United States
Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-KSB

☒ Annual Report Pursuant To Section 13 or 15(d) of The Securities Exchange Act of 1934

For the Fiscal Year ended December 31, 2007

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities and Exchange Act of 1934

For the Transition Period From _________To ________

Commission File Number 000-49863

Tennessee Valley Financial Holdings, Inc.

(Exact name of small business issue as specified in charter)

Tennessee (State or other jurisdiction of incorporation or organization)	**45-0471419** (I.R S. Employer Identification No.)
401 South Illinois Avenue Oak Ridge, TN (Address of Principal Executive Offices)	**37830** (Zip Code)

Registrant's telephone number, including area code: **865-483-9444**

Securities registered pursuant to Section 12(g) of the Act: Common Stock (par value $1.00 per share)

The registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Check if there is no disclosure of delinquent filers in response to items 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. ☒

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

The registrant's revenues for the most recent fiscal year were $14,557,000.

At March 31,2008, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $9,749,696.

As of March 31,2008, registrant had 1,510,431 shares of its $1.00 par value common stock outstanding.

Documents Incorporated by Reference: **Proxy Statement related to 2008 Annual Meeting of Shareholders.**

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

General

Tennessee Valley Financial Holdings, Inc. is a Tennessee business corporation formed for the purpose of acquiring TNBank, a Tennessee banking corporation, which we refer to as the "Bank," by means of a share exchange thereby becoming a registered bank holding company under the Federal Reserve Act. On April 30, 2002, the shareholders of the Bank approved a plan of share exchange under which they exchanged their shares of the Bank, on a one for one basis, for our common shares. The exchange became effective on May 9, 2002. Our only activity is owning the Bank.

The Bank commenced operations as a state chartered bank on May 30, 1995. The Bank's deposit accounts are insured under the Federal Deposit Insurance Act, up to the maximum applicable limits thereof. The Bank is not currently a member of the Federal Reserve System. The Bank has its main office, located in Oak Ridge, and four branch locations, one in Oak Ridge, two located in Knoxville and one located in Maryville.

Our customer base consists of small to medium sized businesses in industries like retail, manufacturing, distribution, and residential real estate construction as well as professionals like doctors, lawyers and accountants. We also serve consumers with our various banking services and products, such as residential real estate mortgages. Our lending activities consist mainly of residential real estate loans, commercial loans and loans to consumers. The majority of our loans are collateralized by real estate. Additionally, we will secure loans with automobiles, commercial equipment, inventory, accounts receivable and other types of collateral. We will also make unsecured loans, but typically only on a limited basis. To mitigate the inherent risk involved in lending activities, we employ a risk management program aimed at identifying, recognizing and reducing these risks where possible.

We offer long term, fixed rate mortgage loans to our customers. Through relationships we have with secondary market investors, we originate mortgage loans and subsequently sell them to secondary market investors for which we receive fee income. We do not retain any servicing rights on these loans sold.

We offer a wide variety of competitive retail and commercial banking services. We offer deposit services including various types of checking, savings, money market, certificate of deposit and individual retirement accounts. Our lending services include consumer installment loans, various types of mortgage loans, personal lines of credit, home equity loans and lines of credit, credit cards, real estate construction and various types of customized commercial loans to small and medium sized businesses and professionals. We also offer safe deposit box, automated teller machine (ATM) services, and drive-thru services at all branch locations. We provide VISA credit cards and are a merchant depository for their credit card drafts. We also offer banking services for our customers on the internet at our World Wide Web address, www.tnbank.net. Customers enrolled in the internet banking product can check balances and activity for their deposit and loan accounts, transfer funds between accounts, pay bills electronically, and access other typical internet banking services. We have trust powers but do not have a trust department presently. We offer retail investment services through a broker/dealer relationship with Linsco/Private Ledger Corporation. These services include brokerage transactions in common stocks, mutual funds and bonds, as well as financial planning services.

The Bank is subject to the regulatory authority of the Tennessee Department of Financial Institutions, which we refer to as the "TDFI" and the Federal Deposit Insurance Corporation, which we refer to as the "FDIC."

The Company's principal executive offices are located at the Bank, at 401 S. Illinois Avenue, Oak Ridge, Tennessee, 37830, and its phone number is (865) 483-9444.

Market Area

Our primary service area encompassing Anderson, Roane, Knox and Blount Counties, includes the cities of Oak Ridge in Anderson and Roane Counties, Clinton in Anderson County and Knoxville and Farragut in Knox County, and Maryville and Alcoa in Blount County. Oak Ridge has long been known for its intellectual resources and strong educational system. The city has been long recognized as a research center, in a large part due to the Oak Ridge National Laboratory and the United States Department of Energy facilities that began during the Manhattan

Project. Oak Ridge's population has remained at around 28,000 for several years. Much of the Oak Ridge economy is related to the federal facilities located here associated with the United States Department of Energy. This makes the Oak Ridge economy somewhat more reliant upon federal budget appropriations, political decisions and international events than typical economic factors. During the early 1990's, these facilities saw reductions in their workforce but recently have had steadier levels of employment.

Employees

At December 31, 2007 we had 59 full-time employees and seven part-time employees. Our employees are not represented by any union or other collective bargaining agreement and we believe our employee relations are satisfactory.

Loan Activities

General. Our primary business emphasis is on making commercial business, commercial real estate and consumer loans. As of December 31, 2007, the net loan portfolio totaled $146.0 million, or 72% of total assets.

Loan Underwriting. Loan activities are subject to underwriting standards and loan origination procedures prescribed by the board of directors and management. We obtain loan applications to determine the borrower's ability to repay, and we verify the more significant items on these applications through the use of credit reports, financial statements and confirmations. Our loan policy for real estate loans generally requires that collateral be appraised by an independent, outside appraiser approved by the board of directors.

Loans are approved at various management levels up to and including the board of directors, depending on the amount of the loan. Loan approvals are made in accordance with delegated authority approved by the board of directors. Generally, loans less than $200,000 are approved by certain authorized officers. The President has individual loan authority up to $200,000. Generally, loans over $200,000 require approval by a committee of the board of directors.

General Loan Policies. For real estate loans, our policy is to have a valid mortgage lien on real estate securing a loan and to obtain a title insurance policy on loans in excess of $100,000, which insures the validity and priority of the lien. Borrowers must also obtain hazard insurance policies prior to closing, and when the property is in a flood prone area, we require flood insurance. Some real estate loans also require the borrower to advance funds on a monthly basis, together with each payment of principal and interest, to a mortgage escrow account from which we make disbursements for items like real estate taxes and property insurance.

We are permitted to lend up to 90% of the appraised value of the real property securing a mortgage loan. The loan-to-value ratio on a home secured by a junior lien generally does not exceed 80% of the collateral, including the amount of the first mortgage. With respect to home loans granted for construction or combination construction/permanent financing, we will lend up to 80% of the appraised value of the property on an "as completed" basis. The loan-to-value ratio on multi-family residential and commercial real estate loans is generally limited to 80% of value. Consumer loans are considered to be loans to natural persons for personal, family or household purposes, and these loans may be unsecured or secured by real or personal property.

The maximum amount which we could have loaned directly to any one borrower as of December 31, 2007, was approximately $4.6 million. Our largest loan relationship is $2.4 million consisting of several loans secured by commercial real estate and residential real estate, which were made prior to December 31, 2007.

Interest rates charged on loans are affected principally by competitive factors, the demand for loans and the supply of funds available for lending purposes. These factors are, in turn, affected by general economic conditions, monetary policies of the federal government, including the Federal Reserve Board, legislative tax policies and government budgetary matters.

Residential Real Estate Loans. We currently originate fixed-rate residential mortgage loans and adjustable rate mortgage loans for terms of up to 30 years. As of December 31, 2007, $47.7 million or 33% of the total loan portfolio consisted of one-to-four family residential real estate loans. As of this date, approximately $26.3 million, or 55% of these loans were adjustable rate mortgage loans.

Consumer Loans. We make various types of consumer loans, including automobile and boat loans, but primarily home equity loans. We originate consumer loans to provide a range of financial services to customers and create stronger ties to our customers. In addition, the shorter term and normally higher interest rates on these loans help maintain a profitable spread between our average loan yield and our cost of funds. The terms of consumer loans generally range from one to five years. Underwriting standards for consumer loans include an assessment of the applicant's repayment history on other debts and ability to meet existing obligations and payments on the proposed loans. Although the applicant's creditworthiness is a primary consideration, the underwriting process also includes a comparison of the value of the security, if any, to the proposed loan amount. Consumer loans generally involve more credit risks than mortgage loans because of the type and nature of the collateral or absence of collateral. Consumer loan repayments are dependent on the borrower's continuing financial stability, and are likely to be adversely affected by job loss, divorce and illness. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. In most cases, any repossessed collateral will not provide an adequate source of repayment of the outstanding loan balance. As of December 31, 2007, consumer loans amounted to $25.3 million or 17% of the total loan portfolio.

Commercial Business Loans. Commercial loans are business loans that are not secured by real estate and are dependent on business cash flows for repayment. At December 31, 2007, the largest commercial relationship was $662,000 secured by inventory and equipment. As of December 31, 2007, we had $29.4 million in commercial loans or 20% of the total loan portfolio.

Commercial Real Estate Loans. Commercial real estate loans are secured primarily by office, medical and retail business properties located in Anderson, Knox, Roane, and Blount Counties. These types of loans amounted to $12.5 million or 9% of the total loan portfolio as of December 31, 2007. Commercial real estate loans may be amortized for up to 25 years, but frequently mature in three to six years. We generally do not offer fixed-rate commercial real estate or multi-family real estate loans.

Income from Loan Activities. We earn fees in connection with loan commitments and originations, loan modifications, late payments, changes of property ownership and for miscellaneous services related to loans. Income from these activities varies from period to period with the volume and type of loans originated, sold and purchased, which in turn is dependent upon prevailing interest rates and their effect on the demand for loans in our primary service area.

We typically charge loan fees at the time of loan origination which may be a flat fee or a percentage of the amount of the loan. Under current accounting standards, the total amount of fees for long term mortgage loans we retain cannot typically be recognized as income immediately; rather, we defer a portion of the fees and take these fees into income over the contractual life of the loan, using a level yield method. If loans are prepaid or refinanced, we take all remaining deferred fees into income at that time.

Nonperforming Loans and Real Estate Owned. When a borrower fails to make a required payment on a loan, our loan officers and collection department attempt to collect the payment by contacting the borrower. If a payment on a loan has not been received by the end of a grace period (usually 10 days from the payment due date), notices are sent at that time, with follow-up contacts made thereafter. In most cases, delinquencies are cured promptly. If the delinquency exceeds 29 days and is not cured through normal collection procedures, more formal measures are instituted to remedy the default. We will then attempt to negotiate with the delinquent borrower to establish a satisfactory payment schedule. We take steps ranging from working out a reasonable payment agreement to foreclosure.

We generally place a loan on nonaccrual status and cease accruing interest when we deem loan payment performance is unsatisfactory. We place all loans past due 90 days, however, on nonaccrual status, unless the loan is

both well collateralized and in the process of collection. Cash payments received while a loan is classified as nonaccrual are recorded as a reduction of principal as long as doubt exists as to collection.

If foreclosure is required, when completed, the property is sold at a public auction in which we will generally participate as a bidder. If we are the successful bidder, we then include the acquired real estate property in the other real estate owned "OREO" account until we sell the property. We are permitted under federal regulations to finance sales of real estate owned by "loans to facilitate," which may involve more favorable interest rates and terms than generally would be granted under normal underwriting guidelines.

Competition

We compete with five commercial banks and four credit unions in our primary market area of Oak Ridge. In addition to these local competitors, banks from other market areas also compete with us. In addition to traditional providers (i.e. banks, credit unions, thrifts), other financial services companies like insurance companies, brokerages and finance companies compete with us. We anticipate that competition from providers of financial services over the World Wide Web will intensify in the future. One of the results of increasing competition is the lowering of our net interest margin, as consumers have more choices for deposits (thus increasing the cost) and loans (lowering the income). We attempt to mitigate these factors by emphasizing our service and relationship style of banking services.

We contemplate that we may seek to enter businesses closely related to banking or to acquire existing businesses already engaged in these activities. Some of the activities that the Federal Reserve has determined by regulation to be so closely related to the business of banking include making or servicing loans and certain types of leases, engaging in certain insurance and discount brokerage activities, performing certain data processing services, acting in certain circumstances as a fiduciary or investment or financial advisor, owning savings associations and making investments in certain corporations for project designed primarily to promote community welfare. Any acquisition by us will require prior approval of the Federal Reserve Board and, in some instances, other regulatory agencies. In addition, we will be competing with other bank holding companies, many of which have far greater assets and financial resources than we and whose common stock may be more widely traded than ours in attempting to acquire other permissible entities, and engaging in activities closely related to banking. Currently there are no definitive agreements for the acquisition of any entities and we cannot assure you that we will acquire any entity in the future.

Supervision and Regulation

Bank Holding Company Regulation. The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended (the "Holding Company Act"), and is registered with the Federal Reserve Board. Its banking subsidiary, the Bank, is subject to restrictions under federal law which limit the transfer of funds by it to the Company and nonbanking subsidiaries, whether in the form of loans, extensions of credit, investments, or asset purchases. Such transfers by any subsidiary bank to its holding company or any non-banking subsidiary are limited in amount to 10% of the subsidiary bank's capital and surplus and, with respect to the Company and all such nonbanking subsidiaries, to an aggregate of 20% of such bank's capital and surplus. Furthermore, such loans and extensions of credit are required to be secured in specified amounts. The Holding Company Act also prohibits, subject to certain exceptions, a bank holding company from engaging in or acquiring direct or indirect control of more than 5% of the voting stock of any company engaged in non banking activities. An exception to this prohibition is for activities expressly found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto or financial in nature.

As a bank holding company, the Company is required to file with the Federal Reserve Board semi-annual reports and such additional information as the Federal Reserve Board may require. The Federal Reserve Board also makes examinations of the Company.

According to Federal Reserve Board policy, bank holding companies are expected to act as a source of financial strength to each subsidiary bank and to commit resources to support each such subsidiary. This support may be required at times when a bank holding company may not be able to provide such support.

A bank holding company and its subsidiaries are also prohibited from acquiring any voting shares of, or interest in, any banks located outside of the state in which the operations of the bank holding company's subsidiaries are located, unless the acquisition is specifically authorized by the statutes of the state in which the target is located. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with the extension of credit or provision of any property or service. Thus, an affiliate of a bank holding company may not extend credit, lease or sell property, or furnish any services or fix or vary the consideration for these on the condition that (i) the customer must obtain or provide some additional credit, property or services from or to its bank holding company or subsidiaries thereof or (ii) the customer may not obtain some other credit, property, or services from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of the credit extended.

In approving acquisitions by bank holding companies of banks and companies engaged in the banking-related activities described above, the Federal Reserve Board considers a number of factors, including the expected benefits to the public such as greater convenience, increased competition, or gains in efficiency, as weighed against the risks of possible adverse effects such as undue concentration of resources, decreased or unfair competition, onflicts of interest, or unsound banking practices. The Federal Reserve Board is also empowered to differentiate between new activities and activities commenced through the acquisition of a going concern.

The Attorney General of the United States may, within 30 days after approval by the Federal Reserve Board of an acquisition, bring an action challenging such acquisition under the federal antitrust laws, in which case the effectiveness of such approval is stayed pending a final ruling by the courts. Failure of the Attorney General to challenge an acquisition does not, however, exempt the holding company from complying with both state and federal antitrust laws after the acquisition is consummated or immunize the acquisition from future challenge under the anti-monopolization provisions of the Sherman Act.

Sarbanes-Oxley Act of 2002. On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002. This legislation represents a comprehensive revision of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered, or that file reports under, the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act establishes (i) new requirements for audit committees, including independence, expertise and responsibilities; (ii) additional responsibilities regarding financial statements for the chief executive officer and chief financial officer of the reporting company and new requirements for them to certify the accuracy of periodic reports; (iii) new standards for auditors and regulation of audits; (iv) increased disclosure and reporting obligations for the reporting company and its directors and executive officers, including an accelerated time frame for reporting of insider transactions; and (v) new and increased civil and criminal penalties for violations of the federal securities laws. The legislation also established a new accounting oversight board to enforce auditing standards and restrict the scope of services that accounting firms may provide to their public company audit clients. Because the Company's common stock is registered with the SEC, it is subject to the requirements of this legislation.

Tennessee Banking Act; Federal Deposit Insurance Act. The Bank is a Tennessee state-chartered bank and is subject to the regulations of and supervision by the FDIC as well as the TDFI, Tennessee's state banking authority. The Bank is also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the operations of the Bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy.

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks, bank holding companies and other financial institutions are frequently made in Congress, in the Tennessee legislature and

before various bank regulatory and other professional agencies. The likelihood of any major legislative changes and the impact such changes might have on the Bank are impossible to predict.

The Bank, as a Tennessee state chartered bank, is subject to primary supervision, periodic examination and regulation by the Commissioner of the TDFI ("Commissioner") and the FDIC. If, as a result of an examination of a bank, the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. Such remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the Bank, to assess civil monetary penalties, to remove officers and directors and ultimately to terminate the Bank's deposit insurance. The Commissioner has many of the same remedial powers, including the power to take possession of a bank whose capital becomes impaired. As of March 19, 2008, the Bank is not the subject of any such action by the FDIC or the Commissioner.

The deposits of the Bank are insured by the FDIC in the manner and to the extent provided by law. For this protection, the Bank pays a semiannual statutory assessment. Although the Bank is not a member of the Federal Reserve System, it is nevertheless subject to certain regulations of the Federal Reserve Board.

Various requirements and restrictions under the laws of the State of Tennessee and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices and capital requirements. Further, the Bank is required to maintain certain levels of capital.

Tennessee law contains limitations on the interest rates that may be charged on various types of loans and restrictions on the nature and amount of loans that may be granted and on the types of investments which may be made. The operations of banks are also affected by various consumer laws and regulations, including those relating to equal credit opportunity and regulation of consumer lending practices. All Tennessee banks must become and remain insured banks under the FDIA. (See 12 U.S.C. §1811, et seq.).

FIRREA. Congress enacted the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") on August 9, 1989. FIRREA provides that a depository institution insured by the FDIC can be held liable for any loss incurred by, or reasonable expected to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC insured depository institution or (ii) any assistance provided by the FDIC to a commonly controlled FDIC insured depository institution in danger of default. FIRREA provides that certain types of persons affiliated with financial institutions can be fined by the federal regulatory agency having jurisdiction over a depository institution with federal deposit insurance (such as the Bank) up to $1 million per day for each violation of certain regulations related (primarily) to lending to and transactions with executive officers, directors, principal shareholders and the interests of these individuals. Other violations may result in civil money penalties of $5,000 to $30,000 per day or in criminal fines and penalties. In addition, the FDIC has been granted enhanced authority to withdraw or to suspend deposit insurance in certain cases.

FDICIA. The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") which was enacted on December 19, 1991, substantially revised the depository institution regulatory and funding provisions of the FDIA and made revisions to several other federal banking statutes. Among other things, FDICIA requires the federal banking regulators to take "prompt corrective action" in respect of FDIC-insured depository institutions that do not meet minimum capital requirements. FDICIA establishes five capital tiers: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized" and "critically undercapitalized." Under applicable regulations, a FDIC-insured depository institution is defined to be well capitalized if it maintains a Leverage Ratio of at least 5%, a risk adjusted Tier 1 Capital Ratio of at least 6% and a Total Capital Ratio of at least 10% and is not subject to a directive, order or written agreement to meet and maintain specific capital levels. An insured depository institution is defined to be adequately capitalized if it meets all of its minimum capital requirements as described above. In addition, an insured depository institution will be considered undercapitalized if

it fails to meet any minimum required measure, significantly undercapitalized if it is significantly below such measure and critically undercapitalized if it fails to maintain a level of tangible equity equal to not less than 2% of total assets. An insured depository institution may be deemed to be in a capitalization category that is lower than is indicated by its actual capital position if it receives an unsatisfactory examination rating.

The capital-based prompt corrective action provision of FDICIA and their implementing regulations apply to FDIC-insured depository institutions and are not directly applicable to holding companies which control such institutions. However, the Federal Reserve Board has indicated that, in regulating bank holding companies, it will take appropriate action at the holding company level based on an assessment of the effectiveness of supervisory actions imposed upon subsidiary depository institutions pursuant to such provisions and regulations.

FDICIA generally prohibits an FDIC-insured depository institution from making any capital distribution (including payment of dividends) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions are subject to growth limitations and are required to submit capital restoration plans. A depository institution's holding company must guarantee the capital plan, up to an amount equal to the lesser of 5% of the depository institution's assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan. The federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized.

Significantly undercapitalized depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become adequately capitalized, requirements to reduce total assets and cessation of receipt of deposits from correspondent banks. Critically undercapitalized depository institutions are subject to appointment of a receiver or conservator generally within 90 days of the date on which they became critically undercapitalized.

The Bank believes that at March 19, 2008, the Bank was well capitalized under the criteria discussed above.

FDICIA contains numerous other provisions, including accounting, audit and reporting requirements, termination of the "too big to fail" doctrine except in special cases, limitations on the FDIC's payment of deposits at foreign branches, new regulatory standards in such areas as asset quality, earnings and compensation and revised regulatory standards for, among other things, powers of state banks, real estate lending and capital adequacy. FDICIA also requires that a depository institution provide 90 days prior notice of the closing of any branches. Various other legislation, including proposals to revise the bank regulatory system and to limit the investments that a depository institution may make with insured funds, is from time to time introduced in Congress. The TDFI and FDIC will examine the Bank periodically for compliance with various regulatory requirements. Such examinations, however, are for the protection of the Bank insurance Fund ("BIF") and for depositors, and not for the protection of investors and shareholders.

Interstate Act. The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Interstate Act"), which was enacted on September 29, 1994, among other things and subject to certain conditions and exceptions, permits on an interstate basis (i) bank holding company acquisitions commencing one year after enactment of banks of a minimum age of up to five years as established by state law in any state, (ii) mergers of national and state banks after May 31, 1997 unless the home state of either bank has opted out of the interstate bank merger provision, (iii) branching de novo by national and state banks if the host state has opted-in to this provision of the Interstate Act, and (iv) certain bank agency activities after one year after enactment. The Interstate Act contains a 30% intrastate deposit cap, except for the initial acquisition in the state, restriction that applies to certain interstate acquisitions unless a different intrastate cap has been adopted by the applicable state pursuant to the provisions of the Interstate Act and a 10% national deposit cap restriction. Tennessee has opted-in to the Interstate Act. Management cannot predict the extent to which the business of the Bank may be affected. Tennessee has also

adopted legislation allowing banks to acquire branches across state lines subject to certain conditions, including the availability of similar legislation in the other state.

Brokered Deposits and Pass-Through Insurance. The FDIC has adopted regulations under FDICIA governing the receipt of brokered deposits and pass-through insurance. Under the regulations, a bank cannot accept or rollover or renew brokered deposits unless (i) it is well capitalized or (ii) it is adequately capitalized and receives a waiver from the FDIC. A bank that cannot receive brokered deposits also cannot offer "pass-through" insurance on certain employee benefit accounts. Whether or not it has obtained such a waiver, an adequately capitalized bank may not pay an interest rate on any deposits in excess of 75 basis points over certain index prevailing market rates specified by regulation. There are no such restrictions on a bank that is well capitalized. Because it believes that the Bank was well capitalized as of March 19, 2008, the Bank believes the brokered deposits regulation will have no material effect on the funding or liquidity of the Bank.

FDIC Insurance Premiums. The Bank is required to pay semiannual FDIC deposit insurance assessments. As required by FDICIA, the FDIC adopted a risk-based premium schedule which increased the assessment rates for most FDIC-insured depository institutions. Under the schedule, the premiums initially range from $.00 to $.27 for every $100 of deposits. Each financial institution is assigned to one of three capital groups - well capitalized, adequately capitalized or undercapitalized - and further assigned to one of three subgroups within a capital group, on the basis of supervisory evaluations by the institution's primary federal and, if applicable, state supervisors and other information relevant to the institution's financial condition and the risk posed to the applicable FDIC deposit insurance fund. The actual assessment rate applicable to a particular institution will, therefore, depend in part upon the risk assessment classification so assigned to the institution by the FDIC. Recently the FDIC has passed a resolution to lower premiums.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by a federal bank regulatory agency.

Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act adopted in November 1999 has been referred to as the most important banking bill in over 60 years. The most significant provisions ratify new powers for banks and bank holding companies, especially in the areas of securities and insurance. The Act also includes requirements regarding the privacy and protection of customer information held by financial institutions, as well as many other providers of financial services. There are provisions providing for functional regulation of the various services provided by institutions among different regulators. There are other provisions which limit the future expansion of unitary thrift holding companies which now prevent companies like Wal-Mart from owning a thrift institution. Finally, among many other sections of the Act, there is some relief for small banks from the regulatory burden of the Community Reinvestment Act. The regulatory agencies have been adopting many new regulations to implement the Act.

USA Patriot Act. On October 26, 2001, President Bush signed the USA PATRIOT Act of 2001 into law. This act contains the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 (the "IMLAFA"). The IMLAFA substantially broadens existing anti-money laundering legislation and the extraterritorial jurisdiction of the United States, imposes new compliance and due diligence obligations, creates new crimes and penalties, compels the production of documents located both inside and outside the United States, including those of foreign institutions that have a correspondent relationship in the United States, and clarifies the safe harbor from civil liability to customers. The U.S. Treasury Department has issued a number of regulations implementing the USA PATRIOT Act that apply certain of its requirements to financial institutions such as our banking and broker-dealer subsidiaries. The regulations impose new obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing. The Treasury Department is expected to issue a number of additional regulations which will further clarify the USA PATRIOT Act's requirements.

The IMLAFA requires all "financial institutions," as defined, to establish anti-money laundering compliance and due diligence programs no later than April 2003. Such programs must include, among other things,

adequate policies, the designation of a compliance officer, employee training programs, and an independent audit function to review and test the program. The Bank has established anti-money laundering compliance and due diligence programs to comply with IMLAFA.

General

The Bank, as a Tennessee state chartered bank, is subject to primary supervision, periodic examination and regulation by the TDFI and the FDIC. If as a result of an examination of a bank, the FDIC should determine the financial condition, capital resources, asset quality, earnings prospects, management, liquidity or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, various remedies are available to the FDIC. Such remedies include the power to enjoin "unsafe or unsound" practices, to require affirmative action to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced, to direct an increase in capital, to restrict the growth of the Bank, to assess civil money penalties, to remove officers and directors and ultimately to terminate a bank's deposit insurance. The Commissioner of the TDFI has many of the same remedial powers, including the power to take possession of a bank whose capital becomes impaired. As of December 31, 2007, the Bank is not the subject of any action by the FDIC or the TDFI.

The deposits of the Bank are insured by the FDIC in the manner and to the extent provided by law. For this protection, the Bank pays a semi-annual statutory assessment. The Bank is subject to certain regulations of the Federal Reserve Board.

Various requirements and restrictions under the laws of the State of Tennessee and the United States affect the operations of the Bank. State and federal statutes and regulations relate to many aspects of the Bank's operations, including reserves against deposits, interest rates payable on deposits, loans, investments, mergers and acquisitions, borrowings, dividends, locations of branch offices and capital requirements. Further, the Bank is required to maintain certain levels of capital.

Payment of Dividends

Our payment of dividends depends to a great extent on the ability of the Bank to pay dividends to us. The Bank is subject to the provisions of the Tennessee Banking Act, which provides that dividends will be paid out of undivided profits. Capital surplus, however, must equal or exceed 50% of capital stock, and in the event capital surplus falls below 50% of capital stock, no dividends may be paid until net profits have been transferred to capital surplus so that it equals 50% of capital stock. Thereafter, 10% of net profits must be transferred to capital surplus prior to the payment of dividends until capital surplus equals capital stock. The Bank is also subject to the minimum capital requirements of the FDIC, which impact the Bank's ability to pay dividends to us. If the Bank fails to meet these standards, it may not be able to pay dividends to us or to accept additional deposits because of regulatory requirements.

If, in the opinion of the applicable bank regulatory authority, a depository institution is engaged in or is about to engage in an unsafe or unsound practice (which, depending on the financial condition of the depository institution, could include the payment of dividends), such authority may require that such institution cease and desist from such practice. The federal banking agencies have indicated that paying dividends that deplete a depository institution's capital base to an inadequate level would be such an unsafe and unsound practice. Moreover, the Federal Reserve Board and the FDIC have issued policy statements which provide that bank holding companies and insured depository institutions generally should only pay dividends out of current operating earnings.

Our payment of dividends may also be affected or limited by other factors. For example, the Bank is required to maintain adequate capital above regulatory guidelines.

ITEM 2. DESCRIPTION OF PROPERTY

We operate five full-service banking facilities. We own our two Oak Ridge and one Blount County branch facilities and lease current operating Knoxville locations. We lease both the building and property of our Knoxville Farragut location and lease the land for our Cedar Bluff location while owning the building.

The main office is located at 401 S. Illinois Avenue in Oak Ridge. The 15,000 square foot facility on approximately three acres offers full service banking including ATM, safe deposit, night depository and drive thru services. The main office also houses the operations and bookkeeping department, credit administration, and most other administrative functions.

Our Jackson Square office is located at 900 Oak Ridge Turnpike in Oak Ridge. This 2,000 square foot facility offers full service banking including ATM, safe deposit, night depository, and drive thru services.

Our Farragut branch is located at 11200 Kingston Pike in Knoxville, Tennessee. It is a full service branch with approximately 4,000 square feet. The lease for Farragut is $6,000 monthly with a term of 10 years with two five year renewal options and purchase option after the initial ten year term.

Our Cedar Bluff branch is located at 1005 N. Cedar Bluff Road, Knoxville, Tennessee. This property is leased at $2,917 per month. This lease was made effective March 15, 2004 and has an initial term of 20 years with four successive five-year renewal periods.

Our Blount County office is located at 1311 W. Lamar Alexander Parkway, Maryville, Tennessee. This 7,600 square foot location is a fully renovated full service banking location including ATM, safe deposit, night depository and drive thru services. This location was opened in November 2007.

Additionally, we own property located on E. Tri-County Blvd in Oliver Springs. This location was obtained by foreclosure in 2004. The property has a 2,500 square foot commercial garage which we currently utilize for general storage.

ITEM 3. LEGAL PROCEEDINGS

From time to time in the normal course of business, we are subject to various regulatory proceedings, lawsuits, claims and other matters. At this time, we do not believe any of these matters will result in a material adverse effect on our business or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the Company’s last quarter of fiscal year 2007.

PART II

ITEM 5. MARKET PRICE OF AND DIVIDENDS ON THE REGISTRANT’S COMMON EQUITY AND OTHER SHAREHOLDER MATTERS

Effective May 22, 2006, the Company completed a two for one stock split. Holders of record on May 1, 2006 received one additional share of Tennessee Valley Financial Holdings, Inc., common stock for each share they held.

Additionally, the market value at the time of the split ($28.00) was decreased to $14.00. Based on the structure of this split and stock dividend transaction, all shareholders percentages of ownership were unaffected.

Subsequent to the stock split, the Company had a secondary stock offering to raise additional capital. Upon closing of this general public offering on October 30, 2006, the Company raised approximately $5.6 million in proceeds from the sale of TVFH common stock. An estimated $5.3 million of these proceeds were injected directly into the equity capital structure of the Bank. The Company retained the balance of the net proceeds for working capital and other general corporate purposes.

On March 31, 2008, Tennessee Valley Financial Holdings, Inc., had 1,510,431 shares of common stock outstanding. The Company's shares began being quoted on the OTC Bulletin Board in November 2006 but are not listed on a national securities exchange. The Company's stock trades under the symbol "TVFH". Howe Barnes Hoefer and Arnett, Inc. is the principal market maker for Tennessee Valley Financial Holdings, Inc., stock. As of March 19, 2008, the Company estimates that it had 897 shareholders of record. The following table shows a range of high and low sales prices, based on the best of management's knowledge for transactions completed prior to Company shares being listed on the OTC Bulletin Board.

	High	**Low**
2007:		
First Quarter	$15.00	$14.38
Second Quarter	14.67	14.38
Third Quarter	14.67	14.00
Fourth Quarter	14.25	12.75
2006:		
First Quarter	$14.00	$14.00
Second Quarter	14.00	14.00
Third Quarter	14.00	14.00
Fourth Quarter	14.50	14.00

The payment of cash dividends is subject to the discretion of our board of directors. Our ability to pay dividends is dependent on cash dividends paid to us by the Bank. The ability of the Bank to pay dividends to us is restricted by applicable regulatory requirements. See ITEM 1, "Description of Business – Payment of Dividends." We paid a dividend of $0.15 per share on January 15, 2007. We cannot assure you that we will declare additional dividends or, if declared, what the amount of the dividend would be or whether dividends would continue in future periods.

The following table provides information about our equity compensation plans as of December 31, 2007.

EQUITY COMPENSATION PLAN INFORMATION

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan
Equity compensation plans approved by shareholders	97,200	$11.76	348,474
Equity compensation	0	NA	0

plans not approved by shareholders			
Total	97,200	$11.76	348,474

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Forward Looking Statements

This report contains forward-looking statements under the Private Securities Litigation Reform Act of 1995 that involve risks and uncertainties. When used in this discussion, the words "believes", "anticipates", "contemplates", "expects", and similar expressions are intended to identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Although we believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could be inaccurate, and therefore, we cannot assure you that the forward-looking statements set out in this report will prove to be accurate.

Factors that could cause actual results to differ from the results discussed in the forward-looking statements include, but are not limited to:

- Economic conditions (both generally and more specifically in the markets in which we operate);
- Competition for our customers from other providers of financial services;
- Government legislation and regulation (which changes from time to time and over which we have no control);
- Changes in interest rates; and
- Material unforeseen changes in liquidity, results of operations, or financial condition of our customers.

These risks are difficult to predict and many of them are beyond our control.

Results of Operations for the Years Ended December 31, 2007 and 2006

General

We are a Tennessee bank holding company which acquired the Bank through a share exchange in May 2002. We are a registered bank holding company under the Federal Reserve Act. Our only activity is owning the Bank which commenced operations on May 30, 1995.

We achieved net income of $243,000 for 2007 as compared to $782,000 for 2006, a decrease of 69%. On a per share basis, we earned $0.16 per common share in 2007 compared to $0.63 per common share in 2006. The decrease in net income for 2007 can primarily be attributed to an increase in the allowance for loan losses related to consumer and real estate construction loans. Although net loans increased to $146.0 million in 2007 from $141.3 million in 2006, a 3% increase, the allowance for loan losses increased to approximately $2.3 million in 2007 from approximately $1.6 million in 2006, a 45% increase.

The table below presents certain key ratios.

	2007	2006
Return on Average Assets	0.13%	0.48%
Return on Average Equity	1.46%	6.74%
Dividend Payout Ratio	28.77%	0.00%
Average Equity to Average Assets	8.63%	7.10%

Earning Assets, Sources of Funds and Net Interest Income

Schedule II presents an analysis of interest earning assets and interest bearing liabilities for the years ended December 31, 2007 and 2006.

Schedule II
Average Balances, Interest and Rate/Yield (in Thousands)

	2007			2006		
	Average Balance(1)	Interest	Average Yield/Rate	Average Balance (1)	Interest	Average Yield/Rate
Assets						
Federal funds sold	$ 11,181	$ 583	5.21%	$ 5,890	$ 289	4.91%
Investment securities:						
Available for sale:						
Taxable	13,739	628	4.57%	12,422	515	4.15%
Tax exempt	9,301	410	4.41%	6,837	310	4.52%
FHLB stock	686	42	6.12%	619	35	5.68%
Gross loans, including fees	147,974	11,824	7.99%	128,389	10,341	8.05%
Total interest earnings assets	182,881	$ 13,487	7.37%	154,157	$ 11,490	7.45%
All other assets	12,826			10,781		
Less:						
Reserve for loan losses	1,763			1,492		
Unearned fees and interest	112			135		
Total assets	$ 193,832			$ 163,311		
Liabilities and Shareholders' Equity						
Interest bearing deposits:						
Time deposits	$ 101,526	$ 5,131	5.05%	$ 81,536	$ 3,678	4.51%
Other deposits	44,135	846	1.92%	45,222	881	1.95%
FHLB advances and repurchase agreements and other	15,854	763	4.81%	10,860	534	4.92%
Total interest-bearing liabilities	161,515	$ 6,740	4.17%	137,618	$ 5,093	3.70%
Non-interest bearing deposits	14,324			13,008		
Cost of funds			3.83%			3.38%
All other liabilities	1,506			927		

	2007 Average Balance	2007 Rate	2006 Average Balance	2006 Rate
Shareholders' equity	16,366		11,592	
Unrealized gain on available for sale securities	121		166	
Total liabilities and shareholders' equity	$ 193,832		$ 163,311	
Net interest spread		3.54%		4.07%
Net interest margin		3.69%		4.15%

(1) Average Balances were computed averaging daily balances for the time specified.

As seen from Schedule II, average interest earning assets grew $28.7 million or 18.6% during 2007 as compared to 2006. Average interest earning assets include loans, investment securities and federal funds sold. The primary component of growth in average interest earning assets was loans, which grew $19.6 million or 15.3% in 2007 as compared to 2006. Average investment securities (which includes average available for sale taxable and tax-exempt securities and Federal Home Loan Bank stock) increased approximately $3.8 million in 2007 as compared to 2006, while average federal funds sold increased approximately $5.3 million in 2007 as compared to 2006.

Average interest bearing liabilities grew $23.9 million or 17.3% in 2007 as compared to 2006. Average interest bearing liabilities include deposits, advances from the Federal Home Loan Bank (“FHLB”) and other borrowings. During 2007, average total deposits grew $20.2 million or 14.5% as compared to 2006. The majority of the average deposit growth during 2007 came from time deposits, which include Certificates of Deposits. The notable increase in time deposits is primarily due to several promotional programs and the purchase of approximately $7 million of Brokered Certificates of Deposit.

The yield on average interest earning assets decreased 8 basis points during 2007 to 7.37%. The primary reason for this decrease can be attributed to the declining interest rate environment. The incremental lowering of key interest rates by the Federal Reserve began in the third quarter of 2007. The yield on earning assets has fallen because of the immediate lowering of rates on our loans tied to prime rate, as well as the addition of new loans added at lower rates in the recent falling rate environment.

The yield on loans for 2007 was 7.99%, a decrease of 6 basis points as compared to 2006. The performance of the loan portfolio can be primarily attributed to interest rate environment as discussed previously. New loans made during 2007 generally carried lower yields than those originated in 2006. Yields on taxable investment securities increased 42 basis points and yields on tax-exempt securities decreased 11 basis points during 2007 as compared to 2006. The yield on FHLB Stock for 2007 was 6.12%, an increase of 44 basis points as compared to 2006. The overall increase in the yield on available for sale investment securities can be attributed to the sales and calls of lower yielding taxable securities while purchases of higher yielding securities increased. Because of the increase in purchases, interest payments and prepayments (mortgage-backed securities) have increased leading to higher yields on taxable securities. The yield on federal funds increased 30 basis points in 2007 compared to 2006.

Our cost of funds increased 45 basis points to 3.83% during 2007 from 3.38% in 2006. This level can be primarily attributed to local competition and the general interest rate environment described above. Rates on time deposits increased 54 basis points to 5.05% in 2007 as compared to 2006. Other interest-bearing deposits saw rates decreased 3 basis points during 2007 to 1.92%. Rates on time deposits increased as lower yielding time deposits matured and were replaced with time deposits carrying higher rates. Other interest bearing deposits do not have contractual maturities; rates on those deposits can be changed at management’s discretion but are subject to competitive pressures and our need for liquidity. Rates on FHLB Advances, repurchase agreements and capital lease obligations decreased 11 basis points during 2007 to 4.81% due to the overall interest rate environment. We have a cash management line of credit with the FHLB which is priced on a daily basis.

Our net interest margin decreased to 3.69% in 2007 compared to 4.15% during 2006. Tightening of the net interest margin in 2007 compared to 2006 can be attributed to the addition of a larger volume of time deposits at higher rates in relation to the addition of fewer loans originated and variable rate loans re-pricing at lower rates.

Schedule III
Rate Volume Analysis (in Thousands)

	2007 vs 2006 Increase (decrease) due to change in		
	Average Balance	**Rate/Yield**	**Total**
Interest income:			
Federal funds sold	$ 275	$ 19	$ 294
Securities available for sale	169	44	213
FHLB stock	4	3	7
Loans, including fees	1,564	(81)	1,483
Total interest income	2,012	(15)	1,997
Interest expense:			
Interest-bearing deposits	729	689	1,418
FHLB advances, repurchase agreement and other	240	(11)	229
Total interest expense	969	678	1,647
Net change in net interest income	$ 1,043	$ (693)	$ 350

Noninterest Income

Noninterest income increased approximately $72,000 or approximately 7.2% in 2007 as compared to 2006 due primarily to increases in service charges on demand deposits. This increase in service charges is due mainly to an increase in the volume of our deposit accounts as a result of an increased emphasis on core deposit growth throughout the Bank. Service charges also increased due to ATM usage of customers as well as non-customers. We offer traditional residential mortgage financing through the secondary market which remained relatively flat for 2007 compared to 2006. Under this program, we originate residential mortgage loans, which are in turn funded and serviced by secondary market lenders and we receive fees for our loan origination. Fees on loans sold increased approximately $9,000 during 2007 as compared to 2006. Service charges increased approximately $151,000 during 2007 compared to 2006. Gains on sales of investment securities were the result of sales and calls of securities. These proceeds decreased approximately $17,000 in 2007 as compared to 2006. Other income decreased approximately $71,000 during 2007 as compared to 2006 primarily due to gains realized on sales of repossessed assets during 2006.

Noninterest Expense

Noninterest expense increased approximately $347,000, or 6%, during 2007 as compared to 2006. This increase is mainly the result of an increase of greater than 20% in three categories of noninterest expense: furniture and equipment, data processing fees, and legal and professional fees. Furniture and equipment increased $84,000, or 35% in 2007 compared to 2006. This increase was a direct result of the opening of the permanent location for the Blount County branch. This branch was fully furnished and decorated in 2007 which resulted in several non-capital expenditures. Data processing expense increased $142,000, or 28%, in 2007 compared to 2006. This increase was a result of our addition of the internal network and data lines in the completed Blount County location and the restructuring of the Bank's business resumption strategy in the fourth quarter 2007. Legal and professional fees

increased $132,000, or 75%, in 2007 compared to 2006. This was primarily due to increased costs associated with regulatory compliance issues of being a publicly held company and increased costs related to the use of a new audit firm beginning at year-end 2006. Although noninterest expense increased overall, loan expense decreased $121,000, or 33%, in 2007 compared to 2006 due primarily to a lower number of originations generating fewer fees and related costs on revolving lines of credit.

Salaries and employee benefits increased $115,000, or 4%, while net occupancy expense decreased $92,000, or 11%, in 2007 compared to 2006. Advertising and promotion, director's fees, and other noninterest expense all increased 10%, or $15,000, $12,000, and $50,000, respectively, in 2007 compared to 2006. Office supplies and postage increased $10,000, or 5%, in 2007 compared to 2006.

Income Taxes

We recognize income taxes under the asset and liability method established in Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. Under this method, deferred tax assets and liabilities are established for the temporary differences between the accounting basis and the tax basis of our assets and liabilities at enacted tax rates expected to be in effect when the amounts related to such temporary differences are realized or settled. Our deferred tax assets are reviewed quarterly and adjustments to such assets are recognized as deferred income tax expense or benefit based on management's judgment relating to the realizability of such assets.

We recognized income tax expense of approximately $4,000 for 2007 compared to approximately $358,000 in 2006, a 99% reduction. The reduction is due in part to the increase in tax exempt interest income from investments in obligations of states and political subdivisions as well as the increase in provisioning for loan charge offs.

Loan Losses and Credit Risk

The allowance for loan losses is established by charging expense at an amount which will maintain the allowance for loan losses at a level sufficient to provide for potential loan losses. We charge loan losses directly to the allowance when incurred and we credit recoveries to the allowance when realized. We base the amount of provision on past loss experience, management's evaluation of the loan portfolio under current economic conditions, and other factors based on management's knowledge of the current loan portfolio. The balance of the allowance for loan losses was $2,284,000 or 1.54% of gross loans outstanding at December 31, 2007 as compared to 1.10% of gross loans outstanding in 2006. During 2007, the loan loss provision totaled $1,439,000, an increase of approximately $968,000 as compared to 2006. The 2007 net charge-off ratio increased to 0.50% from 0.23% in 2006. As of December 31, 2007, management's review of the allowance for loan losses concluded that the balance was adequate to provide for potential losses based upon an evaluation of risk in the loan portfolio. Despite our credit standards, internal controls, and continuous loan review process, the inherent risk in the lending process results in periodic charge-offs.

Through the provision for loan losses, we maintain a reserve for loan losses that management believes is adequate to absorb losses within the loan portfolio. In addition, various regulatory agencies, as an integral part of their examination procedures, periodically review our reserve for loan losses, and based on their judgment may require us to recognize additions to the reserve for loan losses. Management completes a formal analysis of the reserve for loan losses adequacy on a monthly basis. This formal analysis of the allowance for loan loss reserve segregates the loan portfolio into general and specifically classified categories. Management employs a loan grading system for all loans based on credit quality. Loans in the four lowest categories are considered specifically classified and allocated a higher percentage of potential loan loss than the general loan population. The general loan population is segregated by collateral type and a reserve amount is assigned based on the historical loss ratio and expected future loss potential for that particular collateral type. For specifically classified loans, reserve amounts are assigned based on rates defined in the Bank's loan policy and consistent with industry standards and regulatory guidance. The rates defined by our loan policy are determined based on a variety of factors including our historical loss experience, industry loss rates, guidance received from previous regulatory examinations, and other factors such as the borrower's ability to repay the loan and the availability of the collateral. As of December 31, 2007 approximately

$5.9 million of the loan portfolio was considered specifically classified with approximately 37.8% of the allowance for loan losses related to these loans. We assigned the remaining 62.2% of the allowance for loan losses to the general population of loans.

Included in management's formal analysis of the allowance for loan losses are loans considered impaired as provided in Statement of Financial Accounting Standards No. 114 "Accounting by Creditors for Impairment of a Loan." A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impairment losses are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the underlying collateral. Due to the relatively small size of our loan portfolio, management considers each individual loan specifically for impairment. The allowance for loan losses related to impaired loans amounted to approximately $585,000 as of December 31, 2007 and $333,000 as of December 31, 2006. Schedules IV and V present a summary of our loan loss experience and reserve analysis during 2007 and 2006.

Schedule IV
Analysis of Loan Loss Reserve (in Thousands)

	The Year Ended December 31,	
	2007	**2006**
Balance at beginning of period	$1,578	$1,406
Charge-offs:		
Commercial, financial and agricultural	-	16
Real estate – mortgage	158	96
Real estate – nonfarm, nonresidential	72	61
Installment – consumer	527	168
Total charge-offs	757	341
Recoveries:		
Commercial, financial and agricultural	3	12
Real estate – mortgage	1	-
Real estate – nonfarm, nonresidential	1	1
Installment – consumer	19	29
Total recoveries	24	42
Net charge-offs	733	299
Provision for loan losses	1,439	471
Balance at the end of period	$2,284	$1,578
Ratio of net charge-offs to average loansoutstanding	0.50%	0.23%

Schedule V
Allocation of Loan Loss Reserve (in Thousands)

	2007		2006	
	$ Allocation	% Allocation	$ Allocation	% Allocation
Commercial, financial and agricultural	$ 142	6%	$ 450	29%
Real estate - construction	620	27%	30	2%
Real estate - mortgage	1,078	47%	644	41%
Real estate – nonfarm, nonresidential	6	0%	-	0%
Installment - consumer	330	14%	316	20%
Unallocated reserve	108	5%	138	9%
Total	$ 2,284		$ 1,578	

Summary of Loans and Non-Performing Assets

Non-performing assets consist of
(a) loans no longer accruing interest due to doubts about future collectibility;
(b) loans more than 90 days past due for the last principal or interest payment;
(c) loans restructured due to the borrower's inability meet the contractual loan terms; and
(d) other real estate owned by us, taken originally as loan collateral.

Schedule VI presents the amounts of non-performing assets at December 31, 2007 and 2006.

Schedule VI
Non-Performing Assets (in Thousands)

	December 31, 2007	2006
Non-accrual loans (1)	$ 3,230	$ 326
Loans past due greater than 90 days and still accruing interest (2)	1,016	19
Restructured loans	172	170
Other real estate owned	363	507
Total non-performing assets	$ 4,781	$1,022

(1) Included in non-accrual loans is approximately $3,230,000 and $326,000 of loans considered impaired as of December 31, 2007 and 2006, respectively.

(2) No loans past due 90 days or more and no restructured loans are considered impaired as of December 31, 2007 and 2006.

We determine loans to be non-accruing when we determine that our ability to collect the unpaid balance of these loans is highly unlikely due to the financial position of the borrower and general economic conditions. Management makes this determination of classification on a case by case basis for problem loans. Generally, we review each loan 90 days or more past due monthly and we place on non-accrual status the loans for which we determine collection is doubtful. During 2007, we would have earned approximately $172,000 on loans in non-accrual status had these loans been current in accordance with their terms.

Loans are determined to be 90 days delinquent when such a period of time has elapsed since the last required payment of principal or interest was made. At such time, we consider whether to place the loan on non-accrual status. However, until we make this classification, interest will continue to accrue.

Non-accrual loans increased to approximately $3,230,000 as of December 31, 2007 compared to $326,000 as of December 31, 2006. Loans past due greater than 90 days and still accruing interest increased to $577,000 at December 31, 2007 from $19,000 at December 31, 2006. Net charge-offs increased to $733,000 during 2007 as compared to $299,000 in 2006. The ratio of net charge-offs to average loans was 0.50% for 2007 and 0.23% for 2006. There are three main factors that are responsible for the considerable increase in non-accrual loans, past due loans, classified loans, and the net charge-off ratio. The first factor is the general slowdown of the economy. Economic slowdowns decrease a borrower's ability to make payments on their outstanding balances. While generating possible income from past due fees, unpaid balances cause increases in non-accrual loans, classified loans, and possible charge-offs and repossessions.

The second factor causing increases in non-accrual loans, classified loans, and the net charge-off ratio is the deterioration of one of the Bank's indirect financing relationships. The Bank had an indirect relationship with a local automobile dealership. The relationship was constituted by a guarantee from the automobile dealership for several automobiles. In late 2007, the dealership ceased operations, nullifying the guarantee with the Bank and causing an increase in non-accrual loans, past due loans, charge-offs and repossessions.

The final factor impacting non-accrual, past due, and classified loans involves relationships associated with the construction of speculative real estate. Due to the slowing real estate market, there are fewer buyers of speculative real estate. This has caused an increased number of foreclosures in the general market on speculative properties. These conditions also negatively affect the borrowers' ability to repay their debt and repay it in a timely manner.

Of the loans in non-accrual status as of December 31, 2006, approximately $38,000 were charged off during 2007. Additionally, approximately $4.1 million were added to nonaccrual status during 2007. Approximately, $1.2 million were removed from nonaccrual status due to improvement in performance, paydowns, pay-offs, charge-offs, restructuring, or foreclosure. Non-accrual loans, as of December 31, 2007, include $326,000 in loans that were nonaccrual as of December 31, 2006. There were eight loans totaling $1.0 million that were over 90 days and still accruing interest as of December 31, 2007. It is our policy to place loans on nonaccrual after they reach 90 days past due unless the loan is well collateralized.

Loans increased $5.3 million to $146.0 million as of December 31, 2007 as compared to December 31, 2006. Management attributes the nominal growth in loans to a slowing economy and a stagnant real estate market.

Schedule VII
Loans by Type (in Thousands)

	December 31,	
	2007	**2006**
Loans secured by real estate:		
Commercial properties	$ 12,528	$ 15,788
Construction and land development	33,345	36,561
Residential and other properties	47,699	41,444
Total loans secured by real estate	93,572	93,793
Commercial and industrial loans	29,442	23,308
Consumer loans and other	25,298	25,880
	148,312	142,981
Less: Allowance for loan losses	(2,284)	(1,578)

Unearned loan fees	(77)	(140)
	$145,951	$141,263

Investment Securities

Investment securities were $32.9 million as of December 31, 2007 compared to $20.2 million as of December 31, 2006. At December 31, 2007 and 2006, all of our investment securities were classified available for sale. During 2007, $17.1 million in available for sale securities were purchased as compared to $6.1 million in purchases of available for sale securities in 2006. Maturities, calls and principal payments received from mortgage-backed securities totaled $3.4 million in 2007 and $3.6 million in 2006. Proceeds from the sale of available for sale securities in 2007 totaled $932,000, with gross gains on these sales of $6,000 and gross losses of $0. Proceeds from the sale of available for sale securities in 2006 totaled $1.1 million, with gross gains on the sales of $23,000, and gross losses $0. These sales were used to fund loan demand and to reinvest funds in higher yielding investment securities. The unrealized loss on available for sale securities was $36,000 at December 31, 2007 compared to $110,000 at December 31, 2006. The fair value of debt securities fluctuates with the movement of interest rates. Generally, during periods of declining interest rates, the fair value of debt securities increases whereas the opposite may hold true in a rising interest rate environment.

The investment portfolio is primarily comprised of U.S. Government agency obligations and mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation, the FHLB, the Federal Farm Credit Bank , the Government National Mortgage Association , Small Business Administration and the Federal National Mortgage Association; bank-qualified, investment-grade state, county and municipal bonds; and corporate debt securities. Our investment policy prohibits us from investing in state, county and municipal bonds rated Baa or lower by Moody’s or BBB by S&P. Mortgage-backed issues comprised 46% of the portfolio at December 31, 2007 and 32% at December 31, 2006. Schedule VIII sets forth the maturity of the securities held in the investment portfolio as of December 31, 2007:

Schedule VIII
Maturities of Securities at December 31, 2007 (in Thousands)

	Due in One Year or Less		Due After One Year Through Five Years		Due After Five Years Through Ten Years	
	Amount	**Yield**	**Amount**	**Yield**	**Amount**	**Yield**
Securities available for sale:						
U.S. Government agencies	$ 2,017	4.06%	$ 2,050	4.70%	$ 700	5.09%
Mortgage-backed and related securities	61	6.31%	270	4.63%	490	5.15%
Obligations of State and political subdivisions	111	8.09%	757	6.69%	2,239	5.39%
Equity securities	-	0.00%	500	10.38%	294	8.21%
Total debt securities	$ 2,189	4.33%	$ 3,577	5.91%	$ 3,722	5.52%

	Due After Ten Years	Total

	Amount	Yield	Amount	Yield
Securities available for sale:				
U.S. Government agencies	$ 500	5.89%	$ 5,267	4.62%
Mortgage-backed and related Securities	14,204	5.42%	15,025	5.40%
Obligations of State and political Subdivisions	8,697	5.95%	11,804	5.91%
Equity securities	--	0.00%	794	9.45%
Total debt securities	$ 23,402	5.63%	$ 32,890	5.59%

Asset/Liability Management and Interest Rate Risk Management

Asset/liability management is the process of planning, implementing and controlling the mix and maturity features of our interest bearing assets and liabilities to maximize net interest margin and minimize the risk of negative effects on net interest margin by changes in market interest rates. One tool utilized in our asset liability management process is the Interest Rate Sensitivity Analysis presented in Schedule IX. The Interest Rate Sensitivity Analysis evaluates gaps between repricing frequencies of our interest earning assets and interest bearing liabilities. As seen from this analysis, we are in a negative gap position in both repricing categories through three months to one year. This could result in a decline in net interest should interest rates further decline. Management continually monitors the asset liability position and takes corrective measures where possible.

Schedule IX
Interest Rate Sensitivity Analysis (in Thousands)
As of December 31, 2007

	Within 3 Months	3 Months to 1 year	1 to 5 Years	After 5 Years	Total
Earning assets:					
Loans	$67,213	$19,256	$36,193	$25,574	$148,236
Investment securities	5,882	2,399	8,005	16,604	32,890
Federal funds sold	9,439	-	-	-	9,439
Total earning assets	82,534	21,655	44,198	42,178	190,565
Interest-bearing liabilities:					
Interest-bearing deposits	67,246	56,590	20,528	2,094	146,458
FHLB advances	7,000	6,000	5,500	-	18,500
Other borrowings	811	171	2,062	-	3,044
Total interest-bearing liabilities	75,057	62,761	28,090	2,094	168,002

Repricing gap	7,477	(41,106)	16,108	40,084	22,563
Repricing gap as a percentage of earning assets	3.9%	-21.6%	8.5%	21.0%	
Cumulative repricing gap	7,477	(33,629)	(17,521)	22,563	22,563
Cumulative repricing gap as a percentage of earning assets	3.9%	-17.6%	-9.2%	11.8%	

Management has made the following assumptions in this interest rate sensitivity analysis:

1. Assets and liabilities are generally assigned to a period based upon their earliest repricing opportunity, when such repricing opportunity is before the contractual maturity.

2. Non-accrual loans are included in the loan category

3. Investment securities are scheduled for repricing based on their earliest repricing date; however, callable agency securities are only considered repriced at the call date if the security is at a market value above par value.

Liquidity and Capital Resources

Our primary sources of liquidity are deposit balances, available-for-sale securities, principal and interest payments on loans and investment securities, federal funds lines, and FHLB advances.

At December 31, 2007, we held $32.9 million in available-for-sale securities. Deposits increased $9.8 million during 2007. We had $18.5 million in available federal funds lines and approximately $7.1 million in potentially available borrowings from the FHLB as of December 31, 2007.

We utilize various types of other borrowings to help fund balance sheet growth and mitigate our interest rate risk. The primary source of other borrowings is through the FHLB which has many different types of borrowing structures available to member banks. As of December 31, 2007 we had $18.5 million in outstanding advances with the FHLB. We had $1.5 million in fixed rate advances which offer fixed interest rates on balances that are due at maturity. We had $3.0 million in Convertible Fixed Rate Advances, which we refer to as “CFR,” outstanding. CFR advances offer fixed rates of interest for an initial term, then may convert, at the FHLB’s option to a floating rate. Due to the optionality of these advances, they do inherently carry more interest rate risk than fixed rate advances. We also had $3.0 million in 5/1 putable advances, $1.0 million in 2/1 putable advances, $5.0 million in 10/1 putable advances, and $5.0 million in 7/3 putable advances.. These instruments have fixed rates for a minimum of one year and a maximum of 2, 5, 7 or 10 years, respectfully. We also maintain a Cash Management Advance, which we refer to as “CMA,” with the FHLB to meet short term liquidity needs. The CMA line of credit, which was established in 2001, is for amounts up to $8.0 million and expires annually. As of December 31, 2007 we did not have an outstanding balance under our CMA line of credit.

We can also enter into repurchase agreement transactions should the need for additional liquidity arise. At December 31, 2007, we had $811,000 in repurchase agreements outstanding.

At December 31, 2007, we had qualifying capital of $20.5 million, or 13.1% of total risk-based assets as compared to $19.8 million, or 13.4% at December 31, 2006. Tennessee chartered banks that are insured by the FDIC are subject to minimum capital maintenance requirements. Regulatory guidelines define the minimum amount of qualifying capital an institution must maintain as a percentage of risk-weighted assets and average total assets.

In March 2005, we formed Tennessee Valley Financial Statutory Trust I (“the Trust”). The Trust issued $2.0 million of trust preferred securities as part of a pooled offering of such securities. We issued $2.1 million subordinated debentures to the Trust in exchange for the proceeds of this offering, which debentures represent the sole asset of the

Trust. The debentures pay interest quarterly at 6.75%. We may redeem the subordinated debentures, in whole or part, beginning June 2010 at a price of 100% of face value. On this date, if the debentures are not redeemed, the interest converts to a variable rate due quarterly at the three-month LIBOR rate plus 2.00% adjusted quarterly. The subordinated debentures must be redeemed no later than 2035. We used the proceeds of this offering to support growth trends and future growth strategies.

The footnotes to the audited financial statements enclosed contain further discussion of regulatory capital requirements. For further information, please refer to Note 13 of those audited financial statements.

Impact of New Accounting Standards

In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FASB Interpretation No. 48 is effective for fiscal years beginning after December 31, 2006. The Company adopted Interpretation No. 48 effective January 1, 2007, resulting in no adjustment to beginning retained earnings.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which provides for enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is applicable under other accounting pronouncements that either require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not anticipate that Statement 157 will have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this standard is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of fiscal years beginning after November 15, 2007, with early adoption permitted under certain circumstances. The Company did not choose to early adopt this standard and does not anticipate that Statement 159 will have a material impact on its consolidated financial statements.

ITEM 7. FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders

Tennessee Valley Financial Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Tennessee Valley Financial Holdings, Inc. and subsidiary (the "Company") as of December 31, 2007 and 2006, and the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Tennessee Valley Financial Holdings, Inc. and subsidiary as of December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Dixon Hughes, PLLC

Asheville, North Carolina

March 31, 2008

TENNESSEE VALLEY FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Consolidated Balance Sheets
As of December 31, 2007 and 2006
(amounts in thousands, except share and per-share data)

	2007	2006
Assets		
Cash and due from banks	$ 3,000	$ 3,226
Federal funds sold	9,439	11,941
Cash and cash equivalents	12,439	15,167
Investment securities available for sale, at fair value	32,890	20,156
Loans held for sale	1,511	788
Loans, net	145,951	141,263
Federal Home Loan Bank Stock, at cost	703	634
Premises and equipment, net	7,136	5,132
Accrued interest receivable	1,188	1,119
Deferred income tax benefit	381	278
Foreclosure real estate	363	507
Prepaid expenses and other	242	1,468
Total assets	$ 202,804	$ 186,512
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Noninterest bearing	$ 16,727	$ 13,944
Interest bearing	146,458	139,408

Total deposits	163,185	153,352
Borrowings	21,544	15,060
Accrued interest payable	1,180	1,245
Other liabilities	158	355
Total liabilities	186,067	170,012
Shareholders' equity:		
Common stock, par value $1, authorized 2,000,000 shares; issued and outstanding, 1,510,431 and 1,500,700 shares at December 31, 2007and 2006, respectively	1,510	1,501
Treasury stock, 496 shares	(7)	--
Capital in excess of par value	11,488	11,319
Retained earnings	3,768	3,750
	16,759	16,570
Accumulated other comprehensive loss	(22)	(70)
Total shareholders' equity	16,737	16,500
Total liabilities and shareholders' equity	$202,804	$186,512

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

TENNESSEE VALLEY FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Income
For the Years Ended December 31, 2007 and 2006
(amounts in thousands, except share and per-share data)

	2007	**2006**
Interest income:		
Loans (including fees)	$ 11,824	$ 10,341
Investment securities	1,038	825
Federal funds sold	583	289
Other interest income	42	35
Total interest income	13,487	11,490
Interest expense:		
Deposits	5,977	4,559
Borrowings	763	534
Total interest expense	6,740	5,093

	2007	2006
Net interest income	6,747	6,397
Provision for loan losses	1,439	471
Net interest income after provision for loan losses	5,308	5,926
Noninterest income:		
Service charges on demand deposits	573	422
Fees on loan sold	395	386
Net gain on sales of invesetment securities available for sale	6	23
Other	96	167
Total noninterest income	1,070	998
Noninterest expense:		
Salaries and employee benefits	2,867	2,752
Occupancy costs	710	802
Premises and equipment depreciation and maintenance	325	241
Data processing fees	644	502
Office supplies and postage	203	193
Advertising and promotion	159	144
Legal and professional	308	176
Director's fees	127	115
Loan expense	245	366
Other	543	493
Total noninterest expense	6,131	5,784
Income before income taxes	247	1,140
Income taxes	4	358
Net income	$ 243	$ 782
Earnings per share:		
Basic	$ 0.16	$ 0.63
Diluted	$ 0.16	$ 0.57

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

TENNESSEE VALLEY FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2007 and 2006
(amounts in thousands, except share and per-share data)

	2007	2006
Net income	$ 243	$ 782
Other comprehensive income, net of tax:		
Unrealized gains on investment securities available for sale	82	88
Reclassification adjustment for net gains included in net income	(6)	(23)
Income taxes associated with realized and unrealized gains/losses on investment securities available for sale	(28)	(24)
Other comprehensive income, net of tax	48	41
Comprehensive income	$ 291	$ 823

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

TENNESSEE VALLEY FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2007 and 2006
(amounts in thousands, except share and per-share data)

	Common Stock	Treasury Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Shareholders' Equity
Balance, January 1, 2006	$ 539	$ --	$ 6,610	$ 2,968	$ (111)	$ 10,006
Net income	--	--	--	782	--	782
Other comprehensive income	--	--	--	--	41	41

Stock split (2 for 1)	541	--	(541)	--	--	--
Issuance of common stock for director's fees in lieu of cash	5	--	94	--	--	99
Proceeds from common stock offering	416	--	5,078	--	--	5,494
Stock-based compensation	--	--	72	--	--	72
Common stock options exercised (760 shares at $8 per share)	--	--	6	--	--	6
Balance, December 31, 2006	1,501	--	11,319	3,750	(70)	16,500
Net income	--	--	--	243	--	243
Other comprehensive income	--	--	--	--	48	48
Cash dividends paid	--	--	--	(118)	--	(118)
Stock dividends issued through dividend reinvestment plan	7	--	100	(107)	--	--
Issuance of stock in lieu of director's fees	2	29	32	--	--	63
Stock-based compensation	--	--	37	--	--	37
Purchase of treasury stock	--	(36)	--	--	--	(36)
Balance, December 31, 2007	$ 1,510	$ (7)	$ 11,488	$ 3,768	$ (22)	$ $16,737

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

TENNESSEE VALLEY FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2007 and 2006
(amounts in thousands, except share and per-share data)

	2007	2006
Cash flows from operating activities:		

	2007	2006
Net income	$ 243	$ 782
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,439	471
Depreciation	334	301
Deferred income tax (benefit) expense	(133)	8
Increase (decrease) in unearned loan fees	(63)	12
Net amortization of premiums and discounts on investment securities	43	25
FHLB stock dividends	(69)	(35)
Net gain on sales of investment securities available for sale	(6)	(23)
Proceeds from sales of loans	17,832	646
Mortgage loans originated	(18,160)	--
Increase in mortgage loans originated and sold	--	(425)
Fees on loans sold	(395)	(386)
Gain on sales of foreclosed real estate	(16)	--
Stock-based compensation	37	72
Issuance of stock in lieu of directors fees	63	100
Net (increase) decrease in:		
Accrued interest receivable	(69)	(272)
Prepaid expenses and other assets	1,226	(58)
Net increase (decrease) in:		
Accrued interest payable	(65)	495
Other liabilities	(167)	60
Net cash provided by operating activities	2,074	1,773
Cash flows from investing activities:		
Investment securities available for sale:		
Sales	932	1,106
Purchases	(17,075)	(6,089)
Maturities	2,167	500
Principal repayments received	1,253	3,111
Net increase in loans	(5,917)	(33,907)
Purchases of premises and equipment	(2,338)	--
Purchases of land for future development	--	(1,104)
Proceeds from sales of foreclosed real estate	13	--
Net cash used in investing activities	$ (20,965)	$ (36,383)

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

	2007	2006
Cash flows from financing activities:		
Net Increase in deposits	$ 9,833	$ 28,519
Net Increase in securities sold under agreements to repurchase	558	30
Net Increase in advances from Federal Home Loan Bank	5,950	4,000
Purchase of treasury stock	(36)	--
Decrease in obligation under capital lease	(24)	(23)
Cash dividends paid	(118)	--
Proceeds from issuance of common stock	--	5,499
Net cash provided by financing activities	$ 16,163	$ 38,025
Net increase (decrease) in Cash and cash equivalents	(2,728)	3,415
Cash and cash equivalents at beginning of year	15,167	11,752
Cash and cash equivalents at end of year	$ 12,439	$ 15,167
Supplementary disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 5,977	$ 4,598
Income taxes	$ 158	$ 314
Supplementary disclosures of noncash investing and financing activities:		
Acquisition of foreclosed real estate	$ 363	$ 507
Loans originated on sale of foreclosed real estate	$ 510	$ --
Issuance of common stock through dividend reinvestment plan	$ 107	$ --
Change in unrealized gain/loss on investment securities available for sale	$ 74	$ 65
Change in deferred taxes associated with unrealized gain/loss on investment securities available for sale	$ 28	$ 24
Change in net unrealized gain/loss on investment securities available for sale	$ 48	$ 41

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

TENNESSEE VALLEY FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 1 - PRINCIPLES OF CONSOLIDATION, NATURE OF OPERATIONS AND SHARE EXCHANGE

The consolidated financial statements include the accounts of Tennessee Valley Financial Holdings, Inc. (the "Company"), a bank holding company, and its wholly owned subsidiary, TNBank (the "Bank"). All intercompany balances and transactions have been eliminated.

TNBank was incorporated on July 6, 1994 for the purpose of organizing a state-chartered commercial bank and commenced operations on May 30, 1995. TNBank provides a variety of banking services to individuals and businesses through its main office in Oak Ridge, Tennessee and four branch offices. Its primary deposit products are demand deposits and certificates of deposit, and its primary lending products are commercial business, real estate mortgage, and consumer installment loans.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reclassifications - Certain items in the 2006 consolidated financial statements have been reclassified to conform with the 2007 consolidated financial statements.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the fair value of financial instruments (see below).

Cash Flows – Cash and cash equivalents, includes cash, deposits with other financial institutions under 90 days, and federal funds sold. Net cash flows are reported for loan, deposit, and other borrowing transactions.

Securities Available for Sale – In accordance with SFAS No. 115, these securities are carried at fair value based on quoted market prices for securities that are marketable. These securities may be sold in response to changes in interest rates, liquidity needs, and for other purposes. Any unrealized gain or loss is reported in the statements of comprehensive income, net of any deferred tax effect.

Realized gains and losses on the sales of investment securities available for sale are based on the net proceeds and amortized cost of the securities sold, using the specific identification method on a trade date basis. Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses in the income statement.

Federal Home Loan Bank Stock, at Cost – The Bank, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB. The amount of the investment is in part based on the Bank's amount of borrowings from the FHLB. The investment in FHLB stock is carried at cost which approximates fair value based on the stock redemption provisions of the FHLB.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition of Interest on Loans – Interest on loans is calculated using the simple interest method on the principal outstanding. Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts, that the borrower's financial condition is such that collection of interest is doubtful.

Allowance for Loan Losses – The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated future cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of credit losses inherent in the loan portfolio and the related allowance may change materially in the near term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses.

Loan Fees – Loan fees on long-term real estate loans, net of initial direct costs related to initiating and closing the loans, have been deferred and are being amortized into interest income over the remaining lives of the loans as an adjustment of yield using the interest method.

Loans Held for Sale – Loans held for sale are stated at the lower of cost or market.

Premises and Equipment – Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed over the asset useful lives on a straight-line basis. Buildings and related components have useful lives ranging from 10 to 40 years, while furniture, fixtures and equipment have useful lives ranging from 3 to 10 years. Leasehold improvements are amortized over the lesser of the life of the asset or lease term.

Repurchase Agreements – Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

Advertising and Promotion – Advertising and promotion costs are expensed as incurred.

Income Taxes – Income taxes are provided for the tax effects of transactions reported in the consolidated financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the allowance for loan losses, accumulated depreciation, and other book income versus taxable income reporting differences. The deferred tax assets and liabilities, which are recorded net of a valuation allowance, represent the future tax return consequences of those differences which will either be taxable or deductible when the assets and liabilities are recovered or settled. See Note 10 for additional information.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stock-Based Compensation – Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R) (revised 2004), "Share-Based Payment," ("SFAS No. 123R") using the modified prospective method. According to SFAS No. 123R, the total cost of the Company's share based awards is equal to the grant date fair value and recognized as expense on a straight line basis over the service periods of the awards. For the years ended December 31, 2007 and 2006 stock option expense of $37 and $72, respectively was recorded in the income statement. There is no tax effect for this stock option expense because all of the options issued were Incentive Stock Options ("ISO's"). As of December 31, 2007, the Company had $4 of unrecognized stock option expense which will be recognized over 1 year.

Loan Commitments and Related Financial Instruments – Financial instruments include credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded. Instruments such as standby letters of credit are considered financial guarantees in accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 45. The fair value of these financial guarantees is not material.

Earnings Per Common Share – Basic earnings per common share are net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale which are also recognized as a separate component of equity. Comprehensive income is presented in the consolidated statements of changes in shareholders' equity.

Loss Contingencies – Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the financial statements.

Fair Value of Financial Instruments – Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements – In July 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." This interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FASB Interpretation No. 48 is effective for fiscal years beginning after December 31, 2006. The Company adopted Interpretation No. 48 effective January 1, 2007, resulting in no adjustment to beginning retained earnings.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which provides for enhanced guidance for using fair value to measure assets and liabilities. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 is applicable under other accounting pronouncements that either require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those

fiscal years. The Company does not anticipate that Statement 157 will have a material impact on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities". This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this standard is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement is effective as of the beginning of fiscal years beginning after November 15, 2007, with early adoption permitted under certain circumstances. The Company did not choose to early adopt this standard and does not anticipate that Statement 159 will have a material impact on its consolidated financial statements.

NOTE 3 - INVESTMENT SECURITIES

The amortized cost and estimated fair value of investment securities are as follows:

	Securities Available for Sale			
December 31, 2007	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies	$ 5,250	$ 18	$ (1)	$ 5,267
Mortgage-backed and related securities	14,985	67	(27)	15,025
Obligations of states and political subdivisions	11,837	51	(84)	11,804
Equity securities	854	-	(60)	794
Total securities available for sale	$ 32,926	$ 136	$ (172)	$ 32,890

	Securities Available for Sale			
December 31, 2006	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agencies	$ 6,709	$ 7	$ (64)	$ 6,648
Mortgage-backed and related securities	6,596	14	(89)	6,524
Obligations of states and political subdivisions	6,961	54	(32)	6,984
Total securities available for sale	$ 20,266	$ 75	$ (185)	$ 20,156

The amortized cost and estimated fair value of debt securities as of December 31, 2007, by contractual maturity, are as follows:

	Available for Sale	
	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 2,128	$ 2,128
Due after one year through five years	2,783	2,807
Due after five years through ten years	3,417	3,439
Due after ten years	9,613	9,491
	17,941	17,865
Mortgage-backed and related securities	14,985	15,025
	$ 32,926	$ 32,890

Expected maturities can differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Proceeds from sales of investment securities classified as available for sale totaled $932 during the year ended December 31, 2007 ($1,106 in 2006). Gross gains of $6 ($23 in 2006) were realized by the Bank during the year ended December 31, 2007.

NOTE 3 - INVESTMENT SECURITIES (Continued)

Investments with a total estimated fair value (which approximates book value) of approximately $10,650 as of December 31, 2007 ($8,085 in 2006) were pledged to secure deposits of public and private funds.

The following table shows the Bank's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous loss position, as of December 31, 2007 and 2006.

	Less Than 12 Months		**12 Months or More**		**Total**	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair value**	**Gross Unrealized Losses**
December 31, 2007						
U.S. government agencies	$ --	$ --	$ 2,017	$ (1)	$ 2,017	$ (1)
Mortgage-backed and related securities	4,902	(9)	1,273	(18)	6,175	(27)
Obligations of states	4,664	(66)	1,925	(18)	6,589	(84)

and political subdivisions								
Equity Securities	293		(60)	--		--	293	(60)
Total temporarily impaired securities	$9,859	$	(135)	$ 5,215	$	(37)	$ 15,074	$ (172)
December 31, 2006:								
U.S. government agencies	$1,250	$	(2)	$ 4,945	$	(62)	$ 5,940	$ (64)
Mortgage-backed and related securities	1,451		(13)	3,767		(76)	5,218	(89)
Obligations of states and political subdivisions	758		(11)	2,051		(21)	2,809	(32)
Total temporarily impaired securities	$3,459	$	(26)	$10,763	$	(159)	$13,967	$ (185)

Management believes that all of the Bank's gross unrealized losses are a result of recent, normal market fluctuations. Therefore, the Bank's unrealized losses are considered temporary in nature and no permanent adjustments have been made to the carrying values of its investment securities.

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank provides mortgage, commercial, and consumer lending services to businesses and individuals primarily in the Anderson, Knox, and Roane County areas. A summary of loans as of December 31, 2007 and 2006 is as follows:

	2007	2006
Loans secured by real estate:		
Commercial properties	$ 12,528	$ 15,788
Construction and land development	33,345	36,561
Residential and other properties	47,699	41,444
Total loans secured by real estate	93,572	93,793
Commercial and industrial loans	29,442	23,308
Consumer loans and other	25,298	25,880
	148,312	142,981

Less: Allowance for loan losses		(2,284)		(1,578)
Unearned loan fees		(77)		(140)
	$	145,951	$	141,263

Included in consumer loans and other shown above are deposit account balances totaling approximately $406 which were in overdraft status as of December 31, 2007 ($327 in 2006).

Loans held for sale represent individual real estate loans originated for the purpose of selling the loans to one of several third party purchasers with which the Bank does business. These loans are sold without recourse and the Bank receives certain fees for originating the loans.

In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commercial letters of credit, and standby letters of credit. These financial instruments are recorded in the financial statements when they are funded. Outstanding letters of credit were approximately $1,102 as of December 31, 2007 ($1,616 as of December 31, 2006). Unadvanced lines of credit and commitments to extend credit were approximately $34,446 as of December 31, 2007 ($34,309 as of December 31, 2006). Of the total outstanding letters of credit and unadvanced lines and commitments as of December 31, 2007 approximately $20,690, were secured primarily by real estate ($28,169 in 2006).

From time to time, the Bank provides credit to its executive officers, directors, and their affiliates. Such transactions are made on the same terms as those prevailing for comparable transactions with other borrowers and do not represent more than a normal risk of collection. Loans to executive officers, directors, and their affiliates are as follows:

		2007		2006
Loans at beginning of year	$	281	$	1,092
Disbursements		233		493
Repayments		(198)		(1,304)
Loans at end of year	$	316	$	281

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

The transactions in the allowance for loan losses are as follows:

		2007		**2006**
Balance, beginning of year	$	1,578	$	1,406
Charge-offs		(757)		(341)
Recoveries		24		42
Provision - charged to expense		1,439		471
Balance, end of year	$	2,284	$	1,578

The Bank had approximately $1,016 in 2007 ($19 in 2006) of loans past due ninety days or more and still accruing interest, and the Bank has approximately $3,230 in loans on which the accrual of interest had been discontinued as of December 31, 2007 ($326 in 2006).

As of December 31, 2007, the Bank had approximately $3,230 in loans specifically classified as impaired ($326 in 2006). The allowance for loan losses related to impaired loans amounted to approximately $585 as of December 31, 2007 ($54 in 2006).

Impaired loans were as follows:

	2007	2006
Loans with allowance allocated	$ 3,230	$ 326
Amount of allowance allocated	585	47
Average balance during the year	830	485
Interest income not recognized during impairment	172	39

There was no interest income recognized on these loans during 2007 or 2006.

NOTE 5 - PREMISES AND EQUIPMENT

A summary of premises and equipment is as follows:

	2007	2006
Land	$ 1,677	$ 1,198
Buildings	5,158	3,461
Leasehold improvements	123	123
Furniture, fixtures, and equipment	1,928	1,575
Construction in progress	4	196
	8,890	6,553
Less accumulated depreciation	(1,754)	(1,421)
	$ 7,136	$ 5,132

Included in Buildings above is $776 for the capitalized costs of leases for branches considered an asset under capital lease (see Note 14). In addition, related leasehold improvements of the branches totaled $123. Depreciation expense related to the assets under capital lease was $39 in 2007 ($39 in 2006).

NOTE 6 - DEPOSITS

A summary of deposits is as follows:

	2007	2006
Noninterest-bearing demand accounts	$ 16,727	$ 13,944
Interest-bearing accounts		
Demand accounts	38,846	37,191
Savings accounts	3,522	3,729
Term deposits:		
Less than $100,000	55,003	56,555
$100,000 or more	49,087	41,933
Total interest-bearing accounts	146,458	139,408

Total deposits	$ 163,185	$ 153,352

As of December 31, 2007, the scheduled maturities of certificates of deposits are as follows:

2008	$ 81,468
2009	17,177
2010	3,023
2011	1,832
2012	535
Thereafter	55
	$ 104,090

NOTE 7 – BORROWINGS

Securities Sold Under Agreements to Repurchase

The Bank sells certain investment securities with agreements to repurchase primarily on an overnight basis to certain commercial depositors. The total of these securities was $811 as of December 31, 2007 ($303 in 2006).

Securities sold under agreements to repurchase averaged approximately $637 during 2007 ($359 during 2006). The maximum amount outstanding at any month-end during 2007 was approximately $1,215 ($409 during 2006).

Fed Funds Purchased

The Bank maintains a federal funds line of credit with five of its correspondent commercial banks. These lines allow for total borrowings up to a maximum amount of $18.5 million. Advances are repaid on the next business day with interest. There were no borrowings outstanding on these lines at December 31, 2007.

NOTE 7 – BORROWINGS (Continued)

Advances from the Federal Home Loan Bank

The following table is a maturity schedule of advances from the Federal Home Loan Bank ("FHLB") as of December 31, 2007:

Date of Advance	Interest Rate	Next Call/ Prepayment Date	Final Maturity Date	Amount Outstanding at 12/31/07
9/21/2000	6.22%	3/22/2008	9/22/2010	$ 1,000
12/27/2000	5.00%	3/27/2008	12/27/2010	1,000
8/10/2001	5.09%	2/10/2008	8/10/2011	1,000
9/20/2006	5.30%	None	12/19/2008	500
9/20/2006	5.24%	None	9/18/2009	500
9/20/2006	5.31%	None	6/20/2008	500

11/30/2006	4.39%	3/1/2008	11/30/2011	3,000
12/4/2006	4.90%	3/4/2008	12/4/2008	1,000
8/21/2007	4.04%	8/21/2008	8/21/2017	3,000
9/11/2007	3.95%	9/11/2008	9/11/2017	2,000
12/17/2007	3.90%	12/17/2010	12/17/2014	5,000
				$ 18,500

Interest expense associated with the advances from the FHLB totaled $602 for the year ended December 31, 2007 ($384 in 2006). Pursuant to collateral agreements with the FHLB, the advances are secured by certain available for sale securities, and certain first mortgage loans and home equity lines of credit. The Bank has a Cash Management Advance (CMA) agreement with the FHLB with maximum borrowings of $7,100 as of December 31, 2007.

Subordinated Debentures

In March 2005, the Company formed Tennessee Valley Statutory Trust I ("the Trust"). The Trust is a statutory business trust formed under the laws of the state of Delaware and is wholly owned by the Company. The Trust issued $2,000 of trust preferred securities as part of a pooled offering of such securities. The Company then issued $2,062 subordinated debentures to the Trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the Trust. The debentures pay interest quarterly at 6.75%. The Company may redeem the subordinated debentures, in whole or part, beginning June 2010 at a price of 100% of face value. On this date, if the debentures are not redeemed, the interest converts to a variable rate due quarterly at the three-month LIBOR rate plus 2.00% adjusted quarterly. The subordinated debentures must be redeemed no later than 2035.

In accordance with FASB Interpretation No. 46 (as revised), the Trust is not consolidated with the Company. Accordingly, the Company reports as liabilities the subordinated debentures issued by the Company and held by the Trust. However, the Company has fully and unconditionally guaranteed the repayment of the trust preferred securities. The Company's equity interest in the Trust ($62 as of December 31, 2007) is included in "Prepaid expense and other assets" on the consolidated balance sheets.

The Company utilizes its borrowings to satisfy a portion of its Tier 1 capital requirement in accordance with the regulations promulgated by the Federal Reserve Board.

NOTE 7 – BORROWINGS (Continued)

Obligation Under Capital Lease

The present value of the Bank's minimum lease payments under capital lease was $171 at December 31, 2007 ($195 at December 31, 2006). See Note 15.

NOTE 8 - INTEREST EXPENSE

A summary of interest expense is as follows:

	2007	**2006**
Demand deposits	$ 846	$ 881
Term deposits	5,131	3,678

	2007	2006
FHLB advances	602	384
Subordinated debentures	135	135
Capital lease obligation	6	7
Repurchase agreements and federal funds purchased	20	8
Total interest expense	$ 6,740	$ 5,093

NOTE 9 - INCOME TAXES

Income taxes as shown in the statements of income differ from the amounts computed using the statutory federal income tax rate as follows:

	2007		2006	
	Amount	Percent of Pretax Income	Amount	Percent of Pretax Income
Federal income tax at statutory rate	$ 84	34.0%	$ 388	34.0 %
Tax exempt interest and dividends	(104)	(42.1)	(91)	(8.0)
State income tax and other , net	24	10.1	61	5.4
	$ 4	2.0%	$ 358	31.4%
Income taxes consist of:				
Current federal	$ 94		$ 286	
Current state	43		64	
Deferred federal	(133)		6	
Deferred state	-		2	
	$ 4		$ 358	

NOTE 9 – INCOME TAXES (Continued)

The tax effect of each type of temporary difference and carryfoward that give rise to deferred tax assets and liabilities is as follows:

	2007	2006
Deferred tax assets:		
Allowance for loan losses	$ 731	$ 506

Deferred loan fees	31	57
Unrealized holding losses on securities available for sale	13	43
Organizational costs	-	1
Total deferred tax assets	775	607
Deferred tax liabilities:		
Depreciation	178	166
FHLB stock dividends	77	77
Discount accretion	29	20
Capitalized lease	41	32
Prepaid expenses	48	20
State tax	21	14
Total deferred tax liabilities	394	329
Net deferred tax assets	$ 381	$ 278

The Company has adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48 ("FIN 48"). There was no material impact from the adoption of FIN 48. It is the Company's policy to recognize interest and penalties associated with uncertain tax positions as components of income taxes. There were no interest or penalties accrued during the year. The Company's federal and state income tax returns are subject to examination for the years 2004, 2005 and 2006.

NOTE 10 - PROFIT SHARING PLAN

The bank has a profit sharing plan which allows all employees to contribute up to the maximum allowed under the IRS code. Contributions to the profit sharing plan made by the Bank are determined annually at the discretion of the Bank's board of directors. Bank contributions to the plan were $50 and $35 for the years ended December 31, 2007 and 2006, respectively.

NOTE 11 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

NOTE 11 - REGULATORY MATTERS (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I capital (as defined in the regulations) to Risk-Weighted Assets (as defined), and of Tier I capital (as defined) to Average Assets (as defined). Management believes, as of December 31, 2007, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, the Bank is categorized as *well capitalized* under the regulatory framework for prompt corrective action. To be categorized as *well capitalized*, the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that date that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table. All amounts are in thousands of dollars.

	Actual		**To Comply With Minimum Capital Requirements**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2007:						
Total Capital (to Risk-Weighted Assets)	$ 20,526	13.1%	$ 12,525	8.0%	$ 15,657	10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 18,564	11.9%	$ 6,266	4.0%	$ 9,399	6.0%
Tier I Capital (to Average Assets)	$ 18,564	9.5%	$ 7,825	4.0%	$ 9,781	5.0%
As of December 31, 2006:						
Total Capital (to Risk-Weighted Assets)	$ 19,784	13.4%	$ 11,807	8.0%	$ 14,759	10.0%
Tier I Capital (to Risk-Weighted Assets)	$ 18,207	12.3%	$ 5,903	4.0%	$ 8,855	6.0%
Tier I Capital (to Average Assets)	$ 18,207	10.1%	$ 7,233	4.0%	$ 9,042	5.0%

NOTE 12 – STOCK BASED COMPENSATION

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment," ("SFAS No. 123R") which was issued by the Financial Accounting Standards Board in December 2004. SFAS No. 123R revises SFAS No. 123 "Accounting for Stock Based Compensation ("SFAS No. 123")," and supersedes APB No. 25, "Accounting to Stock Issue to Employees," ("APB No. 25") and its related interpretations. SFAS No. 123R requires recognition of the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). SFAS No. 123R also requires the measurement of the cost of employee services received in exchange for an award based of grant-date fair value of the award. SFAS No.123R also amends SFAS No. 95 "Statement of Cash Flows," to require that excess tax benefits be reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

The Company adopted SFAS No. 123R using the modified prospective application as permitted under SFAS No. 123R. Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption.

NOTE 12 – STOCK BASED COMPENSATION (Continued)

In 1996, the board of directors approved a stock option plan to provide key employees with additional incentive to contribute to the best interests of the Company. The boards of directors has discretion concerning which eligible persons shall be granted options, the term of each granted option, and the number of shares to be granted. Options must be exercised within ten years from the date they are granted and must include a price per share of at least 85% to 110% of the fair value of the Company's common stock on the date the option was granted. The board of directors reserved 38,950 shares of common stock for issuance during the term of the plan. All options have been awarded under the plan. The options awarded vested over a four-year period and have an exercise price which is equal to the fair value of the stock on the date the options were granted. In 2006, options for 760 shares were exercised.

In 2002, the board of directors approved an additional stock option plan to provide key employees with additional incentive to contribute to the best interests of the Company. The plan terminates in ten years. The board of directors also has discretion concerning which eligible persons shall be granted options, the term of each granted option, and the number of shares for which each option shall be granted. Options must be exercised within ten years from the date they are granted and must include a price per share of at least 100% of the fair value of the Company's common stock on the date the option is granted. The board of directors has limited the number of options that can be issued under this plan to the lesser of 20% of the shares outstanding or 427,224 shares of common stock for issuance during the term of the plan. In 2005, the board of directors awarded a total of 78,750 options at an exercise price of $13, which was equal to the fair value of the stock on the date the options were granted. These options vest over a four-year period. No options have been exercised under this plan.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model as follows:

	2005
Dividend yield	1.37%
Expected life	9 years
Expected volatility	13.65%
Risk-free interest rate	4.01%

TENNESSEE VALLEY FINANCIAL HOLDINGS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2007 and 2006

NOTE 12 – STOCK BASED COMPENSATION (Continued)

A summary of the status of the Company's stock option plans is presented below:

	2007	2006
	Weighted	Weighted

	Shares	Average Exercise Price	Shares	Average Exercise Price
Outstanding at beginning of year	102,200	$ 11.82	107,960	$ 11.84
Granted	0		0	0.00
Exercised	0		(760)	8.00
Rescinded	0		0	0.00
Forfeited	(5,000)	$ 13.00	(5,000)	13.00
Outstanding at end of year	97,200	$ 11.76	102,200	$ 11.82
Options exercisable at year-end	82,200	$ 11.53	67,200	$ 11.20
Weighted-average fair value of options granted during the year	N/A		N/A	

Information pertaining to options outstanding at December 31, 2007 is as follows:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$8.00 - $13.00	97,200	$ 5.14	$ 11.76	82,200	$ 11.53

As of December 31, 2007, there was $4,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements, which is expected to be recognized over 1 year. The aggregate intrinsic value of options (which is the amount by which the stock price exceeded the exercise price of the options) outstanding as of December 31, 2007 was approximately $0.

NOTE 13 – EARNINGS PER SHARE

A reconciliation of the numerators and denominators of the earnings per common share and earnings per common share assuming dilution computations are presented below.

Basic earnings per share	**2007**	**2006**
Net income	$ 243	$ 782
Weighted average common shares outstanding	1,509	1,214
Basic earnings per share	$ 0.16	$ 0.64
Diluted earnings per share	2007	2006
Net income	$ 243	$ 782
Weighted average common shares outstanding	1,509	1,214
Add: dilutive effects of assumed conversions and exercise of	--	13

stock options		
Weighted average common and dilutive potential common shares outstanding	1,509	1,227
Diluted Earnings per Share	$ 0.16	$ 0.63

No stock options were excluded from the earnings per share calculation for 2006. In 2007, all options were considered antidilutive and were excluded from the earnings per share calculation.

NOTE 14 - LEASE COMMITMENTS/RELATED PARTY

The Bank leases certain office facilities and office equipment. On June 1, 2003, the Bank began leasing a branch building that has been classified as a capital lease for financial accounting purposes. This lease is for an initial ten year period with additional renewal options and purchase options.

On March 15, 2004, the Bank began leasing property in Knoxville, Tennessee on thich the Cedar Bluff branch operates. This lease has been classified as an operating lease for financial accounting purposes. The initial tern of the lease is for twenty years with four renewal option periods of five years. The bank has other leases with are classified as operating leases and provide for monthly payments over 12 to 180 months. Total lease expense under noncancellable operating leases for the years ended December 31, 2007 and 2006 totaled $106 and $97 respectively.

The following is a schedule by years of future minimum rental payments required under all noncancellable operating and capital leases as of December 31, 2007:

	Capital Lease	Operating Leases	Total
2008	$ 33	$ 92	$ 125
2009	36	89	125
2010	36	87	123
2011	36	82	118
2012	36	79	115
Thereafter	10	504	514
Total minimum lease payments	187	$ 933	$ 1,120
Less amount representing interest	16		
Present value of minimum lease payments	$ 171		

NOTE 15 - SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

The Bank's primary business activity is with customers located within East Tennessee. As of December 31, 2007 the Bank had concentrations of loans secured by commercial properties and residential and other properties as

shown in Note 4. The usual risk associated with such concentrations is generally mitigated by being spread over several hundred unrelated borrowers and by adequate collateral loan-to-value ratios.

NOTE 16 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments" (SFAS 107), requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. The following methods and assumptions were used to estimate the fair value of the following classes of financial instruments:

Cash and Cash Equivalents - Cash and cash equivalents include cash and due from banks and federal funds sold. For these short-term instruments, the recorded book value is a reasonable estimate of fair value.

Investment Securities available for sale- Quoted market prices are used to determine the estimated fair value of investment securities.

Federal Home Loan Bank Stock – Management does not consider it practicable to estimate the fair value of FHLB stock and also considers its carrying value to be immaterial in relation to the Company's other financial instruments. Therefore, no estimate of fair value is disclosed.

Loans Held for Sale – Loans held for sale are generally short-term in nature and recorded book value is considered to approximate fair value.

Net Loans - The estimated fair value of fixed rate mortgage loans and commercial loans are calculated by discounting future cash flows to their present value. Future cash flows, consisting of both principal and interest payments, are discounted using current Bank rates for similar loans with similar maturities.

The estimated fair value of variable rate loans is considered equal to recorded book value.

Fixed rate installment loans have an average maturity of less than three years, a relatively stable average interest rate, and a variety of credit risks associated with them. The fair value of these loans is estimated by discounting future estimated cash flows to their present value using current Bank rates for similar loans with similar maturities.

The estimated fair value of the allowance for loan losses is considered to be recorded book value. Additionally, the credit exposure known to exist in the loan portfolio is embodied in the allowance for loan losses.

Deposits - The estimated fair value of demand, savings, NOW, and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar maturities.

NOTE 16 - DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Securities Sold Under Agreements to Repurchase - Securities sold under agreements to repurchase are short-term in nature and recorded book value is considered to approximate fair value.

Advances From Federal Home Loan Bank - For advances that are fixed rate and fixed maturity liabilities, their fair value is estimated using rates currently available to the Bank for debt with similar terms and remaining maturities. Book value approximates fair value for advances that have variable rates.

Obligation Under Capital Lease - For 2007 and 2006, the book value approximates fair value since interest rates would not have changed significantly since this obligation was incurred.

Subordinated Debentures – The fair value of the Company's fixed rate subordinated debentures is estimated using discounted cash flows based on rates currently available to the Company for a similar type of borrowing arrangement.

Off-Balance-Sheet Loan Commitments - The fair value of loan commitments is based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. The fair value of these items is not material to the Bank as of December 31, 2007 and 2006.

The recorded book value and estimated fair value of the Bank's financial instruments as of December 31, 2007 and 2006 are as follows:

	2007		2006	
	Recorded Book Value	**Estimated Fair Value**	**Recorded Book Value**	**Estimated Fair Value**
FINANCIAL ASSETS:				
Cash and cash equivalents	$ 12,439	$ 12,439	$ 15,167	$ 15,167
Investment securities available for sale	$ 32,890	$ 32,890	$ 20,156	$ 20,156
Loans held for sale	$ 1,511	$ 1,511	$ 788	$ 788
Net loans	$ 145,951	$ 147,760	$ 141,263	$ 143,270
FINANCIAL LIABILITIES:				
Deposits	$ 163,185	$ 164,315	$ 153,352	$ 154,231
Securities sold under agreements to repurchase	$ 811	$ 811	$ 303	$ 303
Advances from federal home loan bank	$ 18,500	$ 18,926	$ 12,500	$ 12,504
Subordinated debentures	$ 2,062	$ 2,062	$ 2,062	$ 2,226
Obligation under capital lease	$ 171	$ 171	$ 195	$ 195

NOTE 17 - CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

Condensed financial information pertaining only to Tennessee Valley Financial Holdings, Inc. is as follows (amounts in thousands):

CONDENSED BALANCE SHEETS

	As of December 31, 2007	2006
Assets:		
Cash in bank	$ 90	$ 264
Investment in common stock of TNBank	18,541	18,114
Other assets	211	184
Total assets	$ 18,842	$ 18,562
Liabilities:		
Subordinated debentures	$ 2,062	$ 2,062
Other liabilities	43	-
Total liabilities	2,105	2,062
Shareholders' equity:		
Common stock	1,510	1,501
Treasury stock	(7)	-
Capital in excess of par value	11,488	11,319
Retained earnings	3,746	3,680
Total shareholders' equity	16,737	16,500
Total liabilities and shareholders' equity	$ 18,842	$ 18,562

CONDENSED STATEMENTS OF INCOME

	For the years ended December 31, 2007	2006
Income - dividends from TNBank	$ 135	$ -
Operating expenses	(381)	(321)
Income before income tax benefit and equity in undistributed net income of TNBank	(246)	(321)
Income tax benefit	146	123
Equity in undistributed net income of TNBank	343	980
Net income	$ 243	$ 782

NOTE 17 - CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2007	2006
Cash Flows From Operating Activities:		
Net income	$ 243	$ 782
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Equity in undistributed net income of TNBank	(343)	(980)
Stock-based compensation	37	72
Issuance of stock in lieu of directors' fees	63	100
(Increase) decrease in other assets	(27)	(12)
Increase in other liabilities	43	-
Net cash provided (used) by operating activities	16	(38)
Cash Flows From Investing Activities:		
Capital investment in TnBank	(36)	(5,269)
Cash Flows From Financing Activities:		
Proceeds from issuance of common stock	-	5,498
Purchase of treasury stock	(36)	-
Cash dividends paid	(118)	-
Net cash provided by (used in) financing activities	(154)	5,498
Net Increase (Decrease) in Cash and Cash Equivalents	(174)	191
Cash and Cash Equivalents, Beginning of Period	264	73
Cash and Cash Equivalents, End of Period	$ 90	$ 264

ITEM 8 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 8A(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. We have carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including our subsidiary) required to be included in our periodic Securities and Exchange Commission filings. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Exchange Act as a process designated by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of our assets;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the

financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework.

Based on our assessment, management believes that, as of December 31, 2007, our internal control over financial reporting is effective based on those criteria.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this annual report.

Changes in Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting that occurred during the period covered by this Report that has materially affected, or is reasonably likely to materially affect, our internal control over-financial reporting.

ITEM 9 - DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS; COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

The information called for by this Item, to the extent it relates to our directors or to filing obligations of our directors and executive officers under the federal securities laws, is incorporated herein by reference to our 2008 Proxy Statement.

Audit Committee Financial Expert

We do not currently have an "audit committee financial expert" as defined under the rules of the Securities and Exchange Commission, serving on our Audit Committee. We believe that all of the members of the Audit Committee are qualified to serve on the committee and have the experience and knowledge to perform the duties required of the committee. We do not have any independent directors who would qualify as an audit committee financial expert, as defined. We believe that it has been, and may continue to be, impractical to recruit such a director unless and until we are significantly larger.

Code of Ethics

We have adopted a code of ethics that applies to our senior management, including our chief executive officer, vice president (principal accounting officer) and persons performing similar functions. Copies of our code of ethics are available without charge upon written request directed to Kenneth F. Scarbro, Vice President and Chief Financial Officer, TnBank, 401 S. Illinois Avenue, Oak Ridge TN 37830.

The remainder of this item is incorporated by reference to the sections entitled “Management of the Company” and “Beneficial Ownership Reporting Compliance” of our 2008 Proxy Statement.

ITEM 10 - EXECUTIVE COMPENSATION

This item is incorporated by reference to the sections entitled “Executive Compensation,” “Stock Options” and “Directors' Compensation” of our 2008 Proxy Statement.

ITEM 11 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This item is incorporated by reference to the section entitled “Information Regarding Certain Beneficial Owners” of our 2008 Proxy Statement.

ITEM 12 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This item is incorporated by reference to the section entitled “Certain Relationships and Related Transactions” in our 2008 Proxy Statement.

PART IV

ITEM 13 - EXHIBITS

3.1*	Charter of Tennessee Valley Financial Holdings, Inc.
3.(ii)	Bylaws, as amended, of Tennessee Valley Financial Holdings, Inc.
21.1	Subsidiaries of Tennessee Valley Financial Holdings, Inc.
23.1	Consent of Independent Registered Public Accounting Firm
31.1	Certification of Thomas E. Tuck, Chief Executive Officer of Tennessee Valley Financial Holdings, Inc., Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Kenneth F. Scarbro, Chief Financial Officer of Tennessee Valley Financial Holdings, Inc., Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Thomas E. Tuck, Chief Executive Officer of Tennessee Valley Financial Holdings, Inc., Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Kenneth F. Scarbro, Chief Financial Officer of Tennessee Valley Financial Holdings, Inc., Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference to the Company’s Registration Statement on Form 10-SB filed with the Securities and Exchange Commission on June 13, 2002.

ITEM 14 - PRINCIPAL ACCOUNTANT FEES AND SERVICES

This item is incorporated by reference to the section entitled "Principal Accountant Fees and Services" in our 2008 Proxy Statement.

SIGNATURES

In accordance with Section 13 or 15(d) or the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Tennessee Valley Financial Holdings, Inc.

By: /s/ Thomas E. Tuck
Thomas E. Tuck
President and CEO
Date: March 31, 2008

/s/ Kenneth F. Scarbro
Kenneth F. Scarbro
Vice President and
Chief Financial Officer
Date: March 31, 2008

/s/ Thomas E. Tuck
Thomas E. Tuck
President and Chief
Executive Officer, Director
Date: March 31, 2008

/s/ J. Frank Jamison
J. Frank Jamison
Director
Date: March 31, 2008

/s/ A.P. Cappiello
A.P. Cappiello
Director
Date: March 31, 2008

/s/ Larry Beeman
Larry Beeman
Director
Date: March 31, 2008

/s/ Terry L. Kerbs
Terry L. Kerbs
Director
Date: March 31, 2008

/s/ Thomas D. Moye
Dr. Thomas D. Moye, Jr.
Director
Date: March 31, 2008

/s/ William Robert Witt
William Robert Witt
Director
Date: March 31, 2008

EXHIBIT 3(ii)

BYLAWS (as amended)
OF
TENNESSEE VALLEY FINANCIAL HOLDINGS, INC.

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OF
TENNESSEE VALLEY FINANCIAL HOLDINGS, INC.

ARTICLE I

OFFICES

1.1 Principal Office. The principal offices of this corporation are 401 South Illinois Avenue, Oak Ridge, Anderson County, Tennessee 37830. The said principal office may be changed at any time by appropriate resolution of the Board of Directors. The corporation may have offices and places of business at such other places within or without the State of Tennessee as shall be determined by the Board of Directors.

1.2 Registered Office. The registered office of the corporation for any particular state may be, but need not be, identical with the principal office of the corporation in that state, and the address of the registered office may be changed from time to time by appropriate resolution of the Board of Directors.

ARTICLE II

SHAREHOLDERS

2.1 Meetings. All meetings of shareholders shall be held either in the principal office of the corporation or at any other place within or without the City of Oak Ridge, Tennessee.

2.2 Annual Meeting. A meeting of the shareholders shall be held on or before the second Tuesday of May each year at a time and place designated by the Board of Directors or on such other date as the Board of Directors in its sole discretion may designate for the purpose of electing directors and for the transaction of any other business authorized to be transacted by the shareholders. If the appointed day is a legal holiday the meeting shall be held at the same time on the next succeeding day not a holiday. In the event that the annual meeting is omitted by oversight or otherwise on the date herein provided for, the directors shall cause a meeting in lieu thereof to be held as soon thereafter as conveniently may be, and any business transacted or elections held at such meeting shall be as valid as if transacted or held at the annual meeting. Such subsequent meeting shall be called in the same manner as provided for the annual shareholders meeting.

2.3 Special Meetings. Except as otherwise provided by law, special meetings of the shareholders of this corporation shall be held at such places and times as may be determined by a majority of the Board of Directors, or whenever one or more shareholders who are entitled to vote and who hold at least ten percent (10%) of the common shares issued and outstanding shall make written application therefor to the Secretary or an Assistant Secretary stating the time, place and purpose of the meeting to be called. No business shall be transacted at a special meeting except as stated in the notice sent to the shareholders.

2.4 Notice Of Meetings. Notice of all shareholders' meetings stating the time, place and the objects for which such meetings are called shall be given by the President or the Vice-President or the Treasurer or the Secretary or an Assistant Secretary to each shareholder of record not less than ten (10) days or more than two (2) months prior to the date of the meeting by written notice delivered personally or mailed to each shareholder. If delivered personally, such notice shall be deemed to be delivered when received. If mailed, such notice shall be deemed to be delivered when deposited in the United States Mail in a sealed envelope with postage thereon prepaid, addressed to the shareholder at his address as it appears on the stock record books of the corporation, unless he shall have filed with the Secretary of the corporation a written request that notice intended for him be mailed to some other address, in which case it shall be mailed to the address designated in such request.

Any meeting at which all shareholders entitled to vote have waived or at any time shall waive notice shall be a legal meeting for the transaction of business, notwithstanding that notice has not been given as hereinbefore provided. The waiver must be in writing, signed by the shareholder entitled to the notice, and be delivered to the corporation for inclusion in the minutes or filing with the corporate records.

2.5 Notice of Right to Dissent. If shareholders are to vote at a meeting on a corporate action which would give rise to a dissenter's right to payment for his shares in accordance with the Tennessee Business

Corporation Act, notice of such meeting shall be given to every shareholder who will be entitled to dissent from such action and to receive payment for his shares whether or not entitled to vote thereon. Such notice shall be given in accordance with the provisions of Section 2.4 of this Article and shall also contain a statement, displayed with reasonable prominence, that upon compliance with the Tennessee Business Corporation Act, dissenting shareholders are entitled to be paid the fair value of their shares as provided in said Act, and shall be accompanied by a copy of chapter 23 of the Tennessee Business Corporation Act.

2.6 Closing of Transfer Books or Fixing of Record Date. For the purpose of determining the shareholders entitled to notice of or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors of the corporation may provide that the stock transfer book shall be closed for a stated period not to exceed in any case thirty days. If the stock transfer book shall be closed for the purpose of determining shareholders, such books shall be closed for at least ten (10) days immediately preceding such meeting. In lieu of closing the stock transfer books, the Board of Directors may fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than forty-five (45) days and, in case of a meeting of shareholders, not less than ten (10) days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the stock transfer books are not closed and no record date is fixed for the determination of shareholders entitled to notice of or to vote at a meeting of shareholders, or shareholders entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of shareholders. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this Section, such determination shall apply to any adjournment thereof.

2.7 Voting Lists. The officer or agent having charge of the stock transfer books for common shares of the corporation shall make available, within two (2) business days after notice of a meeting is given, a complete list of the shareholders entitled to vote at such meeting or any adjournment thereof, arranged in alphabetical order, with the address of and the number of shares held by each shareholder, which list, for a period beginning within two (2) business days after notice of such meeting is given shall be kept on file at the registered office of the corporation and shall be subject to inspection by any shareholder at any time during usual business hours. Such list shall be kept open at the time and place of the meeting and be subject to the inspection of any shareholder during the entire time of the meeting. In the event of any challenge to the right of any person to vote at the meeting, the presiding officer at such meeting may rely on said list as proper evidence of the right of parties to vote at such meeting.

2.8 Quorum. Except as may be otherwise provided by law, a majority of the outstanding shares of the corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. In the event that a majority of the outstanding shares are represented at any meeting, action on a matter is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the question is one upon which by express provision of law or of the certificate of incorporation or of these bylaws a larger or different vote is required, in which case such express provision shall govern and control the decision of each question.

2.9 Proxies. Shareholders of record who are entitled to vote may vote at any meeting either in person or by proxy in writing, which shall be filed with the Secretary of the meeting before being voted. Such proxy shall entitle the holders thereof to vote at any adjournment of such meeting, but shall not be valid after the final adjournment thereof. No proxy shall be valid after the expiration of eleven months from the date of its execution unless the shareholder executing it shall have specified therein the length of time it is to continue in force, which shall be for some limited period.

2.10 Voting of Shares. Except as otherwise provided in the certificate of incorporation or these bylaws, each outstanding share entitled to vote shall be entitled to one vote upon each matter submitted to a vote at a meeting of shareholders.

Shares standing in the name of another corporation may be voted by such officer, agent or proxy as the bylaws of such corporation may prescribe, or in the absence of such provision, as the Board of Directors of such corporation may determine.

Shares held by an administrator, executor, guardian or conservator may be voted by him, either in person or by proxy, without a transfer of such shares into his name. Shares standing in the name of a trustee may be voted by him, either in person or by proxy, but no trustee shall be entitled to vote shares held by him without a transfer of such shares into his name.

Shares standing in the name of a receiver may be voted by such receiver and shares held by or under the control of a receiver may be voted by such receiver without the transfer thereof into his name, if authority so to do be contained in an appropriate order of the court by which such receiver was appointed.

A shareholder whose shares may be pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred.

Shares of its own stock belonging to the corporation or held by it in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding shares at any given time.

2.11 Informal Action by Shareholders. Any action required to be taken at a meeting of the shareholders, or any other action which may be taken at a meeting of the shareholders, may be taken without a meeting if all shareholders entitled to vote on the action consent to taking such action without a meeting. If all shareholders entitled to vote on the action consent to taking such action without a meeting, then the affirmative vote of the number of shares necessary to authorize such action at a meeting is the act of the shareholders.

The action must be evidenced by one or more written consents describing the action taken, signed by each shareholder entitled to vote on the action, indicating each signing shareholder's vote or abstention on the action, and delivered to the corporation for inclusion in the minutes or filing with the corporate records.

ARTICLE III

BOARD OF DIRECTORS

3.1 Number, Tenure and Qualifications. The Board of Directors of this corporation shall be elected by the shareholders. The number of directors of this corporation shall be fixed at nine (9) and shall be modified from time to time in the discretion of the Board of Directors. The directors shall be chosen by ballot annually by the shareholders at their annual meeting or at any meeting held in place thereof as provided by law. Each director shall serve until the next annual meeting of the shareholders or until his successor is duly elected and qualified. Directors shall be of full age of the State of their residence and citizens of the United States, but directors need not be residents of the State of Tennessee nor shareholders of the corporation.

3.2 Powers of Directors. The Board of Directors shall have the entire management of the business of the corporation. In the management and control of the property, business and affairs of the corporation, the Board of Directors is hereby vested with all the powers possessed by the corporation itself, so far as this delegation of authority is not inconsistent with the laws of the State of Tennessee, with the certificate of incorporation of the corporation, or with these bylaws. The Board of Directors shall have the power to determine what constitutes net earnings, profits, and surplus, respectively, what amount shall be reserved for working capital and to establish reserves for any other proper purpose, and what amount shall be declared as dividends, and such determination by the Board of Directors shall be final and conclusive. The Board of Directors shall have the power to declare dividends for and on behalf of this corporation, which dividends may include or consist of stock dividends.

3.3 Regular Meetings of the Board. Immediately after the annual election of directors, the newly elected directors may meet at the same place for the purpose of organization, the election of corporate officers and the transaction of other business; if a quorum of the directors be then present no prior notice of such meeting shall be required. Other regular meetings of the Board shall be held at such times and places as the Board by resolution may determine and specify, and if so determined no notice thereof need be given, provided that unless all the directors are present at the meeting at which said resolution is passed, the first meeting held pursuant to said resolution shall not be held for at least five (5) days following the date on which the resolution is passed.

3.4 Special Meetings. Special meetings of the Board of Directors may be held at any time or place whenever called by the President, or the Vice-President or the Treasurer or the Secretary, or by written request of at least two directors, or if there be less than five (5) directors in office, by any one director, notice thereof being given to each director by the Secretary or other officer calling the meeting, or they may be held at any time without formal notice provided all of the directors are present or those not present shall at any time waive or have waived notice thereof.

3.5 Notice. Notice of any special meetings shall be given at least two (2) days previously thereto by written notice delivered personally or by telegram. If mailed, such notice shall be mailed to each director at his business address no less than five (5) days previously thereto, and shall be deemed to be delivered when deposited in the United States mail so addressed, with postage thereon prepaid. If notice be given by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the telegraph company.

3.6 Meetings by any Form of Communication. The Board of Directors shall have the power to permit any and all directors to participate in a regular or special meeting by, or conduct the meeting through the use of any means of communication by which all directors participating may simultaneously hear each other during the meeting. A Director participating in a meeting by this means is deemed to be present in person at the meeting.

3.7 Quorum. A majority of the members of the Board of Directors as constituted for the time being shall constitute a quorum for the transaction of business, but a lesser number may adjourn any meeting and the meeting may be held as adjourned without further notice. When a quorum is present at any meeting, a majority of the members present thereat shall decide any question brought before such meeting, except as otherwise provided by law or by these bylaws. The fact that a director has an interest in a matter to be voted on by the meeting shall not prevent his being counted for purposes of a quorum.

3.8 Vacancies. Any vacancy occurring in the Board of Directors, including vacancies by virtue of removal for cause, may be filled by the vote of a majority of the Directors then serving as directors.

3.9 Compensation. By resolution of the Board of Directors, the directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors, and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as a director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor.

3.10 Removal. Any director may be removed without cause by a majority vote of the shareholders. A director may be removed for cause by a majority of the entire Board of Directors. Cause shall be defined as the final conviction of a felony, declaration of unsound mind by court order, adjudication of bankruptcy, nonacceptance of office or conduct prejudicial to the interest of the corporation. A director may be removed by the Shareholders or directors only at a meeting called for the purpose or removing him and the meeting notice must state that the purpose, or one of the purposes, of the meeting is the removal of a director or directors.

3.11 Committees. The majority of the Board of Directors may appoint an executive committee or such other committees as it may deem advisable, composed of one (1) or more directors, and may delegate authority to such committees as is not inconsistent with the Tennessee Business Corporation Act. The members of such committee shall serve at the pleasure of the Board of Directors.

3.12 Presumption of Assent. A director of the corporation who is present at a meeting of the Board of Directors at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

3.13 Informal Action by Directors. Any action required to be taken at a meeting of the Board of Directors, or any other action which may be taken at a meeting of the Board of Directors, may be taken without a meeting if all directors consent to taking such action without a meeting. If all directors consent to taking such action without a meeting, the affirmative vote of the majority of the directors is the act of the board. The action must be evidenced by one or more written consents describing the action taken, signed by each director, indicating each

signing director's vote or abstention on the action, and shall be included in the minutes or filed with the corporate records reflecting the action taken.

ARTICLE IV

WAIVER OF NOTICE

Whenever any notice whatever is required to be given by these bylaws, or the certificate of incorporation of this corporation, or any other corporation laws of the State of Tennessee, a waiver thereof in writing signed by the person or persons entitled to such notice and filed with the minutes or corporate records, whether before or after the time stated therein, shall be deemed equivalent thereto. Where the person or persons entitled to such notice sign the minutes of any shareholder's or directors meeting, which minutes contain the statement that said person or persons have waived notice of the meeting, then such person or persons are deemed to have waived notice in writing.

ARTICLE V

OFFICERS

5.1 Number. The officers of the corporation shall be a Chairman of the Board, a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a Secretary, and a Treasurer, each of whom shall be elected by the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be elected or appointed by the Board of Directors. Any two or more offices may be held by the same person, except the offices of President and Secretary.

5.2 Election and Term of Office. The officers of the corporation to be elected by the Board of Directors shall be elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting of the shareholders. If the election of officers shall not be held in such meeting, such election shall be held as soon thereafter as conveniently may be. No officer shall be elected for a term in excess of one (1) year. Subject to the foregoing, each officer shall hold office until his successor shall have been duly elected and shall have qualified or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

5.3 Removal. Any officer or agent elected or appointed by the Board of Directors may be removed by the Board of Directors whenever in its judgment the best interests of the corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed.

5.4 Vacancies. A vacancy in any office because of death, resignation, removal, disqualification or otherwise, may be filled by the Board of Directors for the unexpired portion of the term.

5.5 Chairman of the Board. The Chairman shall, when present, preside at all meetings of the shareholders and of the Board of Directors and in general shall perform all duties incident to the office of Chairman and such other duties as may be prescribed by the Board of Directors from time to time.

5.6 The President. The President shall be subject to the control of the Board of Directors and shall in general supervise and control all of the business and affairs of the corporation. He shall, in the absence of the Chairman, preside at all meetings of the shareholders and of the Board of Directors. He may sign, with the Secretary or any other proper officer of the corporation thereunto authorized by the Board of Directors, certificates for shares of the corporation, any deed, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the Board of Directors or by these bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

5.7 The Secretary. The Secretary shall: (a) keep the minutes of the shareholders' and of the Board of Directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (c) be custodian of the corporate records and of the seal (if any) of the corporation and see that said seal is affixed to all documents, the execution of which on

behalf of the corporation under its seal is duly authorized; (d) keep a register of the post office address of each shareholder which shall be furnished to the Secretary by such shareholder; (e) sign with the President certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general charge of the stock transfer books of the corporation; and (g) in general perform all duties as from time to time may be assigned to him by the President or by the Board of Directors.

5.8 The Treasurer. If required by the Board of Directors, the Treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall determine. He shall: (a) have charge and custody of and be responsible for all funds and securities of the corporation; receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such banks, trust companies or other depositories as shall be selected in accordance with the provisions of Article VI of these bylaws; and (b) in general perform all of the duties incident to the office of Treasurer and such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

5.9 Assistant Secretaries and Assistant Treasurers. The Assistant Secretaries, when authorized by the Board of Directors, may sign with the President certificates for shares of the corporation the issuance of which shall have been authorized by a resolution of the Board of Directors. The Assistant Treasurers shall respectively, if required by the Board of Directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the Board of Directors shall determine. The Assistant Secretaries and Assistant Treasurers, in general, shall perform such duties as shall be assigned to them by the Secretary or the Treasurer, respectively, or by the President or the Board of Directors.

5.10 Registered Agent. The Board of Directors shall appoint a Registered Agent for the corporation in accordance with the Tennessee Business Corporation Act and may pay the agent such compensation from time to time as it may deem appropriate.

ARTICLE VI

CONTRACTS, LOANS, CHECKS AND DEPOSITS

6.1 Contracts. The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances.

6.2 Loans. No loans shall be contracted on behalf of the corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors. Such authority may be general or confined to specific instances. Provided, however, that the corporation shall not make any loan other than a sale on credit in the ordinary course of business or a life insurance policy loan, either directly or indirectly, to any director or officer of the corporation except with the consent of the holders of a majority of all the outstanding shares owned or controlled by shareholders other than a shareholder for whose benefit such action is being taken, or if the Board of Directors determines that the loan benefits the corporation and approves the transaction.

6.3 Checks, Drafts, etc. All checks, drafts, or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the corporation, shall be signed by such officer or officers, agent or agents of the corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

6.4 Deposits. All funds of the corporation not otherwise employed shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositories as the Board of Directors may select.

ARTICLE VII

SHARES OF STOCK

7.1. Form of Shares. Shares of the corporation may be owned either in (i) certificated form, in which ownership of the shares is represented by a physical certificate, or (ii) uncertificated form, pursuant to a Direct Registration System in connection with which shares will be held in book-entry form and no physical certificate is printed. Each shareholder shall be entitled upon request to a certificate or certificates which shall represent and

certify the number and kind and class of shares owned by him in the corporation. Each certificate shall be signed by the President or Vice President and by the Secretary or the Assistant Secretary and shall be sealed with the corporate seal.

7.2. Signatures. The signatures on a certificated stock certificate may be either manual or facsimile signatures and the seal may be either facsimile or any other form of seal. In case any officer who has signed any certificates ceases to be an officer of the corporation before the certificate is issued, the certificate may nevertheless be issued by the corporation with the same effect as if the officer had not ceased to be such officer as of the date of its issue. All certificates surrendered to the corporation for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in case of a lost, destroyed or mutilated certificate, a new one may be issued therefor upon such terms and indemnity to the corporation as the Board of Directors may prescribe.

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3. Transfer of Shares. Transfers of shares shall be made either (i) if in certificated form, by a transfer of the stock certificate representing the shares, or (ii) if in uncertificated form, by electronic book-entry transfer pursuant to a Direct Registration System. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, or upon transfer of book-entry ownership, it shall be the duty of the corporation to issue new shares to the person entitled thereto, cancel the old shares and record the transaction upon its books. The person registered on the books of the corporation as the owner of any shares of stock shall be entitled to all the rights of ownership with respect to such shares.

ARTICLE VIII

DIVIDENDS

The Board of Directors may from time to time declare, and the corporation may pay dividends on its outstanding shares in the manner and upon the terms and conditions provided by the Tennessee Business Corporation Act and by its charter.

ARTICLE IX

FISCAL YEAR

The books of the corporation shall be on a calendar or fiscal year basis as determined by resolution of the Board of Directors.

ARTICLE X

SEAL

This corporation may or may not have a seal and in any event the failure to affix a corporate seal to any instrument executed by the corporation shall not affect the validity thereof. If a seal is adopted, the seal of this corporation shall include the following letters cut or engraved thereon:

TENNESSEE VALLEY FINANCIAL HOLDINGS, INC.
"CORPORATE SEAL"
2002
"TENNESSEE"

ARTICLE XI

INDEMNIFICATION OF DIRECTORS AND OFFICERS

11.1 Civil Proceedings. The corporation shall indemnify an individual made a party to a proceeding because he is or was a director or officer of the corporation against liability incurred in any civil proceeding if he conducted himself in good faith and in the case of conduct in his official capacity with the corporation, he reasonably believed that his conduct was in the best interest of the corporation, or in all other cases he reasonably believed that his conduct was at least not opposed to the best interest of the corporation.

11.2 Criminal Proceedings. The corporation shall indemnify any individual made a party to a criminal proceeding because he is or was a director or officer of the corporation against any liability incurred in any criminal proceeding if he had no reasonable cause to believe his conduct was unlawful.

11.3 Employee Benefit Plan. The corporation shall indemnify any individual made a party to any proceeding because he is or was a director or officer of the corporation against any liability incurred in any proceeding relating to any employee benefit plan maintained by the corporation if his conduct with respect to said employee benefit plan was for a purpose he reasonably believed to be in the interests of the participants and the beneficiaries of the plan and his conduct was not opposed to the best interests of the corporation.

11.4 Limitations. The termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent is not, of itself, determinative that the director or officer did not meet the standard of conduct required in this Article. However, the corporation will not indemnify a director or officer if in connection with a proceeding by or in the right of the corporation in which the director was adjudged liable to the corporation, or in connection with any other proceeding charging improper personal benefit to him, whether or not involving action in his official capacity, in which he was adjudged liable on the basis that personal benefit was improperly received by him. The corporation will indemnify a director or officer who is wholly successful, on the merits or otherwise, in the defense of any proceeding to which he was a party because he is or was a director or officer of the corporation against reasonable expenses incurred by him in connection with the proceeding.

11.5 Advance for Expenses. The corporation shall pay for or reimburse the reasonable expenses incurred by a director or officer who is a party to a proceeding in advance of final disposition of the proceeding if the director or officer furnishes the corporation a written affirmation of his good faith belief that he has met the standard of conduct required in this Article, furnishes the corporation a written undertaking, executed personally or on his behalf, secured or unsecured, to repay the advance if it is ultimately determined that he did not meet the required standard of conduct, and a determination is made that the facts then known to those making the determination would not preclude indemnification of said director or officer.

11.6 Authorization. A majority vote of the Board of Directors shall determine whether or not indemnification of a director or officer is permissible under the circumstances because he has met the required standard of conduct. Alternatively, a majority vote of the Board of Directors may appoint an independent special legal counsel to determine whether or not indemnification of a director or officer is permissible under the circumstances because he has met the required standard of conduct.

11.7 Insurance. The corporation may purchase and maintain insurance on behalf of an individual who is or was a director, officer, employee, or agent of the corporation, or who, while a director, officer, employee, or agent of the corporation, is or was serving at the request of the corporation as a director, officer, partner, trustee, employee, or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise, against liability asserted against or incurred by him in that capacity or arising from his status as a director, officer, employee, or agent, whether or not the corporation would have power to indemnify him against the same liability under applicable state law.

11.8 Interpretation. This Article shall be interpreted to allow indemnification of directors and officers to the fullest extent allowable under Title 48 of the Tennessee Code Annotated as amended from time to time.

ARTICLE XII

AMENDMENTS

The bylaws of this corporation may be altered, amended or repealed and new bylaws may be adopted at any meeting of the Board of Directors of the corporation by a majority vote of the directors present at the meeting or at any meeting of the shareholders if the votes cast favoring the amendment exceed the votes cast opposing the amendment.

EXHIBIT 21.1

Subsidiary	State of Incorporation
TNBANK	Tennessee
Tennessee Valley Statutory Trust I	Delaware

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors
Tennessee Valley Financial Holdings, Inc.

We consent to the incorporation by reference in the registration statement (No. 333-120500) on Form S-3 of Tennessee Valley Financial Holdings, Inc. and of our report dated March 31, 2008, with respect to the consolidated financial statements of Tennessee Valley Financial Holdings, Inc. and subsidiary, which report appears in Tennessee Valley Financial Holdings Inc.'s 2007 Annual Report on Form 10-K.

/s/ Dixon Hughes PLLC

Asheville, North Carolina
March 31, 2008

EXHIBIT 31.1

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas E. Tuck, certify that:

1. I have reviewed this annual report on Form 10-KSB of Tennessee Valley Financials Holdings, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) 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 Rule 13a-15(f) and 15d-15(f)) for the small business issuer and 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 small business issuer, 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 desinged under our supervisions, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the small business issuer'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;

d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2008

/s/ Thomas E. Tuck

Thomas E. Tuck
President and Chief Executive Officer

EXHIBIT 31.2

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kenneth F. Scarbro, certify that:

1. I have reviewed this annual report on Form 10-KSB of Tennessee Valley Financials Holdings, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;

4. The small business issuer's other certifying officer(s) 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 Rule 13a-15(f) and 15d-15(f)) for the small business issuer and 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 small business issuer, 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 desinged under our supervisions, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the small business issuer'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;

d) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: March 31, 2008

/s/ Kenneth F. Scarbro

Kenneth F. Scarbro
Chief Financial Officer

EXHIBIT 32.1

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 this annual report on Form 10-KSB of Tennessee Valley Financial Holdings, Inc., I, Thomas E. Tuck, Chief Executive Officer of Tennessee Valley Financial Holdings, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Tennessee Valley Financial Holdings, Inc.

Date: March 31, 2008

/s/ Thomas E. Tuck

Thomas E. Tuck
President and
Chief Executive Officer

EXHIBIT 32.2

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 this annual report on Form 10-KSB of Tennessee Valley Financial Holdings, Inc., I, Jason B. Wilkinson, Vice President (principal accounting and financial officer) of Tennessee Valley Financial Holdings, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Tennessee Valley Financial Holdings, Inc.

Date: March 31, 2008

/s/ Kenneth F. Scarbro
Kenneth F. Scarbro
Vice President and Chief Financial Officer