



THE CARSON MEDLIN COMPANY

Community Bank Bulletin

VALLEY COMMUNITY BANK

Pleasanton, California

www.vcb-ca.com

OTC Bulletin Board: VCBC

May 12, 2009

| | | | |
|--------------------------------------|-----------|---|------------------|
| Recent Price (5/11/09) | \$5.10 | 52 Week Price Range | \$2.50 - \$10.65 |
| Diluted EPS - trailing 12-mos., core | \$0.17 | Price / Earnings - trailing 12-mos., core | 30.0x |
| Diluted EPS - 2009(E) | \$0.44 | Price / Earnings - 2009(E) | 11.6x |
| Book Value (3/31/09) | \$9.85 | Price / Book Value | 52% |
| Annual Dividend | \$0.00 | Dividend Yield | nil |
| Shares Outstanding (3/31/09) | 1,860,654 | Market Capitalization | \$9.5 million |

- *Positive 1Q09 net income of \$0.136 million*
- *Core profitability down, but still positive and better than peers*
- *Net interest margin down from highs but remains attractive compared with peers*
- *1Q09 overhead to avg. assets down considerably*
- *Despite some modest deterioration, asset quality remains significantly better than peers, and reserves appear adequate*
- *Stock undervalued, trading significantly under book and less than peer averages*

REPORT SUMMARY

Valley Community Bank (OTC BB: VCBC) is a profitable, growing community banking organization in northern California's East Bay region. In what has proven to be an extraordinarily challenging operating environment, Valley Community continues to post significantly above average net interest margins, asset quality, core earnings and profitability, notwithstanding a single, nonrecurring \$4.2 million chargeoff relating to the unexpected fraud and bankruptcy of one borrower. As for the Bank's stock, while shares have rebounded from their early March low, they still trade at a fraction of book value and a discount to peer averages.

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, San Jose and Santa Cruz. As of March 31, 2009, the Bank had \$209 million in assets, \$186 million in loans, and \$24 million in stockholders' equity.

RECENT FINANCIAL PERFORMANCE

For the year ended December 31, 2008, the Bank reported a net loss of \$2.014 million, or -\$1.11 per diluted share, compared with earnings of \$2.048 million in 2007. After adjusting to exclude the \$4.2 million nonrecurring charge (which we discussed in more detail in our previous report), recurring net income for the year was a positive \$0.462 million, or \$0.26 per diluted share. The considerable decline in recurring 2008 earnings was primarily the result of a significantly higher loan loss provision as well as a 59 basis point contraction in the Bank's net interest margin. Excluding the nonrecurring \$4.2 million charge, the provision increased to \$1.593 million in 2008 from \$0.135 in 2007, as a result of ongoing

considerable weakness in the worst real estate market in decades. The Banks net interest margin declined to 4.89% in 2008 from 5.48% in 2007. Margin compression over the period was driven by the declining, historically low interest rate environment and exacerbated by increased levels of loans on nonaccrual status which hampered the overall yield on loans. In 2008 alone, the Fed lowered its target federal funds rate seven times, for a total of over 400 basis points, and it now stands at zero to 0.25%, its lowest level on record. These rapid declines in interest rates can have a significant negative effect on margins, as earning assets at asset sensitive community banks such as Valley Community tend to reprice faster than do interest-bearing liabilities. Despite recent compression, the Bank's margin remains superior to peer averages. As a comparison, Valley Community's peer group of publicly traded California community banks with assets between \$100 and \$300 million had an average net interest margin of 4.26% in 2008, putting the Bank's margin for the year in the top 18th percentile vs. peers.

Similar factors were in play in 1Q09, with earnings continuing to be limited by increased provisions and further negative pressure on margins, with a drop in fee income as a result of lack of gains on the sale of SBA loans contributing as well. Net income for the quarter was \$0.136 million, down 52% from 1Q08 earnings. However, in this intensely challenging environment, any positive earnings is no small achievement. Approximately 60% of the Bank's California peers posted negative earnings in 2008, and much of the available 1Q09 peer data suggests that trend is continuing.

One area of significant improvement in the first quarter was in overhead expenses, which increased a modest 2% from 1Q08 despite balance sheet growth of over 25%. This has improved the

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TAMPA

RALEIGH

HOUSTON

ATLANTA

SALT LAKE CITY

Valley Community Bank **Table 1**
Long Term Financial Performance *

| (\$000's except share data) | Three Months Ended | | Year Ended December 31, | | | | | Compound Growth Rate | |
|-------------------------------------|--------------------|-----------|-------------------------|-----------|-----------|-----------|-----------|-------------------------------|-----------|
| | 3/31/2009 | 3/31/2008 | 2008 | 2007 | 2006 | 2005 | 2004 | 1 Year | 4.25 Year |
| Total assets | \$208,533 | \$164,214 | \$209,384 | \$167,665 | \$166,775 | \$144,547 | \$131,472 | 27% | 11% |
| Loans, net of unearned income | 185,669 | 140,835 | 175,797 | 130,005 | 132,688 | 107,541 | 101,533 | 32% | 15% |
| Deposits | 168,296 | 137,396 | 175,904 | 141,376 | 141,049 | 121,996 | 111,586 | 22% | 10% |
| Stockholders' equity | 23,877 | 20,141 | 18,252 | 19,764 | 17,443 | 15,170 | 13,214 | 19% | 15% |
| Net income, stated | 136 | 282 | (2,014) | 2,048 | 2,029 | 1,870 | 1,253 | -52% | -18% |
| Net income, recurring (a) | 136 | 282 | 462 | 2,048 | 2,029 | 1,870 | 1,253 | -52% | -18% |
| Shares outstanding | 1,860,654 | 1,802,062 | 1,854,379 | 1,793,255 | 1,781,589 | 1,771,240 | 1,759,374 | 3% | 1% |
| Diluted earnings per share | \$0.07 | \$0.15 | (\$1.11) | \$1.05 | \$1.05 | \$0.97 | \$0.67 | -53% | -18% |
| Diluted earnings per share (a) | \$0.07 | \$0.15 | \$0.26 | \$1.05 | \$1.05 | \$0.97 | \$0.67 | -53% | -18% |
| Book value per share | 9.85 | 11.18 | 9.84 | 11.02 | 9.79 | 8.57 | 7.51 | -12% | 7% |
| | | | | | | | | Peer Group Average (c) | |
| ROA (%) | 0.25 | 0.67 | (1.09) | 1.19 | 1.33 | 1.33 | 1.03 | (0.87%) | |
| ROA (a) | 0.25 | 0.67 | 0.25 | 1.19 | 1.33 | 1.33 | 1.03 | (0.87%) | |
| ROE (%) | 2.6 | 5.7 | (10.7) | 11.0 | 12.5 | 13.2 | 10.1 | (5.7%) | |
| ROE (a) | 2.6 | 5.7 | 2.5 | 11.0 | 12.5 | 13.2 | 10.1 | (5.7%) | |
| Net interest margin (%) | 4.48 | 5.09 | 4.89 | 5.48 | 5.78 | 5.33 | 4.81 | 4.26% | |
| Noninterest income/avg. assets (%) | 0.37 | 0.87 | 0.87 | 0.69 | 0.34 | 0.59 | 0.69 | 0.46% | |
| Noninterest expense/avg. assets (%) | 3.41 | 4.27 | 4.05 | 3.69 | 3.38 | 3.23 | 3.38 | 4.06% | |
| Efficiency ratio | 78.0 | 77.7 | 75.8 | 63.6 | 58.5 | 57.7 | 65.3 | 94.1% | |
| Loans/deposits (%) | 110 | 103 | 100 | 92 | 94 | 88 | 91 | 94% | |
| Equity/assets (%) | 11.4 | 12.3 | 8.7 | 11.8 | 10.5 | 10.5 | 10.1 | 12.6% | |
| Reserves/loans (%) | 1.73 | 1.29 | 1.78 | 1.37 | 1.40 | 1.37 | 1.31 | 1.82% | |
| Net chargeoff ratio (%) (a) | 0.44 | 0.00 | 0.16 | 0.15 | (0.06) | 0.09 | (0.01) | 1.10% | |
| Nonperforming assets/assets (%) (b) | 0.60 | 0.09 | 0.30 | 0.09 | 0.13 | 0.98 | 0.62 | 2.27% | |

* Share and per share amounts have been adjusted for stock splits and dividends

(a) 2008 data has been adjusted to exclude a nonrecurring charge of \$4.192 million during the period

(b) NPAs = Loans 90 days past due + nonaccrual loans + OREO

(c) Recent average of 69 selected publicly traded banks in California between \$100-\$300 million in total assets

Source: CMC, SNL Financial

Bank's noninterest expense to average assets ratio, a common measure of efficiency, to 3.41% from 4.27% in 1Q08, a level that is now noticeably better than peers.

ASSET QUALITY

Financial institutions across the country are experiencing an industry-wide drastic deterioration in asset quality, as our nation is in the throes of one of the worst recessions in nearly a century, and California banks have seen some of the most severe conditions. From 2007 to 2008, the average nonperforming assets ("NPAs") to total assets ratio for the Bank's peer group increased from 0.53% (with a median value of 0.00%) to 2.27%. Valley Community fared markedly better, experiencing a relatively modest 21 basis point increase, to 0.30%, a figure particularly laudable given their loan growth during the year. While NPAs nearly doubled at the Bank in the first quarter of 2009, the current value of 0.60% of assets remains a small fraction of peer levels. Net chargeoffs ("NCOs") have also been skyrocketing at peer institutions, where NCOs to average loans has increased from and average of 0.19% (with a median value of 0.00%) in 2007 to 1.10% in 2008. While the company's stated NCOs for the year were even higher, the vast majority of that figure was the result of the aforementioned single, nonrecurring fraudulent credit. Excluding that, the Bank's net chargeoff ratio in 2008 was 0.16%, considerably better than peers and an outstanding figure in these economic circumstances. While NCOs also increased in 1Q09, they remain superior to peers.

As mentioned earlier, these levels of credit quality issues have devastated bank earnings, as evidenced by a -0.87% average ROA for the Bank's peer group in 2008. Valley community's core ROA, excluding the one-time provision for the fraudulent credit, was 0.25%, placing their core profitability in the top quartile versus peers.

EARNINGS ESTIMATE

Despite the overall economic environment, Valley Community seems to be seeing a healthy volume of relatively high quality credits, and we expect the Bank's balance sheet to continue to expand, with estimated growth of approximately 10-15% in 2009. While we do expect to see some additional nonperforming assets and chargeoffs through the remainder of the year, we think they will remain manageable, allowing the company to maintain a healthy loan loss reserve without having to completely wipe out quarterly earnings with huge provisions. We also expect to see margins contract a bit further from their 2008 levels as a result of the interest rate environment, and only modest, incremental growth in overhead expenses for the remainder of 2009. Taking all these factors into account, we expect the Bank will earn between \$800,000 and \$1 million for the year, and **we are issuing a 2009 diluted EPS estimate of \$0.44.**

RECENT STOCK PRICE PERFORMANCE

After a disastrous run that began in mid-2007, where the S&P 500 lost more than half its value and financial stocks fared considerably worse, community bank and thrift stocks finally stabilized somewhat in March of '09, and are now beginning to show some noticeable gains. So far in 2009, an SNL Financial index of banks under \$250 million in assets is down 3%, while banks as a whole are down 9%, and the S&P is now up 1%. By comparison, VCBC shares have decreased 15% over the same period. At a recent price of \$5.10, VCBC is trading at just 52% of book value, compared with the peer group average of 69%. Given the Bank's record of superior financial performance, current enviable asset quality in a tremendously difficult credit environment, and excellent local demographic/economic markets, we would expect shares to be trading at a premium to peers, not a discount, and we believe they remain undervalued at their current price level.

This report may contain forward-looking statements which are based on current assumptions and expectations that are subject to risks and uncertainties, including those described by the subject company of this report in its filings with the Securities and Exchange Commission. Accordingly, any forward-looking statements included herein speak only as of the date hereof, and actual results may differ significantly from those conjectured in this report; neither the subject company nor The Carson Medlin Company undertake any obligation to update or revise any forward-looking statements for changes in circumstances in the future.

Valley Community Bank Pleasanton, CA

Price: \$5.10 04/30/09
OTCBB VCBC

Financial Highlights as of March 31, 2009

| | | | | | |
|-------------------------|---------|------------------------|---------|--------------------------------|-----------|
| Total Assets (\$000) | 208,533 | ROAE (%) | 2.58 | Current Dividend Yield (%) | 0.00 |
| Market Value (\$M) | 9.5 | ROAA (%) | 0.25 | Avg Daily Volume (Shares) | 0 |
| Price/ Tang Book (%) | 51.8 | Efficiency Ratio (%) | 78.28 | Common Shares Outstanding | 1,860,654 |
| Price/ Book (%) | 51.8 | Reserves/ Loans (%) | 1.73 | Total Equity/ Total Assets (%) | 11.45 |
| Price/ LTM Earnings (x) | NM | Total Deposits (\$000) | 168,295 | Book Value per Share (\$) | 9.85 |



Stock Price History:

| VCBC | High | Low |
|---------------------------|---------|--------|
| Last Month: | \$5.50 | \$4.50 |
| 3 Months: | \$6.00 | \$2.50 |
| YTD: | \$7.49 | \$2.50 |
| 3 Years: | \$20.00 | \$2.50 |
| 1 Month Total Return (%): | (7.27) | |
| 3 Month Total Return (%): | (15.14) | |
| YTD Total Return (%): | (15.00) | |
| 3 Year Total Return (%): | (72.23) | |

The Executive Team

| | |
|-----|---------------------|
| CEO | Richard P. Loupe |
| CFO | Rebecca I. Holowich |
| CCO | Greg J. Hickel |

Comparable Deal Analysis*

| Region: West Previous 2 Years | Median | VCBC |
|-------------------------------|--------|------|
| Price/Book Value (%) | 229.0 | 51.8 |
| Price/Tang. Book Value (%) | 244.2 | 51.8 |
| Price/LTM EPS (x) | 24.2 | NM |
| Price/Assets (%) | 20.2 | 4.7 |

* Based on Asset Size at Announcement

Company Profile

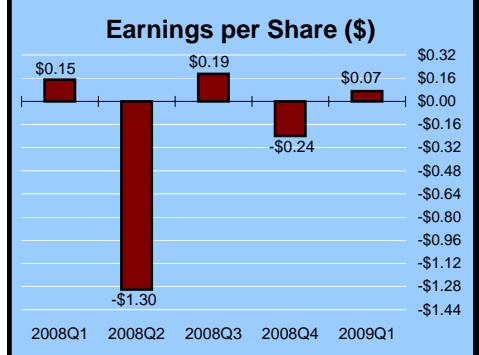
Valley Community Bank, ticker symbol VCBC, is a 10 year old bank headquartered in Pleasanton, CA that began operations August 10, 1998.

As of March 31, 2008, Valley Community Bank reported assets of \$209 million, up 27% from the first quarter of 2008; net loans of \$182 million, up 31%; and total deposits of \$168 million, up 22%. While the bank's reported loans were dominated by commercial real estate, Valley Community Bank had a strong 17% of total loans in C&I. The bank also reported 18% of total deposits were noninterest bearing.

Valley Community Bank offers a wide range of personal and business banking services for the Bay Area. The bank operates five branches that serve the communities within the counties of Alameda, Santa Clara, Contra Costa and Santa Cruz.

Growth Rates

| | YTD | LTM |
|-----------------------|-------|------|
| Asset Growth (%) | -1.6 | 27.0 |
| Deposit Growth (%) | -17.3 | 22.5 |
| EPS Growth (%) | -53.3 | NM |
| Loan Growth (%) | 22.7 | 31.3 |
| Net Income Growth (%) | -51.8 | NM |



Market Share and Demographic Profile

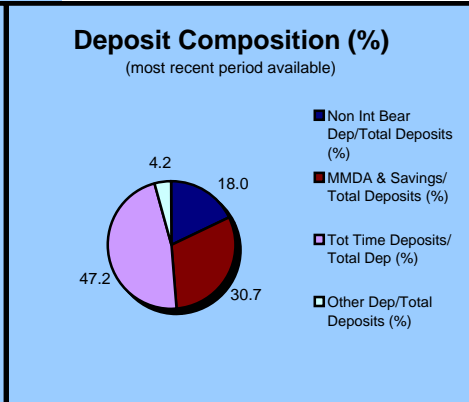
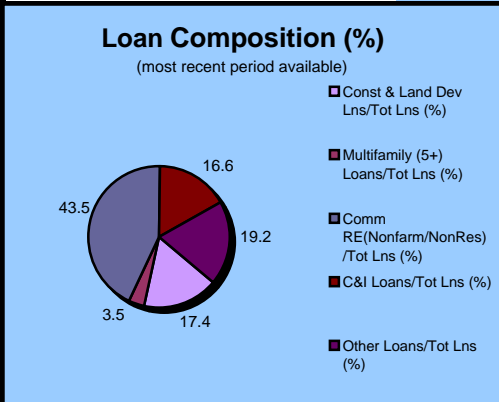
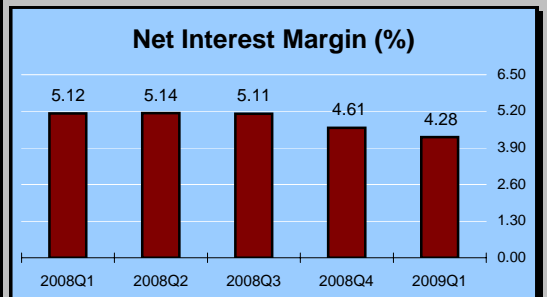
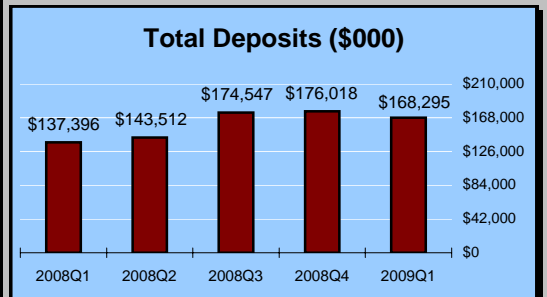
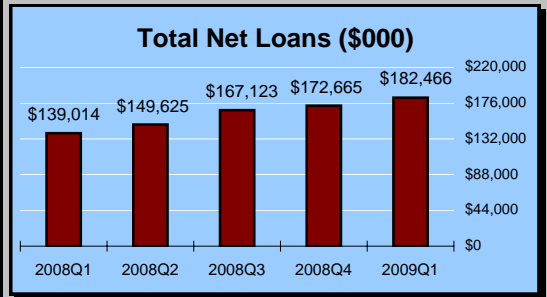
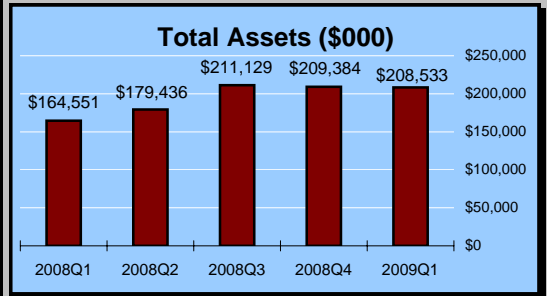
| | Deposit | Population | Proj. Pop. | Median | HH Inc. | Pro. HH |
|--------------------------------------|--------------|--------------|-------------|---------------|--------------|--------------|
| | Market Share | Change | Change | HH Inc. | Change | Inc. Change |
| | 2000-2008 | 2008-2013 | 2008-2013 | 2008 | 2000-2008 | 2008-2013 |
| | (%) | (%) | (%) | (\$) | (%) | (%) |
| California (CA) | | | | | | |
| Alameda | 0.34 | 4.14 | 2.16 | 75,216 | 34.02 | 17.33 |
| Santa Clara | 0.07 | 6.34 | 4.54 | 100,041 | 34.43 | 15.39 |
| Contra Costa | 0.05 | 11.74 | 6.12 | 83,637 | 31.40 | 20.02 |
| Santa Cruz | 0.00 | 2.62 | 1.32 | 72,326 | 33.89 | 19.93 |
| Aggregate: Entire State of CA | | 11.81 | 6.84 | 61,779 | 29.73 | 16.17 |
| Aggregate: National | | 9.91 | 6.3 | 54,749 | 29.85 | 16.97 |





CB PROFILE™

| Financial Trends 03/31/09 | 2009Q1 | 2008Q4 | 2008Q3 | 2008Q2 | 2008Q1 |
|--|---------|---------|---------|---------|---------|
| Total Net Loans (\$000) | 182,466 | 172,665 | 167,123 | 149,625 | 139,014 |
| Total Assets (\$000) | 208,533 | 209,384 | 211,129 | 179,436 | 164,551 |
| Deposits (\$000) | 168,295 | 176,018 | 174,547 | 143,512 | 137,396 |
| Total Equity (\$000) | 23,876 | 18,252 | 18,326 | 17,935 | 20,140 |
| Tangible Book Value Per Share (\$) | 9.85 | 9.84 | 10.17 | 9.95 | 11.18 |
| Net Interest Income, FTE (\$000) | 2,176 | 2,226 | 2,204 | 1,997 | 1,964 |
| Loan Loss Provision (\$000) | 270 | 1,190 | 240 | 4,320 | 35 |
| Total Noninterest Income (\$000) | 200 | 206 | 525 | 415 | 358 |
| Gain/ Loss on Sale of Securities (\$000) | 0 | 0 | 0 | 0 | 0 |
| Amortization of Intangibles (\$000) | 0 | 0 | 0 | 0 | 0 |
| Total Noninterest Expense (\$000) | 1,860 | 2,006 | 1,886 | 1,812 | 1,804 |
| Net Nonrecurring Items (\$000) | 0 | 0 | 0 | 0 | 0 |
| Net Income (\$000) | 136 | -447 | 353 | -2,202 | 282 |
| Earnings per Share (\$) | 0.07 | -0.24 | 0.19 | -1.30 | 0.15 |
| EPS Growth (year over year) (%) | -53.3 | NM | -40.6 | NM | -44.4 |
| Return on Average Assets (%) | 0.25 | -0.85 | 0.74 | -5.16 | 0.67 |
| Return on Average Equity (%) | 2.58 | -9.78 | 7.79 | -46.27 | 5.65 |
| Core ROAE % | 2.58 | -9.78 | 7.79 | -46.27 | 5.65 |
| Net Interest Margin (%) | 4.28 | 4.61 | 5.11 | 5.14 | 5.12 |
| Efficiency Ratio (%) | 78.28 | 82.48 | 69.11 | 75.12 | 77.69 |
| Noninterest Inc/ Operating Rev (%) | 8.38 | 12.98 | 19.32 | 16.91 | 15.79 |
| Tangible Equity/Tangible Assets (%) | 11.19 | 8.44 | 8.40 | 9.74 | 12.02 |
| Nonperf. Assets/ Assets (%) | 0.42 | 0.68 | 0.68 | 0.35 | 0.09 |
| NCOs/ Avg Loans (%) | 0.44 | 0.05 | 0.56 | 11.43 | 0.00 |
| Reserves/ Loans (%) | 1.73 | 1.78 | 1.16 | 1.29 | 1.29 |



Peer Group Comparison

| Ticker | Company Name | State | Total Assets (\$000) | Market Value (\$M) | Price/LTM EPS (x) | Price/Tang Book (%) | Dividend Yield (%) | ROAA (%) | ROAE (%) | Efficiency Ratio (%) | Tang Equity/Tang Assets (%) | NPA/Assets (%) | NCOs/Avg Loans (%) | Reserves/Loans (%) |
|-------------|------------------------------|-----------|----------------------|--------------------|-------------------|---------------------|--------------------|--------------|--------------|----------------------|-----------------------------|----------------|--------------------|--------------------|
| HTBK | Heritage Commerce Corp | CA | 1,460,743 | 87.0 | NM | 91.5 | 0.00 | -0.26 | -2.44 | 75.25 | 9.41 | 3.77 | 1.14 | 1.97 |
| UABK | United American Bank | CA | 378,100 | 20.2 | NM | 54.7 | 0.00 | -0.49 | -4.94 | 89.34 | 9.75 | 2.94 | 0.71 | 1.69 |
| NCLC | NorCal Community Bancorp * | CA | 264,534 | 7.8 | 49.0 | 28.9 | 0.00 | 0.15 | 1.53 | 69.76 | 10.17 | 5.67 | 0.80 | 1.95 |
| SMAL | Summit Bancshares, Inc. * | CA | 182,168 | 12.4 | 6.0 | 69.0 | 3.95 | 1.14 | 10.69 | 57.44 | 9.82 | 1.80 | 1.88 | 1.55 |
| BCML | Bay Commercial Bank | CA | 112,374 | 11.7 | 50.3 | 74.6 | 0.00 | 0.24 | 1.59 | 83.03 | 13.95 | 0.00 | 0.05 | 1.25 |
| TRVB | Tri-Valley Bank | CA | 94,929 | 3.4 | NM | 30.2 | 0.00 | -2.13 | -16.13 | 119.51 | 11.99 | 3.79 | 1.57 | 2.34 |
| VCBC | Valley Community Bank | CA | 208,533 | 9.5 | NM | 51.8 | 0.00 | 0.25 | 2.58 | 78.28 | 11.45 | 0.42 | 0.44 | 1.73 |
| | Median: | | 223,351 | 12.1 | 49.0 | 61.9 | 0.00 | -0.06 | -0.46 | 79.14 | 10.00 | 3.36 | 0.97 | 1.82 |
| | Average: | | 415,475 | 23.8 | 35.1 | 58.2 | 0.66 | -0.23 | -1.62 | 82.39 | 10.85 | 3.00 | 1.03 | 1.79 |

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