THE CARSON MEDLIN COMPANY
Community Bank Bulletin

VALLEY COMMUNITY BANK

Pleasanton, California
www.vcb-ca.com

OTC Bulletin Board: VCBC
August 6, 2008

Current Price (8/05/08)	$7.60	52 Week Price Range	$6.75 - $20.00
Diluted EPS - 6/30/08 trailing 12 mos., core	$0.81	Price / Earnings - 6/30/08 trailing 12 mos., core	9.4x
Diluted EPS - 2008(E), core	$0.67	Price / Earnings - 2008(E), core	11.3x
Diluted EPS - 2009(E)	$0.92	Price / Earnings - 2009(E)	8.3x
Diluted EPS - 2010(E)	$1.12	Price / Earnings - 2010(E)	6.8x
Book Value (6/30/08)	$9.95	Price / Book Value	76%
Annual Dividend	$0.00	Dividend Yield	nil
Shares Outstanding (6/30/08)	1,802,062	Market Capitalization	$13.7 million

- ***Core YTD net income of $0.554 million***
- ***YTD net interest margin of 5.13% is down from high yet still near 90th percentile compared to peers***
- ***Noninterest revenues outpacing peers***
- ***Core profitability down, but still better than peers***
- ***Asset quality: isolated single fraudulent borrower and $4 million chargeoff; otherwise, NPAs still low, reserves adequate***
- ***Plenty of capital to weather today's tough economy***
- ***Stock undervalued, trading significantly under book and less than 10x trailing core earnings***

REPORT SUMMARY

Valley Community Bank (OTC BB: VCBC) is a community banking organization in northern California's East Bay region. Valley Community has above average margins, increasing fee income levels, and relatively efficient operations. The Bank reported a loss in the first half of 2008, due to a $4.2 million chargeoff relating to the unexpected fraud and bankruptcy of one borrower. This, when combined with an exceedingly negative overall environment for bank stocks, has had a considerably negative impact on VCBC's stock, which continues to trade at a significant discount to peers. We believe the credit issue is isolated, the loan portfolio is very healthy, considering the weak economy, and the shares are a very good value at the recent price.

Valley Community Bank, which opened in 1998 in Pleasanton, California, offers a high level of personalized banking services to residents and small to medium sized businesses in Alameda, Contra Costa, Santa Clara, and Santa Cruz Counties through its offices in Pleasanton, Livermore, San Ramon and San Jose. In addition, the Bank operates an SBA Loan division from an office in Santa Cruz. As of June 30, 2008, the Bank had $179 million in assets, $152 million in loans, and $17 million in stockholders' equity.

RECENT FINANCIAL PERFORMANCE

For the first half of 2008, the Bank reported a loss of $1.920 million, compared with net income of $1.036 million in the first half of 2007. The loss was due specifically to one loan of $4.2 million, which was fully secured by marketable securities. However, the collateral was given fraudulently, and on June 6th the customer filed for bankruptcy. Although the Bank is seeking repayment in the bankruptcy, and has filed a lawsuit against third parties believed to be involved in the fraudulent transaction, management decided to charge off the entire amount of the loan in the second quarter. Regulatory capital, while declining as a result of the charge off, remains at well-capitalized levels. As of June 30, Valley Community's Tier 1 and total risk-based capital levels were 10.7% and 11.9%, respectively, both well above 6.0% and 10.0% required to be well-capitalized.

After adjusting earnings to exclude this nonrecurring charge, recurring net income for the first half of 2008 was $0.554 million, a decrease of 47% from the first half of 2007. Recurring EPS decreased 43% to $0.29 per diluted share, the result of net interest margin compression and a double-digit increase in overhead expenses. Although VCBC's asset sensitive balance sheet dropped the net interest margin from 5.59% to 5.13% over the period, it still remained considerably better than peer averages. In comparison, the Bank's peer group of publicly traded California banks with assets between $100 and $300 million had a recent average net interest margin of 4.39%. Noninterest expenses increased 16% over the period, primarily as a result of a 9% increase in salaries and benefits, due to overall franchise growth, and a 29% increase in occupancy and fixed assets expense, due in part to the recent moving of the corporate office to a location with higher rental costs.

Noninterest income for the period increased 61%, due mainly to a 69% increase in the gain on sale of SBA loans and a more than doubling of loan servicing income during the period. Noninterest income, as a percentage of average assets, now stands at 0.91%, compared with a peer average of 0.53%.

Valley Community Bank									**Table 1**
Long Term Financial Performance *									
	Six Months Ended		**Year Ended December 31,**					**Compound Growth Rate**	
($000's except share data)	**6/30/08**	**6/30/07**	**2007**	**2006**	**2005**	**2004**	**2003**	**1 Year**	**4.5 Year**
Total assets	$179,436	$173,044	$167,665	$166,775	$144,547	$131,472	$107,155	4%	12%
Loans, net of unearned income	151,577	140,952	130,005	132,688	107,541	101,533	80,917	8%	15%
Deposits	143,512	146,134	141,376	141,049	121,996	111,586	88,810	-2%	11%
Stockholders' equity	17,935	18,626	19,764	17,443	15,170	13,214	11,838	-4%	10%
Net income	(1,920)	1,036	2,048	2,028	1,870	1,253	611	NM	NM
Net Income (a)	554	1,036	2,028	2,028	1,870	1,253	611	-47%	14%
Shares outstanding	1,802,062	1,788,982	1,793,255	1,781,589	1,771,240	1,759,374	1,743,823	1%	1%
Diluted earnings per share	($1.15)	$0.51	$1.02	$1.01	$0.97	$0.67	$0.40	NM	NM
Diluted earnings per share (a)	$0.29	$0.51	$1.02	$1.01	$0.97	$0.67	$0.40	-43%	9%
Book value per share	9.95	10.42	11.02	9.79	8.57	7.51	6.79	-5%	9%
								Peer Group Average (c)	
ROA (%)	(2.26)	1.21	1.19	1.33	1.33	1.03	0.62	0.16%	
ROA (%)(a)	0.65	1.21	1.19	1.33	1.33	1.03	0.62	0.16%	
ROE (%)	(19.7)	11.5	11.0	12.5	13.2	10.1	6.9	1.7%	
ROE (%)(a)	5.7	11.5	11.0	12.5	13.2	10.1	6.9	1.7%	
Net interest margin (%)	5.13	5.59	5.53	5.78	5.33	4.81	4.44	4.39%	
Noninterest income/avg. assets (%)	0.91	0.56	0.64	0.34	0.59	0.69	0.72	0.53%	
Noninterest expense/avg. assets (%)	4.26	3.64	3.69	3.38	3.23	3.38	3.59	3.95%	
Efficiency ratio	76.4	62.6	63.7	58.5	57.7	65.3	74.3	86.0%	
Loans/deposits (%)	106	96	92	94	88	91	91	92%	
Equity/assets (%)	10.0	10.8	11.8	10.5	10.5	10.1	11.0	12.1%	
Reserves/loans (%)	1.29	1.37	1.37	1.40	1.37	1.31	1.47	1.36%	
Net chargeoff ratio (%)	5.88	0.01	0.15	(0.06)	0.09	(0.01)	0.28	0.16%	
Nonperforming assets ratio (%) (b)	0.41	0.15	0.11	0.17	1.31	0.80	2.98	1.17%	

* Share and per share amounts have been adjusted for stock splits and dividends — Source: CMC, SNL Financial
(a) 2008 data has been adjusted to exclude a nonrecurring additional loan loss provision of $4.192 million during the period
(b) (Loans 90 days past due + nonaccrual loans + OREO)/(loans + OREO)
(c) Recent average of 63 selected publicly traded banks in California between $100-$300 million in total assets

In summary, core profitability, while down significantly from 2007, was still superior to peer averages. Core ROA and ROE for the first half of 2008 were 0.65% and 5.7%, respectively, compared with 1.21% and 11.5% in the prior year period. In comparison, the Bank's peer group averaged a mere 0.16% ROA and 1.7% ROE in this challenging environment.

EARNINGS ESTIMATE

Loan growth stopped in 2007 as management anticipated a weaker economy and became more selective in extending credit. They were right and their discipline is now paying off. As other lenders have contracted, VCBC is seeing a high volume of high quality credits, and loan volume has recently started to accelerate, with loan growth of nearly $22 million in the first half of 2008. We expect total assets to be approximately $200 million by year end. The funding environment remains challenging. With a growing portion of loan growth being funded with relatively higher-cost CDs, we expect to see some additional margin compression in the second half of 2008, with the margin averaging approximately 5% for the full year. We also expect loan loss provisions to rise in conjunction with loan growth to maintain the reserve at approximately 1.3% of loans. Excluding the fraudulent credit discussed earlier, the Bank has had no other chargeoffs this year, and we expect overall asset quality to remain excellent compared to peers. We also expect noninterest expenses for 2008 to be up 14%, due to overall franchise expansion as well as some legal fees associated with the fraudulent credit. **Considering the foregoing, we estimate the Bank will earn approximately $0.740 million in the second half of 2008, for full year 2008 recurring earnings of $1.3 million, or about $0.67 per diluted share. Going forward, we are projecting balance sheet growth of about 15% annually in 2009 and 2010 and earnings of approximately $1.8 million ($0.92 per diluted share) and $2.4 million ($1.12), respectively.**

RECENT STOCK PRICE PERFORMANCE

Bank stocks as a whole have declined significantly over the past year, due to credit concerns, long-term industry-wide margin deterioration, and simply a lack of favor among investors. Over the same period, VCBC shares have experienced an even more precipitous decline in value, dropping 53%, versus 33% for the SNL Bank index and 27% for banks under $250 million in assets. Given VCBC's above average overall fundamentals versus peer banks, we cannot justify this additional disfavor. The current price of $7.60 represents 76% of book value and 9.4x LTM recurring earnings, compared with peer averages of 101% and 23.2x, respectively. We can only conclude that at the current price, VCBC shares are significantly **undervalued**, and have abundant upside potential given the Bank's experienced, conservative management team, historical financial performance, future potential, and excellent local demographic/economic market. If VCBC shares were simply trading at peer average multiples, the share value would be in the range of $13-$14.