. Treasury to place both FNMA and FHLMC into conservatorship in September of 2008 virtually wiped out the market value of the preferred stock issued by those entities causing Magna to record an other than temporary impairment (“OTTI”) charge totaling \$2.3 million through its earnings in the third quarter of 2008. Treasury has operated both companies in conservatorship for approximately one year with some nominal market value appreciation occurring in the agency preferred stock market, eliminating Magna mark to market loss. The reported carrying value is equal to quoted market prices for these issues.

U.S. Agency Debentures and Agency Mortgage backed Securities. The unrealized losses on the Company’s investments in these securities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because Magna does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the

investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2009.

Corporate Debt Obligations. The unrealized losses in corporate debt obligations were caused by credit concerns stemming from the disruption in the global credit markets which began in late 2008 and virtually eliminated active trading in such securities. Four of these securities are synthetic credit default swaps and one is a senior tranche of a sequentially-paying CDO, the collateral for which is primarily trust preferred stock issued by REIT's and REOC's. During the second quarter of 2009, Magna adopted the provisions of FASB ASC 320.10, which resulted in the reclassification of the non-credit related portion of the OTTI charge, totaling \$1.0 million, from retained earnings to a new category of equity reported as other comprehensive income. There was no additional other than temporary impairment identified as a result of our review of these securities at September 30, 2009. Magna does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases.

Collateralized Mortgage Obligations. The unrealized loss in non-agency collateralized mortgage obligations is primarily attributable to default concerns caused by the economic recession which began in 2008. These securities are collateralized by residential mortgages that were originated during a period of reduced credit underwriting standards (2004 – 2007) and, in some cases, are secured by real estate that has seen significant declines in value due to oversupply and high levels of foreclosure. The nationally recognized rating agencies have revised their rating methodologies for this class of asset to introduce more severe loss scenario outcomes when collateral performance metrics (i.e. default rate, foreclosure frequency and loss severity) are stressed, resulting in a significant number of tranches within these securities being either downgraded outright or placed on watch list for possible downgrade. Magna uses a third-party analytics firm to evaluate the possibility of credit loss in these securities each quarter end, which resulted in an OTTI credit charge of \$138,000 in the third quarter of 2009.

Although all securities Magna owns were investment grade when purchased, approximately 10% of the total portfolio (and 30% of the RMBS portfolio), is no longer investment grade, as seen in the following table (S&P equivalent where not rated by S&P):

<u>Rating</u>	<u>Available for Sale</u>	<u>Held to Maturity</u>	<u>Total</u>	<u>%</u>	<u>RMBS Only</u>	<u>%</u>
AAA	\$ 42,089,437	\$ 5,590,395	\$ 47,679,832	80.2%	\$ 9,911,946	55.6%
AA+	267,146	-	267,146	0.4%	-	0.0%
AA	1,589,184	-	1,589,184	2.7%	1,048,271	5.9%
BBB+	727,635	-	727,635	1.2%	727,635	4.1%
BBB	882,571	-	882,571	1.5%	882,571	4.9%
BBB-	-	1,166,069	1,166,069	2.0%	-	0.0%
Subtotal-Investment Grade	45,555,973	6,756,464	52,312,437	88.0%	12,570,423	70.5%
BB-	-	608,262	608,262	1.0%	-	0.0%
B	636,514	-	636,514	1.1%	636,514	3.6%
B-	1,286,215	-	1,286,215	2.2%	1,286,215	7.2%
CCC+	-	76,877	76,877	0.1%	-	0.0%
CCC	1,144,895	2,219,085	3,363,980	5.7%	2,825,003	15.8%
CCC-	-	552,033	552,033	0.9%	-	0.0%
CC	515,797	-	515,797	0.9%	515,797	2.9%
C	88,861	-	88,861	0.1%	-	0.0%
Subtotal-Noninvestment Grade	<u>3,672,282</u>	<u>3,456,257</u>	<u>7,128,540</u>	<u>12.0%</u>	<u>5,263,529</u>	<u>29.5%</u>
	<u>\$ 49,228,255</u>	<u>\$ 10,212,721</u>	<u>\$ 59,440,976</u>	<u>100.0%</u>	<u>\$ 17,833,952</u>	<u>100.0%</u>

Notes to Unaudited Consolidated Financial Statements
Three and Nine Months Ended September 30, 2009



The amortized cost and estimated fair value of securities at September 30, 2009, 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:

	At September 30, 2009					
	Available-for-sale			Held to maturity		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
Due in one year or less	\$ -	\$ -	-	\$ 999,802	\$ 950,000	1.14%
Due after one year through five years	2,653,493	2,653,160	5.09%	1,774,330	1,300,000	0.88%
Due after five years through ten years	2,928,700	2,921,299	4.12%	421,446	645,033	2.69%
Due after ten years	44,330,790	43,504,452	4.94%	7,017,143	6,029,373	4.37%
	<u>\$ 49,912,983</u>	<u>\$ 49,078,911</u>	<u>4.90%</u>	<u>\$ 10,212,721</u>	<u>\$ 8,924,406</u>	<u>3.38%</u>

The following table summarizes estimated OTTI losses recognized in earnings when a portion of an other-than temporary impairment was recognized in other comprehensive income for the three and nine month periods ended September 30, 2009 and 2008, respectively:

	Three and nine months ended September 30, 2009	Three and nine months ended September 30, 2008
Beginning balance	\$ -	\$ -
Additions for the amount related to the estimated credit loss for which an other-than-temporary impairment was:		
- not previously recognized	138,000	2,383,600
- previously recognized	-	-
Additions for securities for which the amount previously recognized in other comprehensive income was recognized in earnings because the Company intends to sell the security or more likely than not will be required to sell the security before recovery of its cost basis	-	-
Reductions for securities sold	-	-
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	-	-
Ending balance	<u>\$ 138,000</u>	<u>\$ 2,383,600</u>

On September 30, 2009 and December 31, 2008, the Company had approximately \$4.0 million and \$3.9 million, respectively, of cost method investments in Federal Home Loan Bank (“FHLB”) stock. These investments, which do not have a readily determinable market and for which it is not practical to estimate a fair value, are evaluated for impairment only if there are identified events or changes in circumstances that may have had a significant adverse effect on the fair value of the investment.

Notes to Unaudited Consolidated Financial Statements
Three and Nine Months Ended September 30, 2009



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

	<u>September 30, 2009</u>		<u>December 31, 2008</u>		<u>Increase (Decrease)</u>	
Commercial Loans:						
Mortgage	\$ 121,497,589	36.2%	\$ 132,345,296	33.8%	\$ (10,847,707)	-8.2%
Construction	40,466,095	12.0%	47,844,858	12.2%	(7,378,762)	-15.4%
Other	<u>25,613,267</u>	<u>7.6%</u>	<u>33,456,092</u>	<u>8.6%</u>	<u>(7,842,826)</u>	<u>-23.4%</u>
	187,576,951	55.8%	213,646,246	54.6%	(26,069,295)	-12.2%
Consumer Loans:						
First Mortgage	82,835,978	24.7%	92,915,873	23.8%	(10,079,895)	-10.8%
Junior Mortgage, Primarily HELOC	54,659,968	16.2%	71,400,918	18.3%	(16,740,949)	-23.4%
Construction	13,248,166	3.9%	14,874,791	3.8%	(1,626,625)	-10.9%
Other	<u>3,139,410</u>	<u>0.9%</u>	<u>3,466,191</u>	<u>0.9%</u>	<u>(326,781)</u>	<u>-0.6%</u>
	<u>153,883,522</u>	<u>45.7%</u>	<u>182,657,773</u>	<u>46.8%</u>	<u>(28,774,250)</u>	<u>-15.8%</u>
Total loans	341,460,473	101.5%	396,304,019	101.4%	(54,843,546)	-13.8%
Allowance for loan losses	<u>(5,025,366)</u>	<u>-1.5%</u>	<u>(5,283,639)</u>	<u>-1.4%</u>	<u>258,273</u>	<u>-4.9%</u>
Net loans	<u>\$ 336,435,107</u>	<u>100.0%</u>	<u>\$ 391,020,380</u>	<u>100.0%</u>	<u>\$ (54,585,273)</u>	<u>-14.0%</u>

7. **Segment Information.** The Bank operates two divisions: banking and mortgage. The banking division focuses on originating loans for its portfolio. These include first and second residential mortgages, revolving home equity loans, residential and commercial construction loans, commercial real estate loans and non-real estate commercial loans. The banking division funds its operations by gathering customer savings and transactional deposits and through wholesale brokered deposits. Additional funding comes from borrowings at the Federal Reserve Bank of St. Louis, the Federal Home Loan Bank and fed funds lines. The mortgage division originates and delivers residential first mortgages to investors (including, in certain instances, to the banking division) and services residential mortgage loans for others. Transactions between business segments are conducted at fair value and are eliminated for reporting consolidated financial position and results of operations. Expenses for centrally provided services such as corporate compliance, legal representation, human resources, accounting and information technology are allocated to each segment based upon usage or per-unit-of-production. Corporate governance costs, including the chairman of the board and the board of directors, are borne by the banking segment. Each segment bears its own loan losses and other ancillary business expenses. Additionally, the mortgage division incurs interest transfer charges/credits for the assets and liabilities it employs in the conduct of its operations. The net amount of these transfer charges/credits has been eliminated from the Banking segment in the following tables, which present condensed statements of operations and average assets for each reportable segment.

	Three Months ended September 30,					
	2009			2008		
	Banking	Mortgage	Total	Banking	Mortgage	Total
Net interest income	\$ 3,160,656	\$ 366,277	\$ 3,526,933	\$ 2,815,255	\$ 512,282	\$ 3,327,537
Provision for loan losses	<u>(49,211)</u>	<u>3,000</u>	<u>(46,211)</u>	<u>(516,060)</u>	<u>100</u>	<u>(515,960)</u>
Net interest income after provision for loan losses	3,111,445	369,277	3,480,722	2,299,195	512,382	2,811,577
Non-interest income (loss)	1,860,123	3,068,706	4,928,829	(2,187,714)	2,986,267	798,553
Non-interest expense	<u>3,179,979</u>	<u>2,812,360</u>	<u>5,992,339</u>	<u>2,698,577</u>	<u>2,467,058</u>	<u>5,165,635</u>
Income (loss) before taxes	1,791,589	625,623	2,417,212	(2,587,096)	1,031,590	(1,555,505)
Income tax expense (benefit)	<u>690,332</u>	<u>241,083</u>	<u>931,415</u>	<u>(81,324)</u>	<u>396,217</u>	<u>314,893</u>
Net income (loss)	<u>\$ 1,101,257</u>	<u>\$ 384,540</u>	<u>\$ 1,485,797</u>	<u>\$ (2,505,772)</u>	<u>\$ 635,373</u>	<u>\$ (1,870,398)</u>
Average assets	<u>\$ 427,339,840</u>	<u>\$ 53,596,716</u>	<u>\$ 480,936,556</u>	<u>\$ 480,130,743</u>	<u>\$ 52,819,578</u>	<u>\$ 532,950,321</u>
Operating Efficiency	63.34%	81.87%	70.87%	430.02%	70.52%	125.19%

	Nine Months ended September 30,					
	2009			2008		
	Banking	Mortgage	Total	Banking	Mortgage	Total
Net interest income	\$ 9,033,801	\$ 1,037,436	\$ 10,071,237	\$ 8,176,325	\$ 1,434,587	\$ 9,610,912
Provision for loan losses	(846,271)	(14,600)	(860,871)	(1,429,747)	19,300	(1,410,447)
Net interest income after provision for loan losses	8,187,530	1,022,836	9,210,366	6,746,578	1,453,887	8,200,465
Non-interest income (loss)	2,307,736	10,024,219	12,331,955	(1,388,199)	8,666,854	7,278,655
Non-interest expense	8,889,742	8,235,592	17,125,334	8,760,257	7,777,531	16,537,788
Income (loss) before taxes	1,605,524	2,811,463	4,416,987	(3,401,878)	2,343,210	(1,058,668)
Income tax expense (benefit)	623,685	1,105,376	1,729,061	(389,324)	898,387	509,063
Net income (loss)	\$ 981,839	\$ 1,706,087	\$ 2,687,926	\$ (3,012,554)	\$ 1,444,823	\$ (1,567,731)
Average assets	\$ 448,119,594	\$ 57,436,206	\$ 505,555,800	\$ 452,087,724	\$ 54,591,471	\$ 506,679,195
Operating Efficiency	78.38%	74.45%	76.44%	129.05%	76.99%	97.92%

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

Each quarter the Company evaluates its investment in MSRs for evidence of impairment resulting from changes in the projected rate of prepayment, cost to service, market discount rates and other factors. For purposes of measuring possible impairment, the underlying mortgages are subdivided into tranches based upon term and interest rate. These tranches are then evaluated using projected prepayment speeds, servicing costs and market discount rate information provided by third party brokers knowledgeable in the execution of exchanges of MSR's. If it is determined that the fair value of MSRs is less than the remaining book value, a valuation allowance is established through a charge to earnings. At December 31, 2008, Magna recognized an impairment charge of \$1.2 million but recovered \$1.1 million during the first half of 2009. There was no additional impairment or recovery during the quarter ended September 30, 2009. Such amounts are included in amortization of servicing rights, net of impairment recovery for the nine months ended September 30, 2009, in the accompanying consolidated income statement.

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

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

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

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

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

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

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

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

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

Foreclosed real estate: Foreclosed real estate ("REO") is comprised of commercial and residential real estate obtained in partial or total satisfaction of loan obligations. REO acquired in settlement of indebtedness is recorded at the lower of the carrying amount of the loan or the fair value of the real estate less costs to sell. Fair value is determined based on appraisals by qualified licensed appraisers and is adjusted for management's estimates of costs to sell and holding period discounts. Subsequently, it may be necessary to record non-recurring fair value adjustments, which are classified as Level 3. The Company recorded losses of \$8,398 and \$15,853 for the three and nine months ended September 30, 2009, respectively, compared to gains of \$3,380 and \$5,150 for the comparable periods in 2008.

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

The balances and levels of the assets measured at fair value on both a recurring and non-recurring basis as of September 30, 2009 are presented in the following table.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Totals
<i>Recurring valuation:</i>				
Securities available for sale	\$ 88,861	\$ 48,990,050	\$ -	\$ 49,078,911
<i>Non-recurring valuation:</i>				
Mortgage servicing rights	\$ -	\$ -	\$ 10,500,121	\$ 10,500,121
Foreclosed real estate	-	-	3,279,335	3,279,335
Impaired loans	-	-	6,194,162	6,194,162
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,973,618</u>	<u>\$ 19,973,618</u>

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

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

The securities with recorded OTTI as of September 30, 2009 that are classified as held-to-maturity securities are not reflected in the table above because the Company does not record held-to-maturity securities at fair value on a recurring or non-recurring basis. However, held-to-maturity securities are analyzed each reporting period for potential impairment.

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

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

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

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

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

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

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

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

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

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Securities available for sale	\$ 49,078,911	\$ 49,078,911	\$ 50,944,920	\$ 50,944,920
Securities held to maturity	10,212,721	8,924,406	11,539,266	10,874,986
Commercial Loans:				
Mortgage	121,497,589	112,667,215	132,345,296	120,698,582
Construction	40,466,095	38,995,838	47,844,858	47,230,657
Other	25,613,267	24,468,441	33,456,092	32,464,441
Consumer Loans:				
First Mortgage	82,835,978	73,409,506	92,092,253	81,262,201
Junior Mortgage, Primarily HELOC	54,659,968	47,707,095	71,400,918	67,087,792
Construction	13,248,166	12,481,802	15,698,411	14,615,988
Other	3,139,410	3,000,736	3,466,191	3,244,782
Mortgage loans held for sale	23,321,583	23,321,583	24,214,907	24,214,907
Mortgage servicing rights	10,500,121	11,089,495	9,287,775	9,152,911
Financial Liabilities				
Non interest-bearing deposits	35,415,861	29,551,603	25,101,795	21,759,425
Interest-bearing deposits with no stated maturity	123,381,723	105,364,262	103,032,003	89,687,617
Interest-bearing deposits with a stated maturity	141,687,177	140,603,112	181,218,394	180,072,095
Brokered deposits	25,045,000	25,005,213	64,032,996	63,861,745
Short-term borrowings	8,000,000	8,000,000	10,600,000	10,600,000
Federal Home Loan Bank advances	63,000,000	66,063,423	75,500,000	80,250,928

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

11. **Contingencies.** Contingent liabilities arise in the ordinary course of business, including those related to litigation. Various claims and lawsuits are pending against the Company, and although management cannot predict the outcome of these lawsuits, after consulting with counsel, management is of the opinion that when resolved, these lawsuits will not have a material adverse effect on the consolidated financial statements.
12. **Branch Sale.** On August 1, 2009, the Company sold a retail branch located in Brentwood, TN to Reliant Bank in Nashville. As a result, loans of \$35.0 million and deposits of \$41.8 million were sold. A pre-tax gain of approximately \$1.8 million was recognized in the third quarter of 2009.
13. **Debt Prepayment.** The Company elected to prepay \$9.0 million in term FHLB advances during the third quarter of 2009 and incurred a prepayment penalty of \$504,866. The term advances had weighted average interest rate of 4.0% and a weighted average remaining maturity of 36 months.
14. **Subsequent Events.** There were no events which occurred between September 30, 2009 and November 12, 2009 which met the criteria for reporting under GAAP.

Selected Quarterly Data (Unaudited)
Five Consecutive Quarters



	Quarter Ended				
	September-09	June-09	March-09	December-08	September-08
Operating data:					
Interest income	\$ 5,865,160	\$ 6,349,985	\$ 6,494,973	\$ 7,000,686	\$ 7,256,751
Interest expense	2,338,227	2,956,981	3,343,674	3,761,661	3,929,214
Net interest income	3,526,933	3,393,004	3,151,299	3,239,025	3,327,537
Provision for loan losses	46,211	398,970	415,690	1,116,553	515,960
Net interest income after provision for loan losses	3,480,722	2,994,034	2,735,609	2,122,472	2,811,577
Non-interest income	5,066,829	3,915,178	3,487,944	2,621,874	3,182,153
Impairment charges (recovery of impairment)	138,000	(660,000)	(400,000)	5,312,000	2,383,600
Non-interest expense	5,992,339	6,277,580	5,915,413	5,306,050	5,165,635
Income (loss) before taxes	2,417,212	1,291,632	708,140	(5,873,704)	(1,555,505)
Income tax expense (benefit)	931,415	501,670	295,976	(3,139,723)	314,893
Net income (loss)	1,485,797	789,962	412,164	(2,733,981)	(1,870,398)
Other comprehensive income (loss)	678,089	(461,659)	(898,024)	(616,366)	234
Total comprehensive income (loss)	\$ 2,163,886	\$ 328,303	\$ (485,860)	\$ (3,350,347)	\$ (1,870,164)
Net income (loss) attributable to common shareholders	\$ 1,299,923	\$ 597,826	\$ 211,671	\$ (2,733,981)	\$ (1,870,398)
Per share data:					
Income (loss) per share - diluted	\$ 0.24	\$ 0.11	\$ 0.04	\$ (0.50)	\$ (0.35)
Weighted average shares outstanding - diluted	5,477,100	5,480,875	5,442,267	5,422,100	5,382,100
Income (loss) per share - basic	\$ 0.24	\$ -	\$ 0.04	\$ (0.50)	\$ (0.35)
Weighted average shares outstanding - basic	5,477,100	5,477,100	5,442,267	5,422,100	5,382,100
Book value per common share (at period end)	\$ 7.80	\$ 7.44	\$ 7.20	\$ 7.29	\$ 7.98
Balance sheet data (at period end):					
Total assets	\$ 457,657,601	\$ 505,656,895	\$ 521,063,461	\$ 521,047,466	\$ 531,074,140
Total securities	59,291,632	55,730,603	58,301,657	62,484,186	69,418,936
Loans held-for-sale	23,321,583	28,275,423	30,326,942	24,214,907	18,246,269
Total loans	341,460,473	380,450,471	395,571,034	396,304,019	405,873,452
Total loans-adjusted ¹	327,584,613	365,990,338	380,215,703	380,156,680	389,006,766
Allowance for loan losses	(5,025,366)	(5,744,611)	(5,684,688)	(5,283,639)	(4,197,247)
Mortgage servicing rights, net	10,500,121	10,602,947	9,923,039	9,287,775	10,406,721
Foreclosed real estate, net	3,279,335	2,599,475	2,741,310	2,793,875	2,441,172
Servicing escrows	18,651,668	18,487,509	14,786,977	10,085,847	20,061,873
Brokered deposits	25,045,000	37,879,999	46,059,000	64,032,996	61,590,000
Total deposits	325,529,761	370,634,523	378,510,988	373,385,188	388,891,988
Borrowings	71,000,000	74,500,000	84,500,000	86,100,000	89,623,000
Equity	56,605,593	54,640,537	53,029,086	53,347,417	42,966,466
Financial ratios:					
Equity to assets	12.37%	10.81%	10.18%	10.24%	8.09%
Loans to deposits	112.06%	110.28%	112.52%	112.62%	109.06%
Allowance for loan losses to loans	1.47%	1.51%	1.44%	1.33%	1.03%
Allowance for loan losses to non-performing loans	81.13%	69.90%	74.15%	67.10%	63.27%
Non-performing loans to loans	1.81%	2.16%	1.94%	1.99%	1.63%
Non-performing loans to loans-adjusted ¹	0.52%	1.00%	0.95%	0.73%	0.55%
Non-performing assets to total assets	2.07%	2.14%	2.00%	2.05%	1.71%
Non-performing assets to total assets-adjusted ¹	1.10%	1.25%	1.23%	1.08%	0.87%
Operating efficiency	69.7%	85.9%	89.1%	90.5%	79.4%
Return on average assets	1.24%	0.61%	0.32%	-2.14%	-1.40%
Return on average equity	10.35%	5.90%	3.05%	-24.79%	-16.98%
Net interest spread	2.81%	2.47%	2.25%	2.31%	2.26%
Net interest margin	3.18%	2.83%	2.62%	2.70%	2.68%

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, 2009 and December 31, 2008 and the consolidated results of operations for the three and nine month periods ended September 30, 2009 and 2008. The discussion should be read in conjunction with the unaudited consolidated financial statements and the notes thereto as of and for the quarters then ended.

EXECUTIVE OVERVIEW

Net income attributable to common shareholders for the third quarter of 2009 was \$1.3 million compared to a loss of \$1.9 million in the same quarter of 2008. Year to date net income for 2009 was \$2.7 million compared to a net loss of \$1.6 million in 2008. Net interest income grew to \$3.5 million from \$3.3 million in the year ago quarter and to \$10.0 million year to date versus \$9.6 million in 2008. The provision for loan losses declined significantly in the third quarter of 2009 as a result of the sale of \$35.0 million of loans to Reliant Bank in Nashville and to the modestly improving economic environment. Non-interest income was up significantly for the quarter ended September 30, 2009 compared to 2008, primarily as a result of (i) the pre-tax gain of approximately \$1.8 million from the sale of our retail branch located in Brentwood, TN which closed on August 1, 2009, and (ii) the recognition of \$2.4 million of other than temporary impairment charges on securities in 2008 compared to \$138,000 in 2009. Excluding the impact of these non-recurring events, non-interest income was up approximately \$125,000 from the year earlier period. Non-interest expenses were up \$826,704 from the year earlier period, but were also impacted by non-recurring charges of approximately \$505,000 associated with the early extinguishment of \$9.0 million of high cost term advances from the FHLB. Year to date, non-interest expense increased by \$587,546, but this includes (i) the debt extinguishment charges of \$505,000 incurred in the third quarter and (ii) the FDIC's "special insurance premium assessment" of \$230,000, which was expensed in the second quarter of 2009.

Total assets at September 30, 2009 were \$457.7 million, down \$63.3 million (12.1%) from the end of 2008 including a \$54.8 million decline in total loans outstanding. Of this decline, \$35.0 million was sold to Reliant Bank in Nashville as part of the branch sale in August of 2009. The majority of the remaining decline is attributable to non-renewal of several large participation credits that Magna opted out of for pricing or credit reasons. The investment portfolio also declined as we allowed securities to pay off without replacement. Generally, the third quarter was not marked by high demand for new credit, which is typical of a recessionary economy.

Total deposits declined by \$47.9 million between December 31, 2008 and September 30, 2009, including \$41.8 million sold to Reliant Bank and a \$39.0 million reduction in brokered time deposits which were allowed to mature without replacement. The loss of these deposits was offset with \$24.9 million of growth in Memphis area retail deposits and seasonal growth in servicing escrow accounts of \$8.6 million.

We remain focused on asset quality, liquidity management and spread improvement. The provision for loan losses for the quarter was \$46,211 compared to \$515,960 for the third quarter of last year. Year to date, we have provided \$860,871 for possible loan losses compared to \$1.4 million in 2008. Despite the reduction in the provision for loan losses, the allowance for loan losses as a percentage of outstanding loans increased from 1.33% at December 31, 2008 to 1.47% at September 30, 2009. Net charge-offs of uncollectible loans totaled \$765,456 during the quarter and \$1.1 million for the year to date period, for an annualized rate of .39% of average loans outstanding. While higher than at any time in Magna's history, we believe that this charge-off ratio is acceptable in light of the economic environment we have endured since the beginning of 2008.

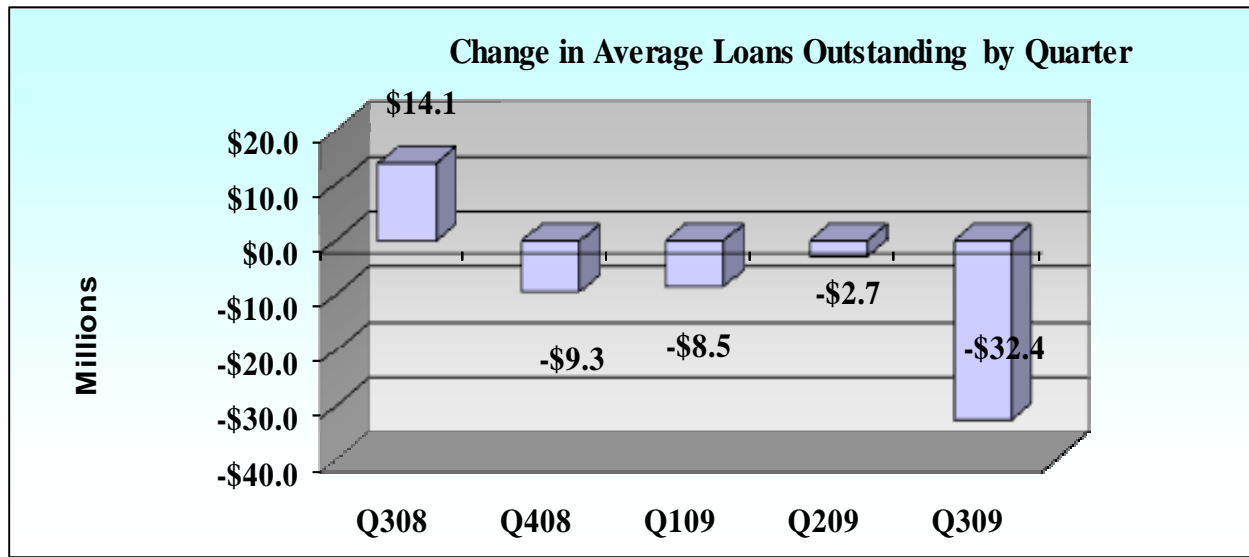
At the end of the third quarter of 2009, the stress tests we apply to our portfolio of residential mortgage backed securities indicated that two additional issues were likely to suffer principal losses within the foreseeable future. Consequently, we recognized an other than temporary credit loss in the amount of \$138,000 in anticipation of this event. Additional impairment losses are possible, as the collateral that supports these securities could further deteriorate, triggering principal loss and requiring additional impairment provisions in the future.

Magna's net interest margin improved during the quarter ended September 30, 2009 to 3.18%, up from 2.83% for the second quarter of 2009 and from 2.68% in the year ago quarter. The improvement in margin is attributable to the continued implementation of interest rate floors in most new or renewed loans and to aggressively re-pricing deposits to lower rates. Between June 30, 2009 and September 30, 2009, the cost of interest bearing liabilities fell from 2.63% to 2.15%. Net interest income increased from \$3.4 million in the second quarter to \$3.5 million in the third quarter. Absent a change in the current interest rate environment, we expect to see net interest income grow during the remainder of 2009 and into the first quarter of 2010.

Non-interest expense increased by \$826,704 (16.0%) quarter over quarter and \$587,546 (3.6%) year over year. These amounts include a non-recurring FDIC insurance premium assessment in the second quarter of 2009, a non-recurring debt prepayment penalty in the third

quarter of 2009 as well as servicing amortization and impairment recovery which, although recurring in nature, tends to cause wide fluctuations between time periods. Excluding the effect of these items from non-interest expense results in a decline in non-interest expense between the second and third quarters of 2009 totaling approximately \$287,000 (5.5%) and an increase of approximately \$146,000 (1.0%) for the year to year periods. We continue to exert tight expense controls on every area of the Bank and are ahead of plan in this area.

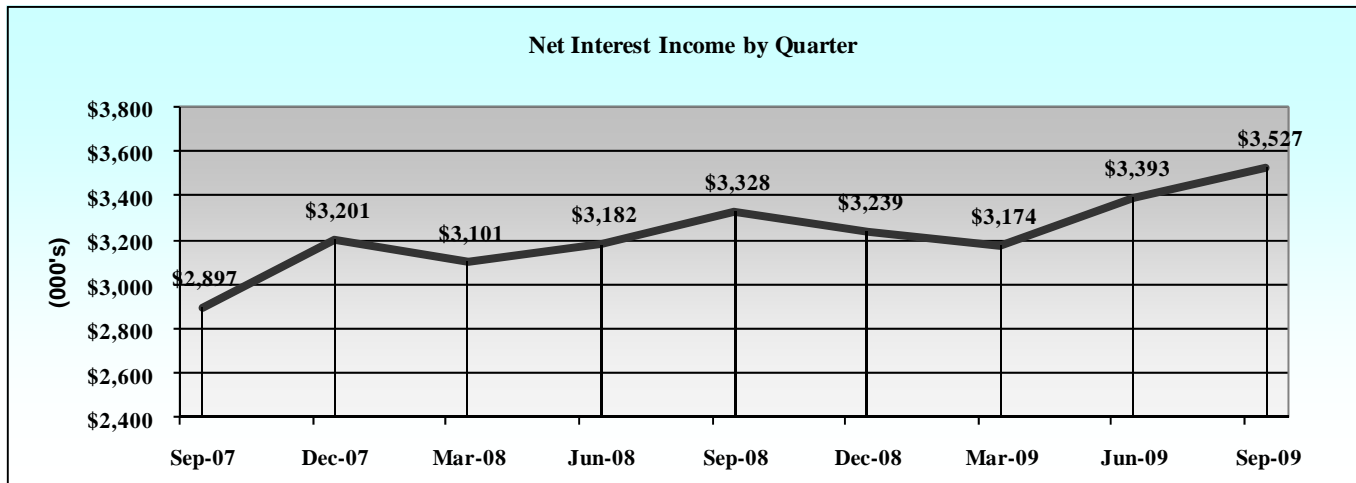
Average loans outstanding during the third quarter of 2009 totaled \$354.8 million, an 8.4% decrease from the preceding quarter, largely due to the sale of loans to Reliant Bank in Nashville. The following chart shows sequential changes in the amount of average loans outstanding since the end of the third quarter of 2008:



Non-performing loans totaled \$6.2 million at September 30, 2009, a decrease of \$2.0 million (24.6%) from the preceding quarter end and \$1.7 million (21.3%) from the end of 2008. These declines are the result of aggressively dealing with problem credits through foreclosure and charge-off. The ratio of non-performing loans to total loans decreased from 2.16% at June 30, 2009 to 1.81% at September 30, 2009. The ratio of non-performing assets (which includes non-performing loans and foreclosed real estate) also declined quarter over quarter from 2.14% to 2.07%. The September 30, 2009 ratios are reduced to .52% and 1.10%, respectively, when deducting the component of non-performers represented by loans backed by the full faith and credit of the United States, which management does for purposes of peer comparison. Although asset quality is a constant focus at Magna, management is especially diligent in monitoring the quality and performance of the loan portfolio during these recessionary times. The allowance for loan losses was 1.54% of total loans (excluding full-faith and credit FHA/VA loans) outstanding at September 30, 2009 compared to 1.40% at December 31, 2008.

Magna achieved its highest level of quarterly net interest income in the quarter ended September 30, 2009 at \$3.5 million. Net interest spread and net interest margin improved from 2.47% and 2.83%, respectively, in the second quarter of 2009 to 2.81% and 3.18%, respectively, for the quarter ended September 30, 2009. We expect further improvement in these two metrics over the remainder of 2009 if the general level of market interest rates remains unchanged.

The following chart shows the changes in quarterly net interest income over the past two years:



Non-interest expense totaled \$6.0 million for the third quarter of 2009 compared to \$5.6 million for the preceding quarter and \$5.2 million for the third quarter of 2008. Both the sequential quarter and year over year quarterly increase were attributable to higher levels of servicing amortization and to the prepayment penalty incurred in the third quarter of 2009 related to the early payoff of \$9.0 million of term FHLB advances. This sequential quarter increase was partially offset by a decline in regulatory fees from the FDIC imposed special insurance assessment that was recorded in the second quarter of 2009.

Non-interest expense for the nine months ended September 30, 2009 was \$17.1 million compared to \$16.5 million for the same period of 2008. Occupancy costs increased by \$120,931 between these periods as 2009 includes the costs associated with the Poplar/Forest Hill branch which opened in November of 2008. Also, beginning January 1, 2009, the FDIC adopted a risk-based deposit insurance premium structure which doubled the rate Magna pays per dollar of insured deposit even though our risk rating remained unchanged. That rate increase, coupled with a “special assessment” of \$230,000 on June 30, 2009, increased FDIC insurance premiums from \$180,825 for the nine months ended September 30, 2008 to \$659,425 for 2009.

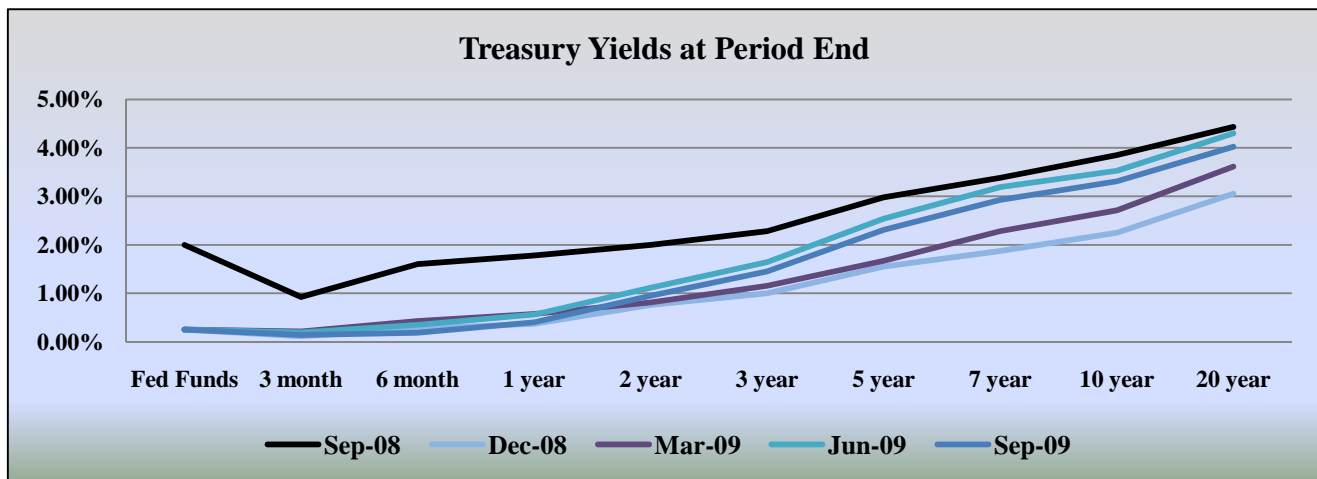
The year over year comparison was also impacted by lower mortgage servicing amortization expense in 2009 resulting from the recognition of \$1.1 million of servicing impairment recovery during the nine months ended September 30, 2009. The 2009 nine month period also included the effect of the early prepayment of FHLB debt mentioned above.

On a fully-diluted basis, income per common share for the quarter totaled \$.24 compared to a loss per share of \$0.35 for 2008. To our knowledge, there were 6,900 shares of Magna stock traded in a privately negotiated transaction during the quarter ended September 30, 2009.

Economic trends. The recession which began in the first quarter of 2008 continued into the third quarter of 2009, making it one of the longest and deepest recessions since the great depression of 1929. Unemployment reached 9.8% of the workforce for the month ended September, 2009 and exceeded 10% in October 2009. Economists estimate the actual unemployment rate could be as high as 17%. Consensus forecasts of leading economists indicate the economic recovery will be slow to materialize. Bank failures totaled 98 for the year to date period and the number of “problem” institutions on the FDIC’s unpublished watch list reached 416, meaning many more failures are likely before conditions improve. The FDIC’s deposit insurance reserve fund dipped to its lowest level since 1994 and a three year prepayment of bank insurance premiums has been proposed and will likely be implemented. 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 2009.

The liquidity measures enacted by the Federal Reserve have kept mortgage rates low and spreads in U.S. agency securities historically tight to the treasury curve. Certain economic indicators, most noticeably the rate of new housing starts and inventory of unsold homes, appear to be stabilizing with assistance from the Government in the form of tax credits for new homebuyers, although they are still well below their pre-recession levels. The stock market (as measured by the Dow index) climbed past 10,000 for the first time in many months and shows a positive return year to date.

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



Actual and expected consequences. At the end of the second quarter we communicated our expectation of improved net interest income absent a change in market interest rates and/or a significant change in competitive pricing pressures. As neither of those two events occurred, both spread and margin improved in the third quarter of 2009. Assuming rates remain stable, we expect further improvement in net interest margin and spread throughout the remainder of 2009. Part of this improvement will result from the early repayment of \$9.0 million of term FHLB advances at the end of the third quarter which is expected to add approximately \$25,000 per month to top line net interest income.

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, and quarter end analysis of two of those securities did result in impairment charges totaling \$138,000. These impairment charges reflect the *forecasted* amount of principal loss we *expect* to incur, as opposed to any actual losses we are currently experiencing. Consequently, the actual amount of loss we incur in the future may be higher or lower than what we have recorded. Further deterioration in the performance of the underlying collateral on these or other securities, which did not exhibit any forecasted losses at the end of September, may result in impairment charges in the future.

Average loans outstanding for the third quarter of 2009 totaled \$354.9 million, which was well below our original plan. The shortfall was primarily the result of the sale of loans to Reliant Bank which closed on August 1, 2009. Given the trend of deleveraging by both consumers and businesses, we could see further reduction in the level of loans outstanding during the final quarter of 2009.

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

Location	Open Date	DDA & NOW	MMDA & Savings	Time	Total
Wolf River Parkway	November-07	\$ 4,750,727	\$ 18,293,954	\$ 26,978,535	\$ 50,023,216
Poplar/Oak Court	August-08	4,054,887	13,160,570	15,195,999	32,411,456
Poplar/Forest Hill	November-08	965,350	5,605,945	7,611,695	14,182,990
		<u>\$ 9,770,964</u>	<u>\$ 37,060,469</u>	<u>\$ 49,786,229</u>	<u>\$ 96,617,662</u>

Residential mortgage banking, which is the largest investment in terms of management, human resources and support within our Company, has been very strong in 2009, with year over year volume up 31.1%. Third quarter production totals exhibited a 5.3% increase over the year ago quarter. We anticipate that the remainder of 2009 will exhibit good results due to the planned expiration and recently passed extension and expansion of the homebuyers credit and the favorable mortgage interest rate environment. Mortgage loan origination volume by operating region and non-interest income are presented in subsequent tables.

Financial condition analysis. Total assets were \$457.7 million at September 30, 2009 compared to \$521.0 million at December 31, 2008. The carrying value of liquid assets, which include cash, cash equivalents and securities available for sale, declined by \$3.0 million from year end 2008, while securities held to maturity paid down by an additional \$1.3 million. During the third quarter and year to date, the fair value of securities in the available for sale portfolio improved by approximately \$1.3 million and \$1.2 million, respectively. At September 30, 2009, Magna performed a detailed analysis of all securities we own, evaluating each security on the basis of current

collateral performance (base case) and a forecasted worsening scenario (stressed case). Both of these performance forecasts project a worsening economic environment for the next two years, followed by a stabilizing environment for an additional two years, followed by a gradually improving economic environment thereafter. Two of our securities met the criteria for OTTI recognition as of September 30, 2009. We will diligently review these securities each quarter for evidence of a meaningful principal loss occurring within a foreseeable time frame and will recognize other than temporary impairment if such condition exists. Magna does not intend to sell the investments and it is not likely that we will be required to sell the investments before recovery of their amortized cost bases, which may be maturity.

Loan balances fell by \$39.0 million during the third quarter of 2009. Approximately \$35.0 million of this decline was attributable to the closing of the sale of the Brentwood branch to Reliant Bank in Nashville.

Total non-performing loans decreased by \$1.7 million (21.3%) during the first nine months of 2009, including a \$1.1 million (39%) reduction in non-accrual loans. These amounts include non-performing FHA/VA insured (full faith and credit) loans which are delinquent when we purchase them from GNMA pools we service. Excluding the amounts relating to non-performing FHA/VA loans, non-performing loans decreased by \$1.1 million to \$1.7 million at September 30, 2009 compared to \$2.8 million at the end of the preceding year. The Company is proactively monitoring our loan portfolio for impairment.

Net charge-offs totaled \$765,456 and \$1.1 million for the three and nine month periods ended September 30, 2009 compared to \$196,557 and \$345,610 in 2008, respectively. Based on the level of our classified assets and loan delinquency statistics, we expect that charge-off activity may decrease throughout the remainder of 2009.

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

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
<i>Non-accrual loans:</i>		
Recorded investment with related allowance for credit losses:		
Residential construction	\$ -	\$ 330,000
Commercial Loans	87,000	-
Junior Mortgage, Primarily HELOC	18,710	-
Consumer other	-	50,000
Recorded investment without related allowance for credit losses:		
Residential construction	-	1,566,985
Commercial real estate	294,369	-
Commercial Loans	204,937	-
Single family residential, first mortgage, with private mortgage insurance	909,392	225,010
Single family residential, first mortgage, without private mortgage insurance	175,012	598,610
Total non-accrual loans	<u>1,689,420</u>	<u>2,770,605</u>
<i>Past due 90 or more days and still accruing interest:</i>		
Single family residential, first mortgage, FHA/VA insured	4,504,519	5,103,526
Single family residential, first mortgage, without private mortgage insurance	223	440
Total loans past due and still accruing interest	<u>4,504,742</u>	<u>5,103,966</u>
Total non-performing loans	<u>\$ 6,194,162</u>	<u>\$ 7,874,571</u>
Non-performing loans as a % of total loans	<u>1.81%</u>	<u>1.99%</u>
Non-performing loans exclusive of FHA/VA insured loans	<u>\$ 1,689,642</u>	<u>\$ 2,771,045</u>
Non-performing loans as a % of total loans, excluding FHA/VA insured loans	<u>0.52%</u>	<u>0.73%</u>

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

The following table summarizes the components of the allowance for loan losses at September 30, 2009 and December 31, 2008.

	<u>September 30,</u> <u>2008</u>	<u>% of outstanding</u> <u>balance ⁽¹⁾</u>	<u>December 31, 2008</u>	<u>% of outstanding</u> <u>balance ⁽¹⁾</u>
One-to-four family residential	\$ 737,802	1.09%	\$ 439,764	0.59%
Construction and land development	736,077	1.37%	1,014,891	1.62%
Other, primarily revolving home equity	1,252,142	2.29%	1,213,055	1.70%
Commercial real estate	1,826,835	1.50%	2,095,820	1.58%
Commercial & Industrial	412,268	1.61%	410,044	1.23%
Consumer	60,242	1.92%	110,065	3.18%
Total	<u>\$ 5,025,366</u>	<u>1.54%</u>	<u>\$ 5,283,639</u>	<u>1.40%</u>

1: Denominator excludes FHA/VA loans in the one-to-four family residential category totaling \$15.2 million and \$17.8 million at September 30, 2009 and December 31, 2008, respectively, losses from which are charged to the FHA/VA reserve.

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

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

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

In addition, during the third quarter of 2009, the LPOC undertook a special review of the Bank’s portfolio of revolving home equity lines of credit (“HELOC’s”). These loans are considered to be high risk given the interest only nature of their repayment terms and due to the fact that most are junior mortgages. Our review involved (i) obtaining updated credit scores for every borrower for whom the original combined loan to value ratio was greater than 50%, (ii) segregating the portfolio into “low”, “medium”, “high” and “very high” risk categories based on lien position, payment history, and the existence of mortgage insurance, and (iii) adjusting downwards the assumed value of the collateral by 20% and recalculating the combined loan to value ratio. We then evaluated usage patterns against historical information looking for evidence of heightened debt financing by our customers, especially those in the “high” and “very high” risk categories. The portfolio segregation is as follows:

<u>Risk Rating</u>	<u>Average</u>		<u>%</u>	<u>Used</u>		<u>%</u>	<u>Unused</u>
	<u>FICO</u>	<u>Score</u>		<u>Commitment</u>	<u>Used</u>		
Low	768	\$ 15,523,850.12	26.2%	\$ 6,384,547.09	41.1%	\$ 9,139,303.03	
Medium	766	9,573,878	16.2%	4,446,580	46.4%	5,127,298	
High	758	32,396,441	54.7%	18,687,249	57.7%	13,709,191	
Very High	550	1,730,897	2.9%	1,569,664	90.7%	161,233	
Average/Total	<u>756</u>	<u>\$ 59,225,065.74</u>	<u>100.0%</u>	<u>\$ 31,088,039.72</u>	<u>52.5%</u>	<u>\$ 28,137,026.02</u>	

The overall utilization rate of 52.5% as of September 30, 2009, is consistent with the range for all of 2009, which has ranged from a low of 51.5% to a high of 55.3%. As of September 30, 2009, Magna had \$705,100 (2.27% of outstanding balance) of general allowance for loan losses associated with HELOC’s, which management considers adequate for the risks identified. Charge-offs as a percent of average HELOC balances outstanding totaled .38% and .34% for the nine months ended September 30, 2009 and 2008, respectively.

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 \$10.6 million of the Bank’s single family mortgage portfolio at September 30, 2009.

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

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

Magna has not originated Option ARM loans for its portfolio.

The OTS limits loans to one borrower to 15% of capital plus general allowances for loan losses, subject to exceptions for loans to small businesses, small farms, or 1-4 dwelling first liens less than 80% LTV under the Pilot Program, and exceptions for domestic housing development loans (“Programs”). These Programs increase the limit of loans to one borrower to 25% and 30% of capital. As of September 30, 2009 and December 31, 2008, the amount loaned under both Programs totaled approximately \$16.4 million and \$48.0 million, respectively.

Deposits declined by \$47.9 million during the nine months ended September 30, 2009 primarily as a result of the sale of \$41.8 million to Reliant Bank.

The following table summarizes the net change in deposit accounts for the year, distinguishing between deposits sold and other net deposit changes:

	Balance <u>12/31/2008</u>	Deposits Sold	Change in <u>Deposits</u>	Balance <u>9/30/09</u>
Non-interest bearing transaction accounts	\$ 15,015,948	\$ (207,766)	\$ 1,956,011	\$ 16,764,193
Servicing escrow accounts	10,085,847	-	8,565,821	18,651,668
Interest bearing transaction accounts	62,067,110	(8,156,227)	99,050	54,009,933
Savings accounts	40,964,893	(10,002,800)	38,409,697	69,371,790
Time deposits	181,218,394	(23,470,123)	(16,061,094)	141,687,177
Brokered deposits	<u>64,032,996</u>	<u>-</u>	<u>(38,987,996)</u>	<u>25,045,000</u>
	<u>\$ 373,385,188</u>	<u>\$ (41,836,916)</u>	<u>\$ (6,018,511)</u>	<u>\$ 325,529,761</u>

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

	<u>At September 30, 2009</u>			<u>At December 31, 2008</u>		
	<u>Amount</u>	<u>Average</u> <u>Rate</u>	<u>% of</u> <u>total</u>	<u>Amount</u>	<u>Average</u> <u>Rate</u>	<u>% of</u> <u>total</u>
Maturing within:						
One year	\$ 108,739,838	2.42%	37.5%	\$ 213,673,858	3.68%	61.3%
Two years	30,493,416	2.51%	10.5%	11,401,001	3.68%	3.3%
Three years	10,222,808	3.03%	3.5%	2,442,996	4.21%	0.7%
Four years	584,967	4.14%	0.2%	1,673,579	4.30%	0.5%
Five years	<u>941,148</u>	<u>3.32%</u>	<u>0.3%</u>	<u>309,960</u>	<u>3.75%</u>	<u>0.1%</u>
Subtotal time deposits	150,982,177	2.49%	52.0%	229,501,394	3.69%	65.9%
Interest bearing deposits with no stated maturity	<u>139,131,723</u>	<u>1.35%</u>	<u>48.0%</u>	<u>118,781,999</u>	<u>2.41%</u>	<u>34.1%</u>
Total interest-bearing deposits	<u>\$ 290,113,900</u>	<u>1.95%</u>	<u>100.0%</u>	<u>\$ 348,283,393</u>	<u>3.25%</u>	<u>100.0%</u>

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

	<u>At September 30, 2009</u>			<u>At December 31, 2008</u>		
	<u>Balance</u>	<u>Average Rate</u>	<u>% of total</u>	<u>Balance</u>	<u>Average Rate</u>	<u>% of total</u>
Due in three months or less	\$ 21,907,258	2.76%	24.3%	\$ 36,333,798	3.45%	25.7%
Due after three through six months	9,716,804	2.34%	10.8%	50,088,119	3.65%	35.4%
Due after six through twelve months	30,183,760	2.16%	33.5%	47,244,402	3.76%	33.4%
Due after twelve months	28,166,632	2.61%	31.4%	7,730,923	3.90%	5.5%
	<u>\$ 89,974,454</u>	<u>2.47%</u>	<u>100.0%</u>	<u>\$ 141,397,242</u>	<u>3.65%</u>	<u>100.0%</u>
Percent of total deposits		<u>27.6%</u>			<u>37.9%</u>	

At September 30, 2009, the Company's loan-to-deposit ratio excluding loans held for sale was 104.9% compared to 106.1% at December 31, 2008.

Borrowings fell by \$15.1 million between December 31, 2008 and September 30, 2009, primarily as the result of the Bank's election to prepay \$9.0 million of term FHLB advances during the third quarter of 2009. The penalty incurred in connection with this election totaled \$504,866 and is reported as "non-interest expense – other" in the accompanying income statement. Because the average interest rate on the advances prepaid exceeded 4.00%, management expects to recoup the penalty cost through wider net interest spread in future quarters.

Our residential loan servicing operation, which is part of the mortgage division, acts as a hedge for our residential mortgage loan production operation. Residential mortgage servicing rights ("MSRs") totaled \$10.4 million at September 30, 2009 compared to \$9.1 million at December 31, 2008. The increase is primarily attributable to capitalized servicing rights retained on loans sold to FNMA during the nine months ended September 30, 2009. At September 30, 2009, the Company serviced 8,460 residential first mortgage loans totaling \$979.2 million for third party investors compared to 8,404 loans totaling \$924.9 million at December 31, 2008. The value of MSRs is directly affected by changes in mortgage interest rates, as mortgage prepayment tends to slow when mortgage interest rates rise. Conversely, declining rates generally result in rising prepayments and therefore diminished servicing fee income and market values. Management reviews the valuation of the MSRs on a periodic basis. As of September 30, 2009, there was \$150,000 of unrecovered impairment in the value of the residential mortgage servicing portfolio.

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

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Number of loans serviced for others	8,460	8,404
Unpaid principal balance of loans serviced for others \$	979,246,818	\$ 924,914,745
Average balance per loan \$	115,750	\$ 110,056
Weighted average servicing fee	0.263%	0.308%
Weighted average mortgage note rate	5.85%	6.23%
Net book value of residential servicing rights \$	10,375,300	\$ 9,138,749
Net book value as a multiple of annual servicing	4.03	3.20

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

The following table summarizes the activity in this reserve for the three and nine month periods ended September 30, 2009 and 2008:

	<u>Three months ended September 30,</u>		<u>Nine months ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 219,912	\$ 166,565	\$ 199,213	\$ 136,514
Provision for losses	59,000	33,000	138,000	178,000
Claim losses	<u>(56,711)</u>	<u>(23,553)</u>	<u>(115,013)</u>	<u>(138,502)</u>
Ending balance	<u>\$ 222,200</u>	<u>\$ 176,012</u>	<u>\$ 222,200</u>	<u>\$ 176,012</u>

Total shareholders' equity as of September 30, 2009 and December 31, 2008 was \$56.6 million and \$53.3 million, respectively. The increase was attributable to the sale of stock from the exercise of stock options and earnings for the nine months ended September 30, 2009. The Company has neither declared nor paid dividends to common shareholders since its inception and does not expect to do so in the near future. Furthermore, the Company is restricted under federal regulations as to the amount of dividends that may be paid to its shareholders.

The Company's equity to assets ratio was 12.37% at September 30, 2009 compared to 10.24% at December 31, 2008. At September 30, 2009, Magna's regulatory core capital and total risk based capital ratios were 12.65% and 16.49%, respectively. These ratios exceed minimum regulatory levels at September 30, 2009 and December 31, 2008 and place Magna in the "well-capitalized" category as of both dates.

Results of operation – three and nine months ended September 30, 2009 and 2008. Interest income, including dividends earned on FHLB stock, for the three months ended September 30, 2009, was \$5.9 million, a \$1.4 million decrease from 2008. Overall, average asset yield decreased by 55 basis points to 5.25%, while the yield on the loan portfolio decreased by 48 basis points to 5.41%. Interest expense decreased by \$1.6 million to \$2.3 million for the third quarter of 2009 compared to the year earlier period. The average rate incurred on interest bearing liabilities decreased by 90 basis points. Net interest income for the quarter ended September 30, 2009 was \$3.6 million compared to \$3.4 million for 2008, a \$197,046 (5.8%) increase. Net interest margin increased by 50 basis points, partially attributable to wider average spread between interest earning assets and interest bearing liabilities. 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, 2009 and 2008:

	Three Months Ended September 30,					
	2009			2008		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
ASSETS						
Short-term investments	\$ 12,498,275	\$ 8,689	0.28%	\$ 2,615,838	\$ 12,345	1.89%
Securities available-for-sale	45,112,866	633,128	5.61%	50,992,487	678,162	5.32%
Securities held-to-maturity	<u>10,633,613</u>	<u>128,181</u>	<u>4.82%</u>	<u>16,686,720</u>	<u>222,674</u>	<u>5.34%</u>
Total securities	55,746,479	761,309	5.46%	67,679,207	900,836	5.32%
Loans held for sale	23,326,017	294,305	5.05%	18,200,976	285,090	6.27%
Commercial Loans:						
Mortgage	122,051,525	1,686,182	5.53%	94,629,403	1,477,531	6.25%
Construction	45,368,605	516,116	4.55%	86,775,357	1,166,456	5.38%
Other	25,944,766	323,691	4.99%	39,165,347	513,868	5.25%
Consumer Loans:						
First Mortgage	85,282,567	1,310,866	6.15%	95,321,833	1,562,394	6.56%
Junior Mortgage, Primarily HELOC	59,089,931	777,043	5.26%	70,030,860	1,058,340	6.04%
Construction	13,985,969	147,185	4.21%	22,499,104	228,953	4.07%
Other	<u>3,150,447</u>	<u>39,774</u>	<u>5.05%</u>	<u>3,321,693</u>	<u>50,938</u>	<u>6.13%</u>
Total loans	354,873,810	4,800,857	5.41%	411,743,597	6,058,480	5.89%
Investment in Federal Home Loan Bank	<u>3,981,400</u>	<u>49,631</u>	<u>4.99%</u>	<u>3,851,277</u>	<u>51,982</u>	<u>5.40%</u>
Total interest earning assets	450,425,981	5,914,791	5.25%	504,090,895	7,308,733	5.80%
Non interest earning assets	<u>30,510,575</u>			<u>28,859,426</u>		
Total assets	\$ 480,936,556			\$ 532,950,321		
LIABILITIES						
Interest bearing transaction accounts	\$ 56,504,594	177,687	1.26%	\$ 73,822,769	436,270	2.36%
Savings deposits	71,973,870	302,448	1.68%	24,325,945	202,801	3.33%
Customer Time deposits	148,406,309	1,039,505	2.80%	188,440,355	1,919,781	4.08%
Brokered deposits	<u>32,281,785</u>	<u>144,786</u>	<u>1.79%</u>	<u>54,400,560</u>	<u>494,680</u>	<u>3.64%</u>
Total deposits	309,166,558	1,664,427	2.15%	340,989,629	3,053,532	3.58%
Federal funds purchased and other short term borrowings	77,778	96	0.49%	28,242,751	193,637	2.74%
Term FHLB Advances	<u>74,066,667</u>	<u>673,704</u>	<u>3.64%</u>	<u>74,866,667</u>	<u>682,045</u>	<u>3.64%</u>
Total interest bearing liabilities	383,311,003	2,338,227	2.44%	444,099,047	3,929,214	3.54%
Non interest bearing liabilities	40,206,457			44,788,407		
Shareholders' equity	<u>57,419,096</u>			<u>44,062,867</u>		
Total liabilities and shareholders' equity	\$ 480,936,556			\$ 532,950,321		
Net interest income/net interest spread		<u>\$ 3,576,565</u>	<u>2.81%</u>		<u>\$ 3,379,519</u>	<u>2.26%</u>
Net interest margin			<u>3.18%</u>			<u>2.68%</u>

The following table shows the components of each change attributable to rate and volume variances for the three months ended September 30, 2009 and 2008. The changes in interest due to both rate and volume have been allocated to change due to rate and change due to volume in proportion to the absolute amounts of the changes in each.

	Increase (decrease) due to		
	Rate	Volume	Total
Interest earning assets:			
Short-term investments	\$ (17,849)	\$ 14,193	\$ (3,656)
Securities available-for-sale	36,082	(81,116)	(45,034)
Securities held-to-maturity	(19,883)	(74,609)	(94,492)
Total securities	16,199	(155,725)	(139,526)
Loans held for sale	(61,827)	71,041	9,214
Commercial Loans:			
Mortgage	(184,222)	392,874	208,652
Construction	(158,450)	(491,890)	(650,340)
Other	(24,153)	(166,024)	(190,177)
Consumer Loans:			
First Mortgage	(93,413)	(158,115)	(251,528)
Junior Mortgage, Primarily HELOC	(127,677)	(153,620)	(281,297)
Construction	7,577	(89,345)	(81,768)
Other	(8,642)	(2,521)	(11,164)
Total loans	(588,980)	(668,641)	(1,257,621)
Investment in Federal Home Loan Bank	(4,066)	1,715	(2,351)
Total change in interest income	(656,523)	(737,417)	(1,393,940)
Interest bearing liabilities:			
Interest bearing transaction accounts	(172,229)	(86,354)	(258,583)
Savings deposits	(140,382)	240,029	99,647
Customer Time deposits	(523,999)	(356,277)	(880,276)
Brokered deposits	(194,135)	(155,758)	(349,893)
Total deposits	(1,030,745)	(358,360)	(1,389,105)
Federal funds purchased and other short term borrowings	(87,343)	(106,199)	(193,542)
Term FHLB Advances	(1,062)	(7,278)	(8,340)
Total change in interest expense	(1,119,150)	(471,837)	(1,590,987)
Increase in net interest income	\$ 462,626	\$ (265,580)	\$ 197,046

Interest income, including dividends earned on FHLB stock, for the nine months ended September 30, 2009, was \$18.8 million, a \$2.8 million decrease from 2008. Overall, average asset yield decreased by 74 basis points to 5.29%, while the yield on the loan portfolio decreased by 91 basis points to 5.36%. Interest expense decreased by \$3.3 million to \$8.6 million for the first nine months of 2009 compared to the year earlier period. The average rate incurred on interest bearing liabilities decreased by 99 basis points. Net interest income for the year to date period ended September 30, 2009 was \$10.2 million compared to \$9.8 million for 2008, a \$448,875(4.6%) increase. Net interest margin increased by 15 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, 2009 and 2008:

	Nine Months Ended September 30,					
	2009			2008		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
<u>ASSETS</u>						
Short-term investments	\$ 6,551,146	\$ 13,327	0.27%	\$ 2,425,804	\$ 40,798	2.24%
Securities available-for-sale	47,475,284	2,033,939	5.71%	38,497,154	1,567,192	5.43%
Securities held-to-maturity	<u>11,045,562</u>	<u>447,713</u>	<u>5.40%</u>	<u>17,204,129</u>	<u>731,396</u>	<u>5.67%</u>
Total securities	58,520,846	2,481,652	5.65%	55,701,283	2,298,588	5.50%
Loans held for sale	27,189,141	990,669	4.86%	18,350,001	817,754	5.94%
<i>Commercial Loans:</i>						
Mortgage	128,124,175	5,193,763	5.40%	92,813,636	4,473,110	6.43%
Construction	47,363,772	1,671,355	4.71%	80,394,017	3,432,699	5.69%
Other	29,880,506	1,056,203	4.71%	37,983,473	1,590,530	5.58%
<i>Consumer Loans:</i>						
First Mortgage	88,771,343	4,156,230	6.24%	97,857,809	4,848,853	6.61%
Junior Mortgage, Primarily HELOC	66,165,761	2,542,304	5.12%	64,522,115	3,041,224	6.28%
Construction	15,505,988	478,414	4.11%	22,258,400	830,351	4.97%
Other	<u>3,218,384</u>	<u>126,201</u>	<u>5.23%</u>	<u>3,496,656</u>	<u>166,635</u>	<u>6.35%</u>
Total loans	379,029,929	15,224,470	5.36%	399,326,106	18,383,402	6.27%
Investment in Federal Home Loan Bank	<u>3,957,154</u>	<u>137,127</u>	<u>4.62%</u>	<u>3,756,853</u>	<u>148,577</u>	<u>5.27%</u>
Total interest earning assets	475,248,216	18,847,245	5.29%	479,560,047	21,689,119	6.03%
Non interest earning assets	<u>30,307,584</u>			<u>27,119,148</u>		
Total assets	\$ 505,555,800			\$ 506,679,195		
<u>LIABILITIES</u>						
Interest bearing transaction accounts	\$ 59,394,974	741,908	1.67%	\$ 79,043,621	1,640,473	2.77%
Savings deposits	64,873,698	1,009,240	2.07%	10,047,950	240,681	3.19%
Customer Time deposits	166,413,419	4,082,026	3.27%	169,831,617	5,542,433	4.35%
Brokered deposits	<u>43,243,473</u>	<u>773,091</u>	<u>2.38%</u>	<u>49,939,531</u>	<u>1,562,406</u>	<u>4.17%</u>
Total deposits	333,925,564	6,606,265	2.64%	308,862,719	8,985,993	3.88%
Federal funds purchased and other short term borrowings	3,795,128	16,737	0.59%	42,934,923	1,034,432	3.21%
Term FHLB Advances	<u>74,664,835</u>	<u>2,015,879</u>	<u>3.60%</u>	<u>69,145,985</u>	<u>1,909,205</u>	<u>3.68%</u>
Total interest bearing liabilities	412,385,527	8,638,881	2.79%	420,943,627	11,929,630	3.78%
Non interest bearing liabilities	37,983,049			41,374,893		
Shareholders' equity	<u>55,187,224</u>			<u>44,360,675</u>		
Total liabilities and shareholders' equity	\$ 505,555,800			\$ 506,679,195		
Net interest income/net interest spread		<u>\$ 10,208,364</u>	<u>2.49%</u>		<u>\$ 9,759,489</u>	<u>2.25%</u>
Net interest margin			<u>2.86%</u>			<u>2.71%</u>

The following table shows the components of each change attributable to rate and volume variances for the nine months ended September 30, 2009 and 2008. The changes in interest due to both rate and volume have been allocated to change due to rate and change due to volume in proportion to the absolute amounts of the changes in each.

	<u>Increase (decrease) due to</u>		
	<u>Rate</u>	<u>Volume</u>	<u>Total</u>
Interest earning assets:			
Short-term investments	\$ (56,647)	\$ 29,175	\$ (27,472)
Securities available-for-sale	85,618	381,129	466,747
Securities held-to-maturity	(32,653)	(251,030)	(283,683)
Total securities	52,965	130,099	183,064
Loans held for sale	(168,882)	341,797	172,915
Commercial Loans:			
Mortgage	(790,387)	1,511,040	720,653
Construction	(523,089)	(1,238,255)	(1,761,344)
Other	(225,580)	(308,747)	(534,327)
Consumer Loans:			
First Mortgage	(257,959)	(434,664)	(692,623)
Junior Mortgage, Primarily HELOC	(574,658)	75,738	(498,920)
Construction	(127,784)	(224,153)	(351,937)
Other	(27,901)	(12,533)	(40,434)
Total loans	(2,527,358)	(631,574)	(3,158,932)
Investment in Federal Home Loan Bank	(19,077)	7,626	(11,450)
Total change in interest income	(2,718,999)	(122,877)	(2,841,876)
Interest bearing liabilities:			
Interest bearing transaction accounts	(553,181)	(345,384)	(898,565)
Savings deposits	(112,152)	880,711	768,559
Customer Time deposits	(1,350,932)	(109,476)	(1,460,407)
Brokered deposits	(601,218)	(188,097)	(789,315)
Total deposits	(2,617,483)	237,754	(2,379,729)
Federal funds purchased and other short term borrowings	(480,985)	(536,711)	(1,017,695)
Term FHLB Advances	(43,064)	149,738	106,674
Total change in interest expense	(3,141,532)	(149,219)	(3,290,750)
Increase in net interest income	\$ 422,533	\$ 26,342	\$ 448,875

Magna recorded a provision for loan losses of \$46,211 in the third quarter of 2009 compared to \$515,960 in 2008. The significant decline in provision was attributable to the reduction in the outstanding balances of loans resulting from the sale of loans to Reliant Bank and to stabilizing credit quality in the form of classified assets and non performing loans. At September 30, 2009, the general component of the allowance for loan losses totaled \$4.9 million compared to \$4.6 million at December 31, 2008. In arriving at the level of allowance for loan loss at September 30, 2009, Magna maintained its “worst case” economic outlook, which resulted in an environmental factor loan loss allowance of approximately \$745,000 or 20% of general allowance for loan loss. The environmental factor impacts the allowance for loan loss by decreasing the allowance by 15% of general allowance for loan loss in a strong economy and by increasing the allowance by 20% in a weak economy.

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

	<u>Three Months Ended September 30,</u>		<u>Nine months Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Beginning balance	\$ 5,744,611	\$ 3,877,766	\$ 5,283,639	\$ 3,132,332
Provision for loan losses	46,211	515,960	860,871	1,410,447
Charge-off of uncollectible loans	(765,456)	(196,557)	(1,119,144)	(345,610)
Ending balance	<u>\$ 5,025,366</u>	<u>\$ 4,197,169</u>	<u>\$ 5,025,366</u>	<u>\$ 4,197,169</u>

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

Total non-interest income, which is sourced primarily from mortgage banking, mortgage servicing, and loan brokerage, totaled \$4.9 million and \$798,553 and \$12.3 million and \$7.3 million for the three and nine months ended September 30, 2009 and 2008, respectively. The amounts reported for 2009 include the profit from the sale of the Brentwood branch; both fiscal periods were negatively impacted by other than temporary impairment charges relating to securities, as seen in the following table (for purposes of this table, amortization expense and impairment recovery related to mortgage servicing rights has been deducted from or added to mortgage servicing revenue to give a clearer picture of the net revenue contribution of servicing activities).

	<u>Three months ended September 30,</u>		<u>Increase</u>	<u>Nine months ended September 30,</u>		<u>Increase</u>
	<u>2009</u>	<u>2008</u>	<u>(Decrease)</u>	<u>2009</u>	<u>2008</u>	<u>(Decrease)</u>
Mortgage banking	\$ 2,194,877	\$ 1,925,404	\$ 269,473	\$ 7,454,341	\$ 5,839,017	\$ 1,615,324
Mortgage servicing, net of amortization	442,404	549,548	(107,144)	1,746,060	1,537,261	208,799
Loan brokerage	-	-	-	78,750	412,565	(333,815)
Other than temporary impairment charge on securities	(138,000)	(2,383,600)	2,245,600	(138,000)	(2,383,600)	2,245,600
Gain on branch sale	1,756,559	-	1,756,559	1,756,559	-	1,756,559
Other income	159,788	315,215	(155,427)	435,332	580,818	(145,486)
	<u>\$ 4,415,628</u>	<u>\$ 406,567</u>	<u>\$ 4,009,061</u>	<u>\$ 11,333,042</u>	<u>\$ 5,986,061</u>	<u>\$ 5,346,981</u>

Mortgage banking, which is the largest investment in terms of management, human resources and support within our Company, is particularly sensitive to changes in interest rates, and can be rapidly affected by competitive pressures. The following tables summarize changes in mortgage loan origination volume, by operating region, for the periods indicated:

	<u>Memphis</u>	<u>Little Rock</u>	<u>Nashville</u>	<u>Chattanooga</u>	<u>Total</u>
<i>Three months ended September 30:</i>					
2008	\$ 47,987,647	\$ 6,893,190	\$ 22,673,904	\$ 5,981,302	\$ 83,536,043
2009	<u>50,930,596</u>	<u>7,888,395</u>	<u>20,972,199</u>	<u>8,183,595</u>	<u>87,974,785</u>
<i>Increase (decrease):</i>	<u>\$ 2,942,949</u>	<u>\$ 995,205</u>	<u>\$ (1,701,705)</u>	<u>\$ 2,202,293</u>	<u>\$ 4,438,742</u>
<i>Percent Change</i>	<u>6.1%</u>	<u>14.4%</u>	<u>-7.5%</u>	<u>36.8%</u>	<u>5.3%</u>
	<u>Memphis</u>	<u>Little Rock</u>	<u>Nashville</u>	<u>Chattanooga</u>	<u>Total</u>
<i>Nine months ended September 30:</i>					
2008	\$ 148,745,870	\$ 16,608,215	\$ 69,995,958	\$ 16,851,934	\$ 252,201,977
2009	<u>205,995,448</u>	<u>27,980,886</u>	<u>73,813,307</u>	<u>22,971,419</u>	<u>330,761,060</u>
<i>Increase (decrease):</i>	<u>\$ 57,249,578</u>	<u>\$ 11,372,671</u>	<u>\$ 3,817,349</u>	<u>\$ 6,119,485</u>	<u>\$ 78,559,083</u>
<i>Percent Change</i>	<u>38.5%</u>	<u>68.5%</u>	<u>5.5%</u>	<u>36.3%</u>	<u>31.1%</u>

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

	Three months ended		Nine months ended	
	2009	2008	2009	2008
Purchase mortgage	462	458	1,179	1,259
Refinance mortgage	68	30	608	193
	<u>530</u>	<u>488</u>	<u>1,787</u>	<u>1,452</u>
	87.2%	93.9%	66.0%	86.7%
	12.8%	6.1%	34.0%	13.3%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

In addition to its residential mortgage banking activities, the Company operates a commercial real estate mortgage banking group whose investors include life insurance companies and other banks. Due to the lack of a market for commercial real estate loans, this group had no origination activity during the quarter ended September 30, 2009 and \$10.5 million for the nine months ended September 30, 2009. For 2008, this group had no originations in the third quarter and \$74.8 million for the year to date period. Total brokerage fees earned in 2009 were \$78,750 compared to \$412,565 for 2008.

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

	<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>
2008						
Gross servicing fees	\$ 762,340	64,197	\$ 826,537	\$ 2,359,478	182,004	\$ 2,541,482
Late charges and other ancillary reve	174,501	-	174,501	498,744	-	498,744
Gross servicing revenue	936,841	64,197	1,001,038	2,858,222	182,004	3,040,226
Servicing asset amortization	383,616	8,369	391,985	1,267,265	25,328	1,292,593
Guaranty fees and loan pay-off intere	39,212	-	39,212	140,886	-	140,886
Other servicing expenses	20,292	-	20,292	69,485	-	69,485
Gross servicing expenses	443,120	8,369	451,489	1,477,636	25,328	1,502,964
Net servicing revenue	493,721	55,828	549,549	1,380,586	156,676	1,537,262
2009						
Gross servicing fees	\$ 746,563	67,947	\$ 814,510	\$ 2,170,920	205,385	2,376,305
Late charges and other ancillary reve	169,273	-	169,273	495,248	-	495,248
Gross servicing revenue	915,836	67,947	983,783	2,666,168	205,385	2,871,553
Servicing asset amortization	505,217	7,984	513,201	974,709	24,205	998,914
Guaranty fees and loan pay-off intere	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
Increase (decrease)						
Gross servicing fees	\$ (15,777)	3,750	(12,027)	\$ (188,558)	23,381	(165,177)
Late charges and other ancillary reve	(5,228)	-	(5,228)	(3,496)	-	(3,496)
Gross servicing revenue	(21,005)	3,750	(17,255)	(192,054)	23,381	(168,673)
Servicing asset amortization	121,601	(385)	121,216	(292,556)	(1,123)	(293,679)
Guaranty fees and loan pay-off intere	(23,588)	-	(23,588)	(89,927)	-	(89,927)
Other servicing expenses	(7,738)	-	(7,738)	6,135	-	6,135
Gross servicing expenses	90,275	(385)	89,890	(376,348)	(1,123)	(377,471)
Net servicing revenue	\$ (111,280)	\$ 4,135	\$ (107,145)	\$ 184,294	\$ 24,504	\$ 208,798

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

	Three months ended September 30,					
	2009			2008		
	Commercial	Residential	Total	Commercial	Residential	Total
Beginning balance	\$ 132,668	\$ 10,470,279	\$ 10,602,947	\$ 165,688	\$ 11,381,885	\$ 11,547,573
Add: Purchased mortgage servicing rights	-	1,749	1,749	-	42,979	42,979
Capitalized mortgage servicing rights	-	408,626	408,626	-	439,802	439,802
Gross additions to mortgage servicing rights	-	410,375	410,375	-	482,781	482,781
Less: Amortization of mortgage servicing rights	7,984	505,217	513,201	8,369	383,616	391,985
MSR's sold	-	-	-	-	1,230,201	1,230,201
PMSR reclassified to loan premium	-	-	-	-	1,447	1,447
Total reduction to mortgage servicing rights	7,984	505,217	513,201	8,369	1,615,264	1,623,633
Ending balance	\$ 124,684	\$ 10,375,437	\$ 10,500,121	\$ 157,319	\$ 10,249,401	\$ 10,406,721

	Nine months ended September 30,					
	2009			2008		
	Commercial	Residential	Total	Commercial	Residential	Total
Beginning balance	\$ 149,026	\$ 9,138,749	\$ 9,287,775	\$ 182,647	\$ 10,616,761	\$ 10,799,408
Add: Purchased mortgage servicing rights	-	15,906	15,906	-	105,380	105,380
Recovery of prior impairment charges	-	1,060,000	1,060,000	-	-	-
Capitalized mortgage servicing rights	-	2,195,354	2,195,354	-	2,026,174	2,026,174
Gross additions to mortgage servicing rights	-	3,271,260	3,271,260	-	2,131,554	2,131,554
Less: Amortization of mortgage servicing rights	24,205	2,034,709	2,058,914	25,328	1,267,265	1,292,593
MSR's sold	-	-	-	-	1,230,201	1,230,201
PMSR reclassified to loan premium	-	-	-	-	1,447	1,447
Total reduction to mortgage servicing rights	24,205	2,034,709	2,058,914	25,328	2,498,913	2,524,241
Ending balance	\$ 124,821	\$ 10,375,300	\$ 10,500,121	\$ 157,319	\$ 10,249,402	\$ 10,406,721

Non-interest expense for the quarter and year to date periods ended September 30, 2009 increased by \$826,704 and \$587,546, respectively, compared to the year earlier periods. The quarterly increase between years is primarily attributable to the \$504,866 prepayment penalty incurred on early payoff of \$9.0 million of FHLB term advances coupled with higher levels of servicing amortization. These same two factors plus the imposition of the \$230,000 FDIC special deposit insurance assessment contributed to the year to date increases between the two years. Occupancy expenses were also higher for the quarter and year to date periods due to opening the Poplar/Forest Hill branch in November of 2008.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Rent & office occupancy	\$ 481,901	\$ 494,110	\$ 1,461,781	\$ 1,418,719
Maintenance & repairs	52,312	47,881	152,433	120,944
Depreciation expense	199,208	200,191	612,377	555,033
Telecommunications	30,563	37,457	92,895	103,859
Total occupancy and equipment expense	\$ 763,984	\$ 779,639	\$ 2,319,486	\$ 2,198,555

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Data processing	\$ 233,520	\$ 206,389	\$ 702,152	\$ 589,468
Printing and office supplies	32,339	47,227	142,130	180,564
Directors' Fees	57,750	61,250	200,250	211,500
Postage, shipping and delivery	52,410	49,465	164,607	161,544
Travel and entertainment	45,954	44,145	120,809	150,791
Bank fees and service charges	44,697	42,173	123,260	117,946
Provision for loan repurchase and FHA/VA claim losses	134,000	33,000	288,000	184,103
Other	170,790	177,639	481,541	508,645
Total other expense	<u>\$ 771,460</u>	<u>\$ 661,287</u>	<u>\$ 2,222,749</u>	<u>\$ 2,104,561</u>

Income taxes. The primary difference in 2009 between the Company's effective combined federal and state rates and the statutory corporate income tax rate is due primarily to state income taxes and certain expenses not deductible for income tax purposes. The primary difference in 2008 is the valuation allowance on the FNMA and FHLMC impairment charge and nontaxable dividends received on preferred stocks held in the available for sale category. Deferred taxes are provided for in accordance with accounting principles generally applied in the United States of America. Deferred tax assets are reviewed quarterly for recoverability.

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

At September 30, 2009 and December 31, 2008, the total amount of un-drawn lines and letters of credit was \$72.7 and \$89.1 million, as follows:

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
Commitments under:		
Term loan obligations	\$ 8,893,489	\$ 17,131,289
Undrawn letters of credit	5,000,289	7,061,703
Revolving lines, primarily home equity lines of credit	58,796,736	64,901,471
	<u>\$ 72,690,514</u>	<u>\$ 89,094,463</u>

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

Liquidity and capital resources. For the nine months ended September 30, 2009, the Company's operating activities provided \$2.8 million of available cash. Investing activities, primarily paydowns or payoffs in securities and loans, provided \$17.5 million. Financing activities used \$21.4 million of available cash to retire short-term unsecured and long-term FHLB advances. During the third quarter of 2009, we sold \$41.8 million in deposits and retired \$12.8 million of brokered deposits as we sought to reduce this source of funding to not more than 10% of total deposits. Because brokered deposits are readily available, aid in asset/liability re-pricing strategies and are often a cheaper source of funds than retail customer deposits, we intend to continue their use as part of our overall balance sheet funding strategy.

While we expect to be able to continue to attract new retail customer deposits, it is anticipated that the Company will continue to mix borrowings (including brokered deposits) and deposits to fund balance sheet growth over the next year.

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

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

Magna maintains secured borrowing facilities with both the Federal Reserve Bank of St. Louis (the “Fed Facility”) and the Federal Home Loan Bank of Cincinnati (the “FHLB Facility”). The Fed Facility is secured by loans not otherwise eligible as collateral for the FHLB Facility. Effectively, all of Magna’s qualifying loans and securities are pledged at one of the two institutions. Total available borrowing capacity at September 30, 2009 was \$159.6 million, as follows:

	<u>September 30, 2009</u>	<u>December 31, 2008</u>
<i>Short-term credit facilities:</i>		
Twenty-one days or less (unsecured)	\$ 52,300,000	\$ 40,400,000
Up to ninety days (secured)	39,916,967	67,857,849
Subtotal, short term	92,216,967	108,257,849
Long term credit facilities (secured)	67,424,272	60,373,530
Total credit facilities	<u>\$ 159,641,239</u>	<u>\$ 168,631,379</u>

The Company has a variety of sources of funds available, but its primary source is deposits from customers. The Company's deposit acquisition strategy is to rely on a core base of retail time deposits supplemented by lesser amounts of demand and savings deposits. Next, the Company seeks to attract non-retail time deposits (\$100,000 and over) and public deposits. At September 30, 2009, the percentage of time deposits \$100,000 and over to total deposits was 27.6% compared to 37.9% at December 31, 2008. The acquisition of retail deposits is from customers within the Company's market area. Management believes that the rates offered on deposits are competitive with other financial institutions in the Company's market area.

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

Management is of the opinion that the sources of funds discussed above will be sufficient to enable the Company to meet its obligations as they arise and to fund future net growth.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Competition Risks

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

Credit Risks

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

Financing, Funding, and Liquidity Risks

One of the most important aspects of management's efforts to sustain long-term profitability for the Company is the management of interest rate risk (asset/liability management). Management's goal is to maximize net interest income within acceptable levels of interest-rate risk and liquidity. To achieve this goal, management has established guidelines within which it attempts to maintain the amount of "mismatch" between repricing assets and liabilities within specified time frames. At June 30, 2009 (the latest date for which information is available), the Company's net portfolio value, defined as the net present value of all assets and liabilities, both on and off balance sheet, as determined by the Office of Thrift Supervision exceeded 9.0%. Instantaneous rate increases of $\pm 2\%$ at both dates placed the Bank in the "minimal" category for interest rate sensitivity.

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

Management maintains back-up lines of credit with its principal correspondent banks as a supplemental short-term source of liquidity. Management does not presently foresee any particular matters which might immediately threaten its ability to meet its ongoing liquidity needs. Our funding requirements currently are met principally by deposits, financing from other financial institutions, and financing using wholesale funds. The costs of our funding directly impact our costs of doing business and, therefore, can positively or negatively affect our financial results.

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

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

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

Interest Rate and Yield Curve Risks

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

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

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

Regulatory and Legal Risks

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

we could be impacted, due, among other things, to possible increased regulatory burdens, governmental and private party actions alleging non-compliance with state law, and the expense of tracking and complying with the different laws and regulations of various states. During 2008, Magna participated in the Capital Purchase Program under the Troubled Asset Relief Program administered by the U.S. Treasury Department. The provisions of that participation required Magna to modify a number of its internal operations as it regards executive pay, reporting of lending initiatives, monitoring expenditures by category and other aspects of our operations. Consequently, we are exploring the advisability of redeeming the preferred shares we issued including the impact on our capital adequacy and other expansion issues we face. We also face litigation risks from customers, employees (singly or in class actions) and from federal or state regulators. Litigation is an unavoidable part of doing business, and we manage those risks through internal controls, personnel training, insurance, litigation management, our compliance and ethics processes, and other means. However, the commencement, outcome, and magnitude of litigation cannot be predicted or controlled with certainty.

Accounting Estimate Risks

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

Expense Control

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

Lack of an Established Market for our Common Stock

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

Concentration of Mortgage Business

The mortgage division operates in many offices owned by Crye-Leike. Approximately 60% of mortgage division origination volume is derived from referrals by Crye-Leike agents. The offices are leased by Magna primarily on a month-to-month basis. The mortgage division also has a marketing agreement with Crye-Leike, but it does not provide an exclusive mortgage origination network; therefore, we can provide no assurance that historical mortgage origination volume derived from the Crye-Leike relationship will continue in the future.

Insider Ownership

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

**Item 4.
Controls and Procedures**

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

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

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

Part II Other Information

**Item 6.
Exhibits**

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

SIGNATURES

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

Magna Bank
(Registrant)

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

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

Date: November 12, 2009

I, Kirk P. Bailey, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Magna Bank;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows as of, and for the periods presented in, this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a—15(e) 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, 2009

I, David C. Wadlington, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Magna Bank;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows as of, and for the periods presented in, this quarterly report;
4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(e) 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, 2009

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

In connection with the Quarterly Report of Magna Bank (the "Company") on Form 10-Q for the period ending September 30, 2009 as filed with the Office of Thrift Supervision on the date hereof (the "Report"), I, Kirk P. Bailey, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/S/ Kirk P. Bailey

Kirk P. Bailey, Chief Executive Officer

November 12, 2009

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

In connection with the Quarterly Report of Magna Bank (the "Company") on Form 10-Q for the period ending September 30, 2009 as filed with the Office of Thrift Supervision on the date hereof (the "Report"), I, David C. Wadlington, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/S/ David C. Wadlington

David C. Wadlington, Chief Financial Officer

November 12, 2009