



Valley Financial Corporation ▲

ANNUAL REPORT 2007

To Our Shareholders

March 8, 2008

We are pleased to provide you with our 2007 Annual Report to Shareholders. As promised, our primary focus for 2007 was restoring asset quality to our pre-2006 pristine levels. To that end, we are pleased to advise you that we were successful in resolving our three large problem loan assets subsequent to the end of the year. As a result, we were able to reduce the specific reserves previously set aside for these credits by over \$500,000 during the fourth quarter of 2007. These resolutions will reduce our non-performing assets by nearly 75%, from 1.24% of total assets to just 0.39% of total assets as we head into 2008. Additionally, we took active and prudent steps by charging off in excess of \$2 million in problem loan assets during 2007. These resolutions should impact our net interest margin and the overall earnings picture going forward in a very positive manner. We believe these events, coupled with the \$4.2 million equity capital raised in the private placement offering in the fall of 2007, will enable us to move forward from a position of strength despite the uncertain and unsettling economic environment.

For the year ended December 31, 2007, Valley Financial reported net income of \$2,928,000 compared with \$2,882,000 for the same twelve months of 2006, a 1.6% increase. Diluted earnings per share were \$0.68 in 2007 and 2006, respectively. Diluted earnings per share for 2007 were impacted by the completion of the private placement offering last fall, in comparison to the prior year.

We have continued to see the net interest margin remain under considerable pressure from the intense competition for deposits and the relatively flat yield curve, however, sequentially in 2007, the decline slowed substantially. The net interest margin for the year ending December 31, 2007 was 2.84%, down 30 basis points compared to 3.14% for the same period last year. However, our non-performing assets accounted for a 16 basis point decline during 2007, and in comparison to the same period last year, we did have additional interest expense related to the trust preferred offering completed in December 2006.

At December 31, 2007, Valley Financial's total assets were \$600,967,000, total deposits were \$432,453,000, total loans stood at \$487,164,000, and total shareholders' equity was \$40,716,000. Compared with December 31, 2006, the Company experienced increases of \$9,031,000 or 1.5% in total assets, \$16,112,000 or 3.4% in total loans and \$7,315,000 or 21.9% in shareholders' equity. Deposits actually decreased by \$9,036,000 or 2.0% over the same 12-month period, as we allowed some of our higher cost of fund certificates of deposit to roll off throughout the year in response to a softening in loan demand. Our Prime based money market account continued to attract enthusiasm from customers, as we raised

an additional \$23 million in new deposits with this product during 2007. Additionally, we are extremely excited about our newest deposit product offering, "My LifeStyle Checking", which we introduced in February 2008. Please visit our website at www.myvalleybank.com to learn more!

We have broken ground on our new branch office located in the South Roanoke neighborhood of Roanoke City. This new office, which is ideally situated near the gateway to the Carilion Health System's expanding medical complex, will allow us to offer a full-service branch with drive-through access to our customers. We plan to employ "Green" building processes in the construction and operation of this new office which should be ready to open this summer.

The Company paid its eighth consecutive semi-annual cash dividend in the amount of \$0.07 per share on January 2, 2008 to shareholders of record December 1, 2007. We are committed and pleased to have a consistent track record of providing a tangible return to our shareholders in addition to the overall value of their stock since our Initial Public Offering in 1995.

As we look forward to the continued growth and success of our company, we must continue to focus on the four key constituencies we have identified as the keys to achieving our goals and objectives, those being:

- Our Community
- Our Customers
- Our Employees
- Our Shareholders

We remain committed to attracting and retaining employees who possess an unparalleled desire to achieve, who thrive in a banking environment that provides new challenges and opportunities, and who seek to take this institution to new heights. Our ability to continue to build strong and enduring relationships with our customers coupled with an ability to provide a "unique customer experience" will be, in our opinion, the differentiating factors.

We hope you will be able to attend the 2008 Annual Meeting of Shareholders, which will be at 10:00 a.m. on Wednesday, April 30 at The Shenandoah Club in downtown Roanoke.

I would like to thank you for the confidence and support you have exhibited by investing in Valley Financial Corporation. As always, we welcome your comments and suggestions.

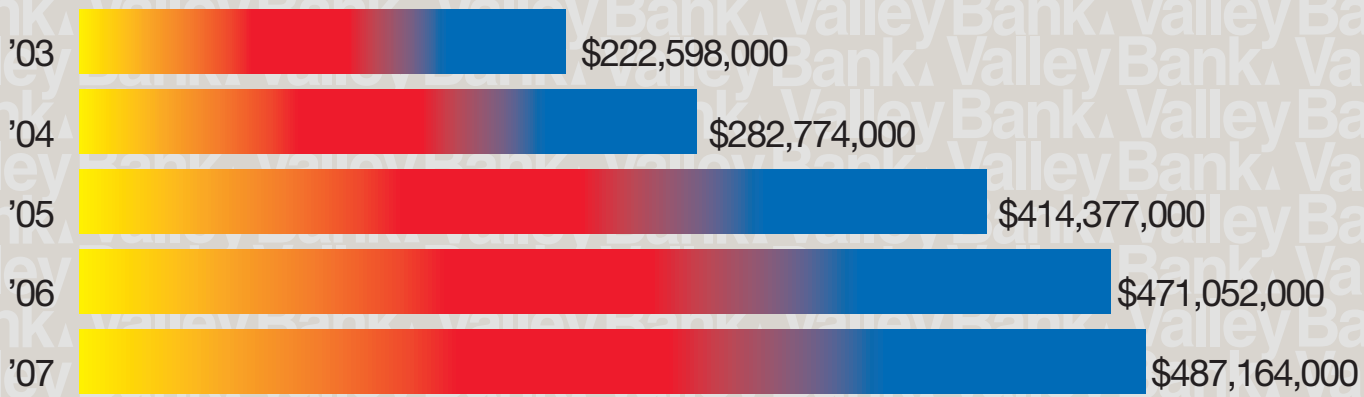


Ellis L. Gutshall
President and
Chief Executive Officer

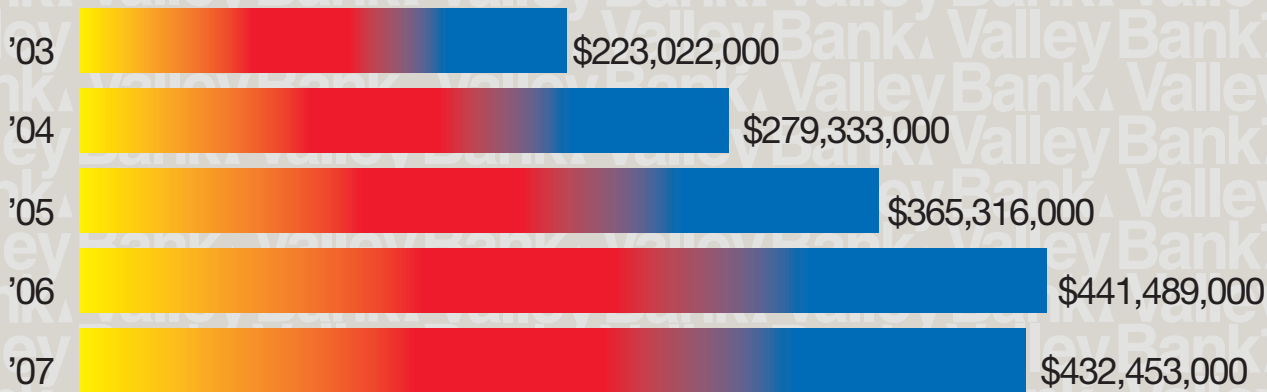
Selected Financial Data

For the Year	2007	2006	2005	2004	2003
Net interest income	\$ 15,600	\$ 15,680	\$ 13,599	\$ 10,929	\$ 9,465
Noninterest income	2,326	2,212	1,596	1,358	1,326
Total revenue, net of interest expense	17,926	17,892	15,195	12,287	10,791
Noninterest expense	12,699	11,338	9,192	7,807	6,454
Provision for loan losses	1,250	2,796	1,297	633	966
Tax provision	1,049	876	1,314	1,023	771
Net income	\$ 2,928	2,882	\$ 3,392	\$ 2,824	\$ 2,600
Per Common Share					
Basic net income	\$ 0.69	0.70	\$ 0.83	\$ 0.75*	\$ 0.71*
Diluted net income	0.68	0.68	0.80	0.70*	0.67*
Cash dividends declared	0.14	0.14	0.13	0.12	0.00
* adjusted as necessary to reflect the 3 for 2 stock split effective May 30, 2002 and the 2 for 1 stock split effective May 31, 2004					
At Year-End					
Assets	\$ 600,967	591,936	\$ 498,949	\$ 373,979	\$ 309,133
Securities	81,085	73,617	57,989	71,475	66,195
Loans, gross	487,164	471,052	414,377	282,774	222,598
Reserve for loan losses	(4,883)	(5,658)	(4,124)	(2,989)	(2,566)
Deposits	432,453	441,489	365,316	279,333	223,022
Short-term borrowings	13,000	25,000	23,000	15,000	15,000
Securities under agreement to repurchase	33,294	21,635	10,802	5,817	4,727
Long-term debt	55,000	48,000	37,000	37,000	37,000
Trust preferred securities	16,496	16,496	11,341	4,124	4,124
Total shareholders' equity	40,716	33,401	30,715	28,316	21,562
Ratios					
Return on average assets	0.50%	0.54%	0.79%	0.82%	0.93%
Return on average equity	8.03%	8.67%	11.42%	12.00%	12.89%
Dividend payout ratio	20.59%	20.51%	16.25%	17.14%	0.00%
Average equity to average assets	6.16%	6.11%	6.93%	6.81%	7.18%

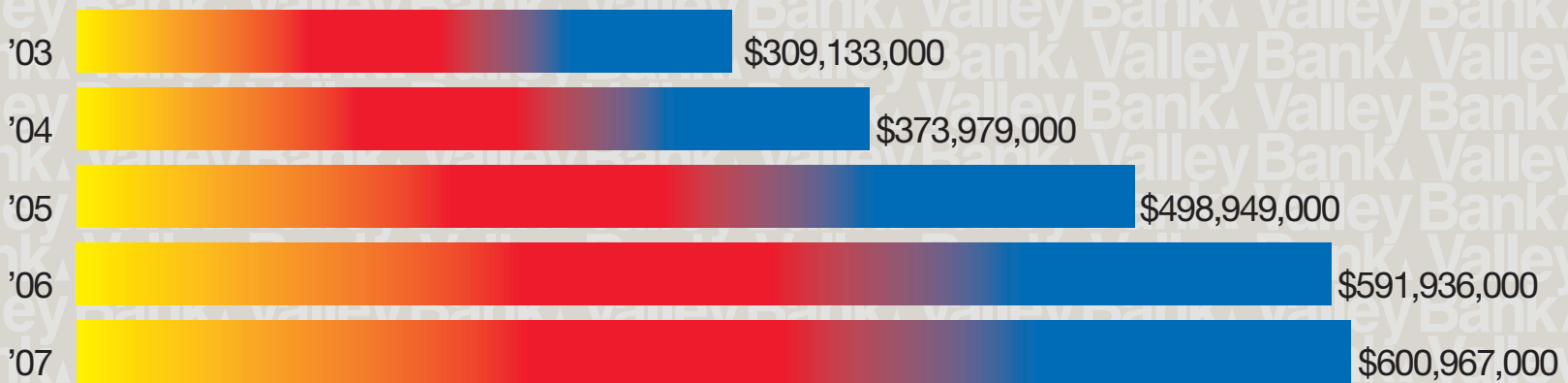
Loans



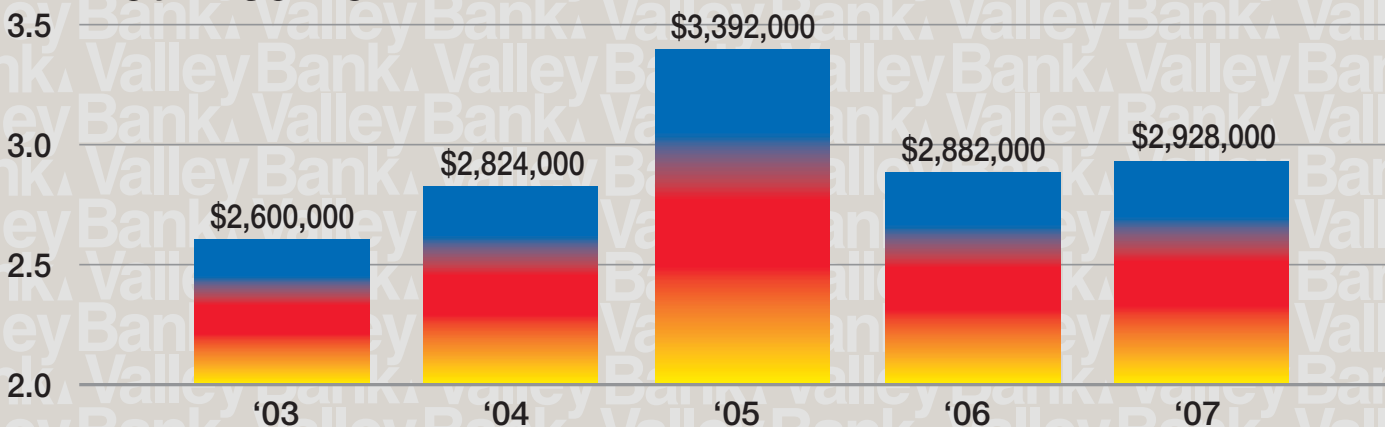
Deposits



Assets



Net Income



Board of Directors



Abney S. Boxley, III
President and Chief
Executive Officer,
Boxley Materials Company



Barbara B. Lemon
Civic Leader



Edward B. Walker
Managing Partner
Regeneration Partners, LLC



William D. Elliot
Chairman, Davis H. Elliot
Company, Inc.



A. Wayne Lewis, Retired
Former Executive
Vice President and Chief
Operating Officer,
Valley Financial Corporation
Valley Bank



Michael E. Warner
Private Investor



James S. Frantz, Jr.
President and Chief
Executive Officer,
Graham-White
Manufacturing Company



Samuel L. Lionberger, Jr.
Chief Executive Officer,
Lionberger Construction
Company



Maury L. Strauss*
Chairman,
Strauss Development Co



Ellis L. Gutshall
President and Chief
Executive Officer,
Valley Financial Corporation
Valley Bank



George W. Logan
Lecturer, Darden Graduate
School of Business
Administration

*Director Emeritus



Mason Haynesworth, Retired
Former Director of
Specialized Audits, Norfolk
Southern Corporation



Geoffrey M. Ottaway
Chairman, Checker
Leasing, Inc.



Eddie F. Hearp
President, National
Financial Services, Inc.



John W. Starr, M.D.
Cardiologist



Anna L. Lawson
Conservationist



Ward W. Stevens, M.D.
Retired Neurosurgeon

Executive Officers



Ellis L. Gutshall
President
Chief Executive Officer



Andrew B. Agee
Senior Vice President
Senior Real Estate Officer



Kimberly B. Snyder, CPA
Executive Vice President
Chief Financial Officer



Edward C. Martin
Senior Vice President
Chief Credit Officer



John T. McCaleb
Senior Vice President
Chief Lending Officer



R. Grayson Goldsmith
Senior Vice President
Head of Business Banking



Mary P. Hundley
Senior Vice President
Chief Risk Officer



Connie W. Stanley
Senior Vice President
Chief Retail Banking Officer



JoAnn M. Lloyd
Senior Vice President
Chief Information Officer



Penny Y. Goodwin
Senior Vice President
Senior Marketing Officer

Officers

- Paige Anderton, Vice President
- Jerry Bradley, Vice President
- Sherry Buckner, Vice President
- Allen Clark, Vice President
- Rhonda Coman, Vice President
- J. Neal Cummings, Vice President
- Sherry Dillon, Vice President
- Nancy Hack, Vice President
- Mark Hancock, Vice President
- Scott Leffel, Vice President
- Shannon Maxey, Vice President
- Randy Nicely, Vice President
- Kimberly Otey, Vice President
- John Register, Vice President
- Karen Rose, Vice President
- Robert Spencer, Vice President
- Robyn Wilson, Vice President
- Dianne Wright, Vice President
- Martha Gish, Assistant Vice President
- Lisa Hamm, Assistant Vice President
- Devi Kapinos, Assistant Vice President
- Michelle Richardson, Assistant Vice President
- Kathleen Warren, Assistant Vice President
- Sabrina Weeks, Assistant Vice President
- Jane Wright, Assistant Vice President
- Kay Brown, Officer
- Donald Burgess, Officer
- Mark Fitzgerald, Officer
- Donna Gardner, Officer
- Barbara Huffman, Officer
- Susan Larkin, Officer
- Leigh Spangler, Officer
- Susan Stump, Officer
- Gregory Whetzel, Officer

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Shareholder Information

Annual Meeting

The 2008 Annual Meeting of Shareholders will be held at 10:00 a.m. on April 30, 2008 at The Shenandoah Club, 24 Franklin Road, Roanoke, Virginia, 24011.

Requests for Information

Requests for information about the Company should be directed to:
Kimberly B. Snyder, CPA
Executive Vice President and
Corporate Secretary
P. O. Box 2740
Roanoke, Virginia 24001
(540) 342-2265

Common Stock Market Information

The Company's Common Stock, no par value, is quoted on the Nasdaq Capital Market under the symbol VYFC. The primary market makers for the stock are Davenport & Company LLC and Scott & Stringfellow, Inc.

Stock Transfer Agent

Registrar & Transfer Company
10 Commerce Drive
Cranford, NJ 07026-3572
(800) 368-5948
info@rtco.com

Independent Auditors

Elliott Davis, LLC
P. O. Box 760
Galax, Virginia 24333

General Counsel

Williams Mullen
Two James Center
1021 East Cary Street
Richmond, Virginia 23219

Web Address

www.myvalleybank.com

Valley Financial Corporation

Valley Bank Offices

Church Avenue Office

36 Church Avenue, SW, Roanoke, VA 24011
(540) 342-BANK (2265) (540) 342-4514 FAX

Grandin Village Office *

1327 Grandin Road Roanoke, VA 24015
(540) 777-1790 (540) 777-1795 FAX

Hershberger Road Office*

1518 Hershberger Road, NW, Roanoke, VA 24012
(540) 362-1332 (540) 362-1544 FAX

Lewis-Gale Office*

3850 Keagy Road, SW, Roanoke, VA 24018
(540) 777-1410 (540) 777-1402 FAX

Salem Office*

8 East Main Street, Salem, VA 24153
(540) 387-4080 (540) 387-4179 FAX

South Roanoke Office*

2203 Crystal Spring Ave., Roanoke, VA 24014
(540) 344-6334 (540) 344-6206 FAX

Starkey Road Office*

4467 Starkey Road, SW, Roanoke, VA 24018
(540) 772-3234 (540) 772-4719 FAX

Vinton Office*

1003 Hardy Road, Vinton, VA 24179
(540) 777-7900 (540) 777-7904 FAX

* 24-Hour ATM on premises

Valley Bank Mortgage

4467 Starkey Road, SW, Roanoke, VA 24018
(540) 777-1740 (540) 772-4719 FAX

Valley Wealth Management

36 Church Avenue, SW, Roanoke, VA 24011
(540) 777-2121

www.myvalleybank.com