# FORM 10-K

## SOUTH FINANCIAL GROUP INC - TSFG

**Filed: February 29, 2008 (period: December 31, 2007)**

Annual report which provides a comprehensive overview of the company for the past year

# Table of Contents


10-K - THE SOUTH FINANCIAL GROUP

## PART I

| | |
|---|---|
| **Item 1.** | Business |
| **Item 8,** | Note 30 to the Consolidated Financial Statements discusses TSFG s business segments, which information is incorporated herein by reference. |
| **Item 1A.** | Risk Factors |
| **Item 1B.** | Unresolved Staff Comments |
| **Item 2.** | Properties |
| **Item 3.** | Legal Proceedings |
| **Item 4.** | Submission of Matters to a Vote of Shareholders |

## PART II

| | |
|---|---|
| **Item 5.** | Market for the Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities |
| **Item 6.** | Selected Financial Data |
| **Item 7.** | Management s Discussion and Analysis of Financial Condition and Results of Operations |
| **Item 7A.** | Quantitative and Qualitative Disclosures about Market Risk |
| **Item 8.** | Financial Statements and Supplementary Data |
| **Item 9.** | Changes in and Disagreements with Accountants on Accounting and Financial Disclosure |
| **Item 9A.** | Controls and Procedures |
| **Item 9B.** | Other Information |

## PART III

| | |
|---|---|
| **Item 10.** | Directors, Executive Officers and Corporate Governance |
| **Item 11.** | Executive Compensation |
| **Item 12.** | Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters |
| **Item 13.** | Certain Relationships and Related Transactions, and Director Independence |
| **Item 14.** | Principal Accountant Fees and Services |

## PART IV

| | |
|---|---|
| **Item 15.** | Exhibits and Financial Statement Schedules |

SIGNATURES

INDEX TO EXHIBITS

EX-10.6 (EXHIBIT 10.6)

EX-10.7 (EXHIBIT 10.7)

EX-10.8 (EXHIBIT 10.8)

EX-10.19 (EXHIBIT 10.19)

EX-10.20 (EXHIBIT 10.20)

EX-10.24 (EXHIBIT 10.24)

EX-10.27 (EXHIBIT 10.27)

EX-21.1 (EXHIBIT 21.1)

EX-23.1 (EXHIBIT 23.1)

EX-23.2 (EXHIBIT 23.2)

EX-31.1 (EXHIBIT 31.1)

EX-31.2 (EXHIBIT 31.2)

EX-32.1 (EXHIBIT 32.1)

EX-32.2 (EXHIBIT 32.2)

## SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# Form 10-K

☑ **Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**

**for the fiscal year ended December 31, 2007 or**

☐ **Transition report pursuant to section 12 or 15(d) of the Securities Exchange Act of 1934**

**for transition period from to**

**Commission File Number: 0-15083**

# The South Financial Group, Inc.
(Exact Name of Registrant as Specified in its Charter)

| **South Carolina** | **57-0824914** |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| **102 South Main Street, Greenville, South Carolina** | **29601** |
| (Address of principal executive offices) | (Zip Code) |

**(864) 255-7900**
Registrant's telephone number, including area code

**Securities registered pursuant to Section 12(b) of the Act:**

| **None** | **None** |
|---|---|
| (Title of Each Class) | (Name of each exchange on which registered) |

**Securities registered pursuant to Section 12(g) of the Act:**
**Common Stock, $1.00 Par Value**
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐.

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No☑.

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer ☑ | Accelerated filer ☐ | Non-accelerated filer ☐<br>(Do not check if a smaller reporting company) | Smaller reporting company ☐ |
|---|---|---|---|

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant, computed by reference to the closing price of such stock on June 30, 2007, was approximately $1.6 billion.

The number of shares of the Registrant's common stock, $1.00 par value, outstanding on February 21, 2008 was 72,599,009.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement relating to the 2008 Annual Meeting of Shareholders filed with the Securities and Exchange Commission are specifically identified and incorporated by reference into Part II and III.

The Exhibit Index begins on page 120

## INDEX


| | Page |
|---|---|
| **PART I** | |
| Item 1. Business | 1 |
| Item 1A. Risk Factors | 9 |
| Item 1B. Unresolved Staff Comments | 11 |
| Item 2. Properties | 11 |
| Item 3. Legal Proceedings | 11 |
| Item 4. Submission of Matters to a Vote of Shareholders | 11 |
| **PART II** | |
| Item 5. Market for the Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities | 12 |
| Item 6. Selected Financial Data | 14 |
| Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| Item 7A. Quantitative and Qualitative Disclosures about Market Risk | 56 |
| Item 8. Financial Statements and Supplementary Data | 57 |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 111 |
| Item 9A. Controls and Procedures | 111 |
| Item 9B. Other Information | 112 |
| **PART III** | |
| Item 10. Directors, Executive Officers, and Corporate Governance | 113 |
| Item 11. Executive Compensation | 113 |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters | 113 |
| Item 13. Certain Relationships and Related Transactions, and Director Independence | 113 |
| Item 14. Principal Accountant Fees and Services | 113 |
| **PART IV** | |
| Item 15. Exhibits and Financial Statement Schedules | 114 |
| Exhibit 10.6 | |
| Exhibit 10.7 | |
| Exhibit 10.8 | |
| Exhibit 10.19 | |
| Exhibit 10.20 | |
| Exhibit 10.24 | |
| Exhibit 10.27 | |
| Exhibit 21.1 | |
| Exhibit 23.1 | |
| Exhibit 23.2 | |
| Exhibit 31.1 | |
| Exhibit 31.2 | |
| Exhibit 32.1 | |
| Exhibit 32.2 | |

# PART I

## Item 1. *Business*

### The Company

The South Financial Group, Inc. is a South Carolina corporation headquartered in Greenville, South Carolina. "TSFG" refers to The South Financial Group, Inc. and its subsidiaries, except where the context requires otherwise. TSFG is a financial holding company, as defined by the Gramm-Leach-Bliley Act of 1999. TSFG operates principally through Carolina First Bank, a South Carolina-chartered commercial bank, which conducts banking operations in South Carolina and North Carolina (as Carolina First Bank), in Florida (as Mercantile Bank), and on the internet (as Bank CaroLine).

TSFG's subsidiaries provide a full range of financial services, including deposits, loans, treasury management, merchant processing, full-service brokerage and investments, business and personal insurance, trust, investment management, and financial planning. At December 31, 2007, TSFG conducted business through 79 branch offices in South Carolina, 66 in Florida, and 27 in North Carolina. At December 31, 2007, TSFG had $13.9 billion in assets, $10.2 billion in loans, $9.8 billion in deposits, $1.6 billion in shareholders' equity, and $1.1 billion in market capitalization.

TSFG began its operations in 1986 under the name "Carolina First Corporation" with the de novo opening of its banking subsidiary, Carolina First Bank, in Greenville, South Carolina. Its opening was undertaken, in part, in response to opportunities resulting from the takeovers of several South Carolina-based banks by larger Southeastern regional bank holding companies in the mid-1980s. In the late 1990's, TSFG perceived a similar opportunity in Florida where banking relationships were in a state of flux due to the acquisition of several larger Florida banks. In 1999, TSFG entered the Florida market with the same view of capitalizing on the environment through strategic acquisitions. Substantial expansion in Florida occurred as a result of three bank acquisitions in 2004 and 2005. TSFG entered North Carolina in 2000 through the acquisition of a bank which had three branch locations in eastern North Carolina, and then expanded its presence there in 2003 via a bank acquisition in western North Carolina.

TSFG focuses on attractive Southeastern banking markets with long-term growth potential. TSFG has emphasized internal growth through the acquisition of market share from the large out-of-state bank holding companies and other competitors. It attempts to acquire market share by providing quality banking services and personal service to individuals and business customers. Approximately half of TSFG's total asset growth has come from bank acquisitions completed from 1990 to 2005.

### Available Information

All of TSFG's electronic filings with the Securities and Exchange Commission ("SEC"), including its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are accessible at no cost on TSFG's web site, www.thesouthgroup.com, through the "Investor Relations" link. In addition, through the "Corporate Governance" link, TSFG makes available its Corporate Governance Guidelines, Code of Conduct, Code of Ethics for Senior Executive and Financial Officers, Whistleblower Policy, and charters for Board Committees, including the Executive, Audit, Compensation, Nominating and Corporate Governance, and Risk Committees. TSFG's SEC filings are also available through the SEC's web site at www.sec.gov.

### Subsidiary Bank

TSFG manages its banking operations by dividing its franchise by the three states and then into banking markets run by market presidents. This structure allows TSFG to operate like a community bank focusing on personal customer service. However, because of the size of the overall organization, TSFG's subsidiary bank can also offer a full range of sophisticated products and services more typical of larger regional banks.

Prior to July 1, 2007, TSFG's Florida banking operations were conducted through a separately-chartered banking subsidiary, Mercantile Bank. However, effective July 1, 2007, Mercantile Bank was merged with and into Carolina First Bank. Subsequent to the merger, the former Mercantile Bank now operates as a division of Carolina First Bank, still under the name "Mercantile Bank."



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Carolina First Bank, headquartered in Greenville, South Carolina, engages in general banking business in South Carolina and coastal and western North Carolina (as Carolina First Bank), in Florida (as Mercantile Bank) and on the internet (as Bank CaroLine).

Carolina First Bank currently focuses its South Carolina and North Carolina operations in the following six principal market areas:

- the Greenville and Anderson metropolitan area (located in the Upstate region of South Carolina);
- the Hendersonville and Asheville metropolitan area (located in the Western region of North Carolina);
- the Rock Hill, or greater South Charlotte, metropolitan area (located in the Piedmont region of South Carolina);
- the Columbia metropolitan area (located in the Midlands region of South Carolina);
- the Myrtle Beach, Georgetown, and Wilmington metropolitan areas (located in the North Coast of South Carolina and Wilmington, North Carolina ); and
- the Charleston and Hilton Head metropolitan areas (located in the South Coast of South Carolina).

TSFG entered Florida in 1999 with two acquisitions in central Florida and a de novo branch in Jacksonville. Since then, TSFG has completed five other Florida acquisitions. Carolina First Bank currently operates (as Mercantile Bank) in six principal Florida market areas:

- the Jacksonville metropolitan area (located in the North East Florida region);
- the Gainesville metropolitan area (located in the North Central region);
- the Marion County area (located in the Mid Florida region);
- the Orlando metropolitan area (located in the Central Florida region);
- the Tampa Bay metropolitan area (located in the Tampa Bay region);
- the Palm Beach County, Miami-Dade County, and Broward County area (located in the South Florida region).

Because some of our markets are resort areas that are seasonal in nature, most of the businesses in those markets, including financial institutions, are subject to moderate swings in activity between the winter and summer months. Otherwise, Carolina First Bank's business is not subject to significant seasonal factors.

Carolina First Bank targets small business, middle market companies, and retail consumers in its market areas. Carolina First Bank provides a full range of commercial and consumer banking services, including deposits and loans; treasury management and merchant processing; full-service brokerage and investments; and wealth management and private banking. In 1999, Carolina First Bank began offering Internet banking services, including bill payment, through Carolina First Bank's web site and Bank CaroLine, an Internet-only banking product. Carolina First Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC").

**Non-Bank Subsidiaries**

TSFG has a number of non-bank subsidiaries. The following describes certain of the more significant subsidiaries.

*American Pensions, Inc.* In 2003, TSFG acquired American Pensions, Inc. ("API"), which is a retirement plan administrator headquartered in Mount Pleasant, South Carolina. At December 31, 2007, API had 224 retirement plan accounts with approximately $667 million in plan assets.

*Bowditch Insurance Corporation.* In 2005, TSFG acquired Bowditch Insurance Corporation and Lossing Insurance Agency, both property and casualty insurance companies operating in northern Florida. Lossing Insurance Agency is operated as a division of Bowditch Insurance Corporation.

*Carolina First Community Development Corporation.* In 2003, Carolina First Bank formed a subsidiary, Carolina First Community Development Corporation ("CFCDC"), to underwrite low-income community business loans. CFCDC has been certified by the Department of the Treasury as a qualified Community Development Entity and has received an allocation under the 2007 New Markets Tax Credit Program, a federal program which offers tax incentives in connection with making equity and debt investments in borrowers and projects located in low to moderate income census tracts.

*Koss Olinger.* In 2005, TSFG acquired the Koss Olinger group of companies, a financial planning group based in Gainesville, Florida.

*REIT Subsidiaries.* In 1999, 2001 and 2003, TSFG formed three real estate investment trust subsidiaries ("REITs"), which have issued preferred and debt securities to institutional investors as a means of raising regulatory capital. They do not engage in other activities apart from the internal management of their assets and liabilities.

*South Group Insurance Services, Inc.* In 2005, TSFG combined Gardner Associates, Inc., which operates an insurance agency business primarily in the Midlands area of South Carolina, with several of its smaller insurance subsidiaries to create South Group Insurance Services, Inc.

*Summit Title, LLC.* In April 2004, TSFG acquired the stock of Summit Title, LLC ("Summit"), a North Carolina limited liability company. Summit is a title insurance agency based in Hendersonville, North Carolina.

**Business Segments**

Item 8, Note 30 to the Consolidated Financial Statements discusses TSFG's business segments, which information is incorporated herein by reference.

**Competition**

Each of TSFG's markets is highly competitive with the largest banks in their respective states represented. The competition among the various financial institutions is based upon a variety of factors including interest rates offered on deposit accounts, interest rates charged on loans, credit and service charges, the quality of services rendered, the convenience of banking facilities and, in the case of loans to large commercial borrowers, relative lending limits. In addition to banks and savings associations, TSFG competes with other financial institutions, such as securities firms, insurance companies, credit unions, leasing companies, and finance companies.

The banking industry continues to consolidate, which presents opportunities for TSFG to gain new business. However, consolidation may further intensify competition if additional financial services companies enter TSFG's market areas through the acquisition of local financial institutions.

Size gives larger banks certain advantages in competing for business from large commercial customers. These advantages include higher lending limits and the ability to offer services in other areas of South Carolina, North Carolina, Florida, and the Southeastern United States region. As a result, TSFG concentrates its efforts on small- to medium-sized businesses and individuals. TSFG believes it competes effectively in this market segment by offering quality, personalized service.

**Employees**

At December 31, 2007, TSFG and its subsidiaries employed 2,474 full-time equivalent employees. TSFG provides a variety of benefit programs including retirement plans and health, life, disability, and other insurance. TSFG also maintains training, educational, and affirmative action programs designed to prepare employees for positions of increasing responsibility. TSFG believes that its relations with employees are good.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Executive Officers of the Registrant (Section 16 Reporting Persons)**

TSFG's executive officers (reporting persons under Section 16 of the Securities Exchange Act of 1934) are appointed by the Board of Directors and set forth below.

| Name | Age | TSFG Offices Currently Held | TSFG Officer Since |
|---|---|---|---|
| Mack I. Whittle, Jr. | 59 | President and Chief Executive Officer | 1986 |
| William P. Crawford, Jr. | 45 | Executive Vice President – General Counsel and Secretary | 2002 |
| J. W. Davis | 61 | Chairman – Carolina First Bank/North Carolina | 2003 |
| James R. Gordon | 42 | Executive Vice President – Chief Financial Officer | 2007 |
| H. Lynn Harton | 46 | Executive Vice President – Chief Risk and Credit Officer | 2007 |
| Christopher T. Holmes | 44 | Executive Vice President –Retail Banking | 2006 |
| Mary A. Jeffrey | 57 | Executive Vice President – Human Resources | 2002 |
| Maurice J. Spagnoletti | 53 | President – Carolina First Bank/South Carolina | 2006 |
| Kendall L. Spencer | 55 | President – Mercantile Bank Operations | 2000 |

Mr. Whittle has been President and CEO of TSFG since its organization in 1986. Mr. Whittle became Chairman of TSFG in 2005.

Mr. Crawford has served as General Counsel of TSFG since April 2002.

Mr. Davis is Chairman of Carolina First Bank's North Carolina operations. From 1997 until 2003, Mr. Davis served as President and CEO of MountainBank Financial Corporation, which was acquired by TSFG in October 2003.

Mr. Gordon joined TSFG on March 15, 2007 as Executive Vice President and Chief Financial Officer. From December 2004 until his appointment with the Company, Mr. Gordon served as a partner in the Jackson, Mississippi office of Horne LLP, a regional accounting and consulting firm. From April 2004 until November 2004, he served as chief accounting officer of National Commerce Financial Corp. (until acquired by SunTrust Banks), a bank holding company headquartered in Memphis, Tennessee. From June 2002 to April 2004, he served as chief risk officer for Union Planters Corporation (until acquired by Regions Financial), a bank holding company headquartered in Memphis, Tennessee.

Mr. Harton joined TSFG in February 2007. From June 2004 to December 2006, he served as Chief Credit Officer for Regions Financial Corporation, a bank holding company headquartered in Birmingham, AL. From June 2003 to June 2004, he served as Chief Credit Officer for Union Planters Corporation, a bank holding company headquartered in Memphis, Tennessee. From January 1983 to June 2003, he served as in various senior line and credit administration roles for BB&T Corporation, a bank holding company headquartered in Winston Salem, NC.

Mr. Holmes joined TSFG in 2006 and serves as Executive Vice President in charge of retail banking. From 2005 until joining TSFG in 2006, Mr. Holmes served as the head of certain Tennessee and northern Mississippi banking markets for Trustmark Corporation, financial institution headquartered in Jackson, MS. From 1991 until 2005, Mr. Holmes served in various officer capacities at National Commerce Financial Corp., primarily in the retail banking area. This included the management of retail banking consulting subsidiary and its Wal-Mart banking division, which operated branches placed in Wal-Mart stores.

Ms. Jeffrey has served as Director of Human Resources for TSFG since 2002.

Mr. Spagnoletti joined TSFG in May 2006 and serves as President of Carolina First Bank/South Carolina. He also is responsible for TSFG's mortgage operations. From 2002 until joining TSFG, Mr. Spagnoletti served as President and CEO of Fifth Third Bank's Indiana bank subsidiary, and from 2000 to 2002, served as Executive Vice President for that subsidiary, responsible for retail, mortgage, consumer, marketing and human resources.

Mr. Spencer joined the Company in 2000 and has served the Company in various executive capacities, including since 2005 as President of its Florida banking operations. Prior to that, Mr. Spencer was responsible for the retail banking area.

### Monetary Policy

The policies of regulatory authorities, including the Board of Governors of the Federal Reserve System (the “Federal Reserve”) affect TSFG’s earnings. An important function of the Federal Reserve is regulation of the money supply. Various methods employed by the Federal Reserve include open market operations in U.S. Government securities, changes in the target Federal funds rate on bank borrowings, and changes in reserve requirements against member bank deposits. The Federal Reserve uses these methods in varying combinations to influence overall growth and distribution of bank loans, investments, and deposits. The use of these methods may also affect interest rates charged on loans or paid on deposits.

The monetary policies of the Federal Reserve have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. Due to the changing conditions in the national economy and money markets, as well as the effect of actions by monetary and fiscal authorities, TSFG can make no prediction as to the future impact that changes in interest rates, securities, deposit levels, or loan demand may have on its business and earnings. TSFG strives to manage the effects of interest rates through its asset/liability management processes.

### Impact of Inflation

Unlike most industrial companies, the assets and liabilities of financial institutions such as TSFG’s subsidiaries are primarily monetary in nature. As a result, interest rates generally have a more significant impact on the performance of a financial institution than the effects of general levels of inflation. TSFG strives to manage the effects of interest rate movements through its asset/liability management processes.

### Supervision and Regulation

*General*

TSFG and its subsidiaries are extensively regulated under federal and state law. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any change in applicable laws may have a material effect on TSFG’s business and prospects. TSFG’s operations may be affected by possible legislative and regulatory changes and by the monetary policies of the United States.

*The South Financial Group, Inc.* TSFG, a financial holding company and bank holding company registered under the Bank Holding Company Act of 1956, as amended (the “BHCA”), is subject to regulation and supervision by the Federal Reserve. Under the BHCA, TSFG’s activities and those of its subsidiaries are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries or engaging in any other activity that the Federal Reserve determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. The BHCA prohibits TSFG from acquiring direct or indirect control of more than 5% of any class of outstanding voting stock, or substantially all of the assets of any bank, or merging or consolidating with another bank holding company without prior approval of the Federal Reserve. The BHCA prohibits TSFG from acquiring ownership or control of more than 5% of the outstanding voting stock of any company engaged in a nonbanking business unless such business is determined by the Federal Reserve to be so closely related to banking or managing or controlling banks as to be properly incident thereto, except to the extent permitted by “financial holding companies,” as discussed below.

Beginning June 1, 1997, a bank headquartered in one state was authorized to merge with a bank headquartered in another state, as long as neither of the states had opted out of such interstate merger authority prior to such date. After a bank has established branches in a state through an interstate merger transaction, the bank may establish and acquire additional branches at any location in the state where a bank headquartered in that state could have established or acquired branches under applicable federal or state law.

The Federal Deposit Insurance Act, as amended (“FDIA”), authorizes the merger or consolidation of any Bank Insurance Fund (“BIF”) member with any Savings Association Insurance Fund (“SAIF”) member, the assumption of any liability by any BIF member to pay any deposits of any SAIF member or vice versa, or the transfer of any assets of any BIF member to any SAIF member in consideration for the assumption of liabilities of such BIF member or vice versa, provided that certain conditions are met. In the case of any acquiring, assuming or resulting depository institution which is a BIF member, such institution will continue to make payment of SAIF assessments on the portion of liabilities attributable to any acquired, assumed or merged SAIF-insured institution (or, in the case of any acquiring, assuming or resulting depository institution which is a SAIF member, that such institution will continue to make payment of BIF assessments on the portion of liabilities attributable to any acquired, assumed or merged BIF-insured institution).



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

In addition, the "cross-guarantee" provisions of the FDIA require insured depository institutions under common control to reimburse the FDIC for any loss suffered by either the SAIF or the BIF as a result of the default of a commonly controlled insured depository institution or for any assistance provided by the FDIC to a commonly controlled insured depository institution in danger of default. The FDIC may decline to enforce the cross-guarantee provisions if it determines that a waiver is in the best interest of the SAIF or the BIF, or both. The FDIC's claim for damages is superior to claims of stockholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt (other than affiliates) of the commonly controlled insured depository institutions.

Law and regulatory policy impose a number of obligations and restrictions on bank holding companies and their depository institution subsidiaries that are designed to minimize potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds. Current federal law requires a bank holding company to guarantee the compliance of any insured depository institution subsidiary that may become "undercapitalized" with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal banking agency up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized, or (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan. The Federal Reserve requires a bank holding company to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so absent such policy. The Federal Reserve also has the authority under the BHCA to require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary (other than a nonbank subsidiary of a bank) upon the Federal Reserve's determination that such activity or control constitutes a serious risk to the financial soundness or stability of any subsidiary depository institution of the bank holding company. Further, federal law grants federal bank regulatory authorities additional discretion to require a bank holding company to divest itself of any bank or nonbank subsidiary if the agency determines that divestiture may aid the depository institution's financial condition.

The Gramm-Leach-Bliley Act of 1999 ("GLB") covers a broad range of issues, including a repeal of most of the restrictions on affiliations among depository institutions, securities firms and insurance companies. GLB also permits bank holding companies to elect to become financial holding companies. A financial holding company may engage in or acquire companies that engage in a broad range of financial services, including securities activities such as underwriting, dealing, investment and merchant banking, insurance underwriting and sales, and brokerage activities. In order to become a financial holding company, the bank holding company and all of its affiliated depository institutions must be well-capitalized, well-managed, and have at least a satisfactory Community Reinvestment Act rating. TSFG became a financial holding company in 2001.

GLB adopts a system of functional regulation under which the Federal Reserve Board is confirmed as the umbrella regulator for bank holding companies, but bank holding company affiliates are to be principally regulated by functional regulators such as the FDIC for state nonmember bank affiliates, the Securities and Exchange Commission for securities affiliates and state insurance regulators for insurance affiliates. GLB repeals the broad exemption of banks from the definitions of "broker" and "dealer" for purposes of the Securities Exchange Act of 1934, but identifies a set of specific activities, including traditional bank trust and fiduciary activities, in which a bank may engage without being deemed a "broker", and a set of activities in which a bank may engage without being deemed a "dealer".

GLB contains extensive customer privacy protection provisions, which require the institution to provide notice of the privacy policies and provide the opportunity to opt-out of many disclosures of personal information. Additionally, GLB limits the disclosure of customer account numbers or other similar account identifiers for marketing purposes.

TSFG, through its banking subsidiary, is also subject to regulation by the South Carolina state banking authorities. TSFG must receive the approval of the state authorities prior to engaging in the acquisitions of banking or nonbanking institutions or assets. It also must file periodic reports with these authorities showing its financial condition and operations, management, and intercompany relationships between TSFG and its subsidiaries.

*Carolina First Bank.* Carolina First Bank is an FDIC-insured, state-chartered banking corporation and is subject to various statutory requirements and rules and regulations promulgated and enforced primarily by the FDIC and the South Carolina State Board of Financial Institutions. These statutes, rules, and regulations relate to insurance of deposits, required reserves, allowable investments, loans, mergers, consolidations, issuance of securities, payment of dividends, establishment of branches and other aspects of the business of Carolina First Bank. The FDIC has broad authority to prohibit Carolina First Bank from engaging in what it determines to be unsafe or unsound banking practices. In addition, federal law imposes a number of restrictions on state-chartered, FDIC-insured

banks, and their subsidiaries. These restrictions range from prohibitions against engaging as a principal in certain activities to the requirement of prior notification of branch closings. Carolina First Bank is not a member of the Federal Reserve System.

Carolina First Bank is subject to the requirements of the Community Reinvestment Act ("CRA"). The CRA requires that financial institutions have an affirmative and ongoing obligation to meet the credit needs of their local communities, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. Each financial institution's efforts in meeting community credit needs are evaluated as part of the examination process pursuant to three assessment factors. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility.

*Other Regulations.* Interest and certain other charges collected or contracted for by TSFG subsidiaries are subject to state usury laws and certain federal laws concerning interest rates. TSFG's loan operations are also subject to certain federal laws applicable to credit transactions, such as the federal Truth-In-Lending Act governing disclosures of credit terms to consumer borrowers. The deposit operations of Carolina First Bank are also subject to the Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records, and the Electronic Funds Transfer Act and Regulation E issued by the Federal Reserve to implement that act, which govern automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic services.

*Dividends*

The holders of TSFG's common stock are entitled to receive dividends when, as and if declared by the Board of Directors out of funds legally available. As a legal entity separate and distinct from its subsidiaries, TSFG depends on the payment of dividends from its subsidiaries for its revenues. Current federal law prohibits, except under certain circumstances and with prior regulatory approval, an insured depository institution from paying dividends or making any other capital distribution if, after making the payment or distribution, the institution would be considered "undercapitalized," as that term is defined in applicable regulations. South Carolina banking regulations restrict the amount of dividends that the subsidiary bank can pay to TSFG, and may require prior approval before declaration and payment of any excess dividend.

*Capital Adequacy*

*TSFG.* The Federal Reserve has adopted risk-based capital guidelines for bank holding companies. Under these guidelines, the minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) is 8%. At least half of the total capital is required to be "tier 1 capital," principally consisting of common shareholders' equity, non-cumulative preferred stock, a limited amount of cumulative perpetual preferred stock, and mandatory redeemable preferred stock, less certain goodwill items. The remainder (tier 2 capital) may consist of a limited amount of subordinated debt and intermediate-term preferred stock, certain hybrid capital instruments and other debt securities, perpetual preferred stock, and a limited amount of the allowance for loan losses. In addition to the risk-based capital guidelines, the Federal Reserve has adopted a minimum tier 1 (leverage) capital ratio under which a bank holding company must maintain a minimum level of tier 1 capital (as determined under applicable rules) to average total consolidated assets of at least 3% in the case of bank holding companies which have the highest regulatory examination ratios and are not contemplating significant growth or expansion. All other bank holding companies, including TSFG, are required to maintain a ratio of at least 4%. At December 31, 2007, TSFG's capital levels exceeded both the risk-based capital guidelines and the applicable minimum leverage capital ratio.

*Carolina First Bank.* Carolina First Bank is subject to capital requirements imposed by the FDIC. The FDIC requires state-chartered nonmember banks to comply with risk-based capital standards substantially similar to those required by the Federal Reserve, as described above. The FDIC also requires state-chartered nonmember banks to maintain a minimum leverage ratio similar to that adopted by the Federal Reserve. Under the FDIC's leverage capital requirement, state nonmember banks that (i) receive the highest rating during the examination process and (ii) are not anticipating or experiencing any significant growth are required to maintain a minimum leverage ratio of 3% of tier 1 capital to average assets; all other banks, including Carolina First Bank, are required to maintain an absolute minimum leverage ratio of not less than 4%. As of December 31, 2007, Carolina First Bank exceeded each of the applicable regulatory capital requirements.

*Deposit Insurance Assessments*

Substantially all of the deposits of Carolina First Bank are insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based

assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating. Under the Federal Deposit Insurance Reform Act of 2005, which became law in 2006, Carolina First Bank received a one-time assessment credit of $4.8 million that was applied against premiums until fully utilized in fourth quarter 2007. As a result, Carolina First Bank had no deposit insurance premium expense in 2006 and expensed only $1.2 million in fourth quarter 2007. The assessment rate for the first quarter 2008 is 0.0588% (annualized). The rate is set quarterly and may change during the year. An increase in the assessment rate could have an adverse effect on the Company's earnings, depending on the amount of the increase. In addition, during 2007 and 2006, TSFG expensed $1.2 million per year in Financing Corporation ("FICO") assessments related to outstanding FICO bonds to the FDIC as collection agent. The FICO is a mixed-ownership government corporation established by the Competitive Equality Banking Act of 1987 whose sole purpose was to function as a financing vehicle for the now defunct Federal Savings & Loan Insurance Corporation.

*Other Safety and Soundness Regulations*

*Prompt Corrective Action.* Current law provides the federal banking agencies with broad powers to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon the capitalization of the institutions. Under uniform regulations defining such capital levels issued by each of the federal banking agencies, a bank is considered "well capitalized" if it has (i) a total risk-based capital ratio of 10% or greater, (ii) a tier 1 risk-based capital ratio of 6% or greater, (iii) a leverage ratio of 5% or greater, and (iv) is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure. An "adequately capitalized" bank is defined as one that has (i) a total risk-based capital ratio of 8% or greater, (ii) a tier 1 risk-based capital ratio of 4% or greater, and (iii) a leverage ratio of 4% or greater. A bank is considered (A) "undercapitalized" if it has (i) a total risk-based capital ratio of less than 8%, (ii) a tier 1 risk-based capital ratio of less than 4% or (iii) a leverage ratio of less than 4%; (B) "significantly undercapitalized" if the bank has (i) a total risk-based capital ratio of less than 6%, (ii) a tier 1 risk-based capital ratio of less than 3%, or (iii) a leverage ratio of less than 3%; and (C) "critically undercapitalized" if the bank has a ratio of tangible equity to total assets equal to or less than 2%. As of December 31, 2007, Carolina First Bank met the definition of well capitalized.

*Brokered Deposits.* Current federal law also regulates the acceptance of brokered deposits by insured depository institutions to permit only a "well capitalized" depository institution to accept brokered deposits without prior regulatory approval. Under FDIC regulations, "well capitalized" insured depository institutions may accept brokered deposits without restriction, "adequately capitalized" insured depository institutions may accept brokered deposits with a waiver from the FDIC (subject to certain restrictions on payments of interest rates) while "undercapitalized" insured depository institutions may not accept brokered deposits.

*Transactions Between TSFG, its Subsidiaries, and Affiliates*

TSFG's subsidiaries are subject to certain restrictions on extensions of credit to executive officers, directors, principal shareholders or any related interest of such persons. Extensions of credit (i) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons; and (ii) must not involve more than the normal risk of repayment or present other unfavorable features. Aggregate limitations on extensions of credit also may apply. TSFG's subsidiaries are also subject to certain lending limits and restrictions on overdrafts to such persons.

Subsidiary banks of a bank holding company are subject to certain restrictions imposed by the Federal Reserve Act on extensions of credit to the bank holding company or its nonbank subsidiaries, on investments in their securities and on the use of their securities as collateral for loans to any borrower. Such restrictions may limit TSFG's ability to obtain funds from its bank subsidiary for its cash needs, including funds for acquisitions, interest, and operating expenses. Certain of these restrictions are not applicable to transactions between a bank and a savings association owned by the same bank holding company, provided that every bank and savings association controlled by such bank holding company complies with all applicable capital requirements without relying on goodwill.

In addition, under the BHCA and certain regulations of the Federal Reserve, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, lease or sale of property, or furnishing of services.

*Anti-Money Laundering Legislation*

TSFG's banking subsidiary is subject to the Bank Secrecy Act and its implementing regulations and other anti-money laundering laws and regulations, including the USA Patriot Act of 2001. Among other things, these laws and regulations require

financial institutions such as TSFG to take steps to prevent the use of its banking subsidiary for facilitating the flow of illegal or illicit money, to report large currency transactions and to file suspicious activity reports. TSFG is also required to develop and implement a comprehensive anti-money laundering compliance program. TSFG must also have in place appropriate “know your customer” policies and procedures. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA Patriot Act require the federal financial institution regulatory agencies to consider the effectiveness of a financial institution’s anti-money laundering activities when reviewing bank mergers and bank holding company acquisitions.

*Sarbanes-Oxley*

The Sarbanes-Oxley Act of 2002 addresses, among other issues, corporate governance, auditing and accounting, internal controls, executive compensation, and enhanced and timely disclosure of corporate information. In accordance with Section 302(a) of the Sarbanes-Oxley Act, written certifications by TSFG’s Chief Executive Officer and Chief Financial Officer are obtained. These certifications attest that TSFG’s quarterly and annual reports filed with the SEC do not contain any untrue statement of a material fact or omit material facts necessary to make such reports not misleading. TSFG has also implemented a program designed to comply with Section 404 of the Sarbanes-Oxley Act, which includes the identification of key controls over significant processes and accounts, evaluation of the control design effectiveness, and testing of the operating effectiveness of key controls. See Item 9A “Controls and Procedures” for TSFG’s evaluation of its disclosure controls and procedures and internal control over financial reporting.

*Future Legislation*

Changes to the laws and regulations (including changes in interpretation or enforcement) in the states where we do business can affect the operating environment of bank holding companies and their subsidiaries in substantial and unpredictable ways. From time to time, various legislative and regulatory proposals are introduced. These proposals, if codified, may change banking statutes and regulations and our operating environment in substantial and unpredictable ways. If codified, these proposals could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions and other financial institutions. We cannot accurately predict whether those changes in laws and regulations will occur, and, if those changes occur, the ultimate effect they would have upon our financial condition or results of operations. It is likely, however, that the current high level of enforcement and compliance-related activities of federal and state authorities will continue and potentially increase.

*Additional Information*

See Item 7, “Critical Accounting Policies and Estimates” and “Recently Adopted/Issued Accounting Pronouncements,” for discussion of certain accounting matters, which is incorporated herein by reference.

## Item 1A. *Risk Factors*

*Our business, operating results and/or the market price of our common stock may be significantly affected by a number of factors, including the following:*

**The recent downturn in the residential real estate market has affected our results of operations, and further deterioration could have an adverse affect on collateral values and borrowers’ ability to repay, and consequently our financial condition and results of operations.** TSFG makes commercial, real estate and consumer loans predominately in South Carolina, western North Carolina and larger markets in Florida. A large portion of our loans have real estate as a primary or secondary component of collateral. The real estate collateral, which provides an alternate source of repayment in the event of default by the borrower, in some cases, has deteriorated in value during the past year. This deterioration has, to a large extent, been a result of the recent imbalance of supply and demand for residential real estate particularly in Florida and our coastal markets. If we are required to liquidate the collateral during this period of reduced real estate values, our profitability and financial condition could be further adversely affected. As the extent and duration of this downturn is not known, we must estimate, based on current portfolio knowledge and analysis, the amount of our probable losses when recording our allowance for loan losses. This estimate requires substantial judgment on the part of management which may or may not prove valid. TSFG commercial real estate loans comprised 40.7% of total loans at December 31, 2007, compared to 43.0% and 41.7% at December 31, 2006 and 2005, respectively. Also, a decline in home values could lead to higher charge-offs in event of default in both the consumer home

equity loan and residential real estate loan portfolios. (See Tables 2, 3, and 4 under "Balance Sheet Review" for additional information on loan portfolio concentrations.)

**Our loans are predominately focused in three states and adverse economic conditions in those states, in particular, could have a negative impact on our financial condition and results of operations.** Because of the concentration of loans in the same geographical region, adverse economic conditions in these areas could cause higher rates of loss and delinquency on our loans than if the loans were more geographically diversified. Our decisions regarding credit risk could be inaccurate, and our allowance for loan losses may be inadequate, which could materially and adversely affect our financial condition. Also, a key marketing strategy targets the needs of owner-operated businesses with credit needs of under $5 million. These owner-operated businesses represent a major sector of regional economies. If these regional economic conditions deteriorate, our results of operations and financial condition may be affected.

**TSFG's earnings are exposed to risks associated with movements in market interest rates.** Market interest rate movements could adversely impact earnings, depending on TSFG's interest rate risk mismatches at that time. In particular, rising interest rates would adversely impact earnings in the event that our liabilities reprice faster than assets, whereas falling interest rates would adversely impact earnings in the event our assets reprice faster than liabilities. If TSFG has a "mismatch" between the duration of its assets and the duration of its liabilities, and interest rates move as described in the previous sentence, its net interest income would be negatively affected.

**TSFG and its subsidiaries are extensively regulated and non-compliance with the USA Patriot and Bank Secrecy Acts may result in fines or sanctions that may adversely affect results of operations.** The USA Patriot and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury Department's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions. In recent years, several banking institutions have received large fines for non-compliance with these laws and regulations. Although TSFG has developed policies and procedures designed to ensure compliance, regulators may take enforcement action against TSFG in the event of noncompliance.

**TSFG is required to make a number of judgments in applying accounting policies and different estimates and assumptions in the application of these policies could result in changes to our reporting of financial condition and results of operations.** Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and reserve for unfunded lending commitments, the effectiveness of derivatives and other hedging activities, the fair value of certain financial instruments (securities, derivatives, and privately held investments), income tax assets or liabilities, share-based compensation, and accounting for acquisitions, including the fair value determinations and the analysis of goodwill impairment. While we have identified those accounting policies that are considered critical and have procedures in place to facilitate the associated judgments, different assumptions in the application of these policies could result in a material changes to our reports of financial condition and results of operations.

**TSFG's controls and procedures may fail or be circumvented or outside parties may perpetrate a fraud, resulting in an adverse effect on the Company's results of operations and financial condition.** TSFG can incur losses due to internal or external acts intended to defraud, misappropriate assets, or circumvent applicable law or the Company's system of internal controls. Management regularly reviews and updates its internal controls and procedures. However, any system of controls, no matter how well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met.

**An interruption or breach in security with respect to TSFG's information systems, as well as information systems of TSFG's outsourced service providers, could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation, any of which could have a material adverse effect on our financial condition and results of operations.** We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems.

**Inability to achieve customer deposit growth could adversely impact profitability and liquidity.** Because of a traditional focus on commercial lending, customer deposit funding has been low relative to peers, causing TSFG to utilize wholesale funding to a greater degree than some other peers. Customer deposits typically provide cost advantages versus

wholesale funding – generally to a greater degree in a higher interest rate environment. Accordingly, any future inability to achieve customer deposit growth and diversify funding sources could adversely impact earnings and, in the event of limited access to attractive wholesale funding markets, could hamper our ability to support attractive lending opportunities.

**Our stock price can be volatile in response to a number of factors.** These factors include: variations in our quarterly operating results; recommendations by securities analysts; significant acquisitions or business combinations; performance of other companies that investors deem comparable to TSFG; news reports relating to trends, concerns and other issues in the financial services industry; and changes in government regulations. General market fluctuations, industry factors, and general economic and political conditions and events could also cause our stock price to decrease regardless of our operating results.

**Hurricanes and other natural disasters may adversely affect loan portfolios and operations and increase the cost of doing business.** We operate and make loans in hurricane-prone areas. Hurricanes destroy collateral and the service businesses that support the area, and may affect the demand for houses and services in hurricane-prone areas. Our results could be adversely affected if we suffered higher than expected losses on our loans due to weather events.

**TSFG has experienced significant growth through acquisitions and anticipates engaging in selected acquisitions in the future. There are risks associated with acquisitions**. These risks include incorrectly assessing the asset quality of a particular institution being acquired, encountering greater than anticipated costs of incorporating acquired businesses into TSFG, and loss of key personnel and customers. Additionally, the valuation of any goodwill and other intangible assets associated with past acquisitions must be evaluated on an ongoing basis for impairment. This valuation requires substantial judgment which may or may not prove valid. Furthermore, we can give no assurance about the extent that TSFG can continue to grow through acquisitions. In the future, TSFG may issue capital stock in connection with additional acquisitions. These acquisitions and related issuances of stock may have a dilutive effect on earnings per share and ownership. TSFG does not currently have any definitive understandings or agreements for any acquisitions material to TSFG.

### Item 1B. *Unresolved Staff Comments*

Not applicable.

### Item 2. *Properties*

TSFG's principal executive offices are located at 102 South Main Street, Greenville, South Carolina. TSFG leases approximately 111,000 square feet of this location, which also houses Carolina First Bank's Greenville main office branch. The majority of TSFG's administrative functions presently reside at this location. TSFG owns a 130,000 square foot building in Lexington, South Carolina which houses the technology and operations departments. TSFG leases the land for the technology building under a 30 year lease. In addition, TSFG leases non-banking office space in 28 locations in South Carolina, North Carolina, and Florida.

At December 31, 2007, TSFG operated 172 branch offices, including 79 in South Carolina, 66 in Florida, and 27 in North Carolina. Of these locations, TSFG or one of its subsidiaries owns 97 locations, which includes 15 locations with land leases, and leases 75 locations. In addition, TSFG or one of its subsidiaries owns 6 stand-alone ATM locations, including five locations with land leases, and leases 19 locations.

See Item 7, "Expanded Corporate Facilities" included in Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of TSFG's plan to develop a corporate campus which information is incorporated herein by reference.

### Item 3. *Legal Proceedings*

See Item 8, "Legal Proceedings" included in Note 20 to the Consolidated Financial Statements for a discussion of legal proceedings, which information is incorporated herein by reference.

### Item 4. *Submission of Matters to a Vote of Shareholders*

No matter was submitted to a vote of security holders by solicitation of proxies or otherwise during the fourth quarter of 2007.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

# PART II

## Item 5. *Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities*

### Market for Common Stock and Related Matters

TSFG's common stock trades on The NASDAQ Global Select Market under the symbol TSFG. At February 21, 2008, TSFG had 8,089 shareholders of record and 72,599,009 shares outstanding. See Item 7, "Capital Resources and Dividends" and Item 8, Notes 21 and 23 to the Consolidated Financial Statements for a discussion of capital stock and dividends, which information is incorporated herein by reference.

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31 | September 30 | June 30 | March 31 |
| **2007** | | | | |
| Common stock price: | | | | |
| High | $ 24.04 | $ 24.79 | $ 24.81 | $ 27.47 |
| Low | 15.29 | 20.47 | 22.23 | 24.57 |
| Close | 15.63 | 22.74 | 22.64 | 24.72 |
| Cash dividend declared | 0.19 | 0.18 | 0.18 | 0.18 |
| Volume traded | 50,923,185 | 42,171,530 | 38,917,664 | 22,510,110 |

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31 | September 30 | June 30 | March 31 |
| **2006** | | | | |
| Common stock price: | | | | |
| High | $ 27.03 | $ 27.49 | $ 28.41 | $ 27.99 |
| Low | 25.45 | 25.30 | 24.96 | 24.60 |
| Close | 26.59 | 26.03 | 26.41 | 26.15 |
| Cash dividend declared | 0.18 | 0.17 | 0.17 | 0.17 |
| Volume traded | 13,172,752 | 11,278,889 | 21,702,895 | 23,508,239 |

### Unregistered Sales of Securities

On October 29, 2007, TSFG issued 1,893 shares of common stock to one individual relating to the earn-out provisions of the prior acquisition of Allied Assurance of South Carolina, Inc., an insurance agency based in Columbia, South Carolina. The issuance of securities to this individual was exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended.

On August 2, 2007, we issued 1,738 shares to eight individuals relating to the earn-out provisions of the prior acquisition of Bowditch Insurance Corporation, an insurance agency acquired by TSFG in 2005. This issuance of shares was not registered under the Securities Act of 1933 in reliance upon the exemption set forth in Section 4(2) thereof.

On April 26, 2007, we issued 2,671 shares to the former shareholder of Summit Title, LLC, a title insurance agency acquired by TSFG in 2004. These shares were issued in connection with earn-out provisions in the acquisition documents. This issuance of shares was not registered under the Securities Act of 1933 in reliance upon the exemption set forth in Section 4(2) thereof.

### Equity Compensation Plan Data

See Equity Compensation Plan Data in the Registrants' Proxy Statement relating to the 2008 Annual Meeting of Shareholders filed with the Securities and Exchange Commission, which information is incorporated herein by reference.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

**ISSUER PURCHASES OF EQUITY SECURITIES**

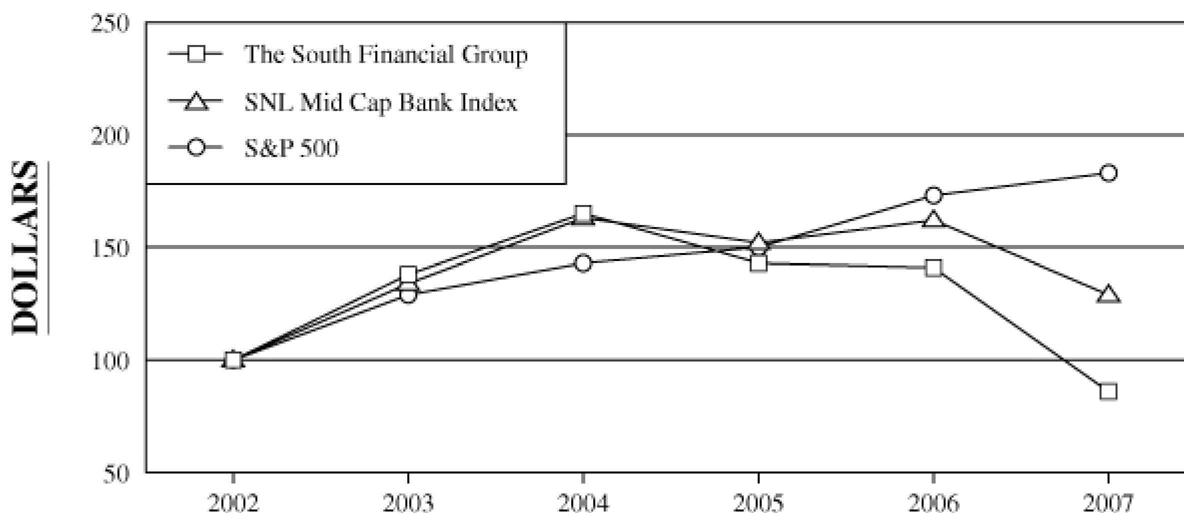
| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Approximate Dollar Value of Shares that May Yet Be Purchased Under Plans or Programs(2) (in thousands) |
|---|---|---|---|---|
| October 1, 2007 to October 31, 2007 | 297,486(1) | $ 20.47 | 297,300 | $ 93,916 |
| November 1, 2007 to November 30, 2007 | 302,700 | 19.46 | 302,700 | 88,024 |
| December 1, 2007 to December 31, 2007 | 2,647(1) | 15.63 | — | 88,024 |
| Total | 602,833 | $ 19.94 | 600,000 | $ 88,024 |

(1) Includes 186 shares in October and 2,647 shares in December canceled in connection with exercise of options, vesting of restricted stock, or distribution from the deferred compensation plan. Pursuant to TSFG's stock option plans, participants may exercise stock options by surrendering shares of TSFG common stock the participants already own or, in some cases, by surrendering fully vested stock options as payment of the option exercise price. Pursuant to TSFG's restricted stock plans, participants may tender shares of vested restricted stock as payment for taxes due at the time of vesting. Pursuant to TSFG's Executive Deferred Compensation Plan, participants may tender shares of stock as payment for taxes due at the time of distribution. Shares surrendered by participants of these plans are repurchased at current market value pursuant to the terms of the applicable stock option, restricted stock, or deferred compensation plan and not pursuant to publicly announced share repurchase programs.

(2) In August 2007, the Board of Directors amended and restated TSFG's existing stock repurchase authorization to be an aggregate of $100.0 million, which expires if unused on or before June 30, 2008. During fourth quarter 2007, TSFG repurchased 600,000 shares of its common stock pursuant to this authorization, leaving $88.0 million under the authorization.

**Total Shareholder Return**

The following graph sets forth the performance of TSFG's common stock for the five year period ended December 31, 2007 as compared to the S&P 500 Index and the SNL Mid Cap Bank Index. The graph assumes $100 originally invested on December 31, 2002 and that all subsequent dividends were reinvested in additional shares. The performance graph represents past performance and should not be considered to be an indication of future performance.




| | 12/31/02 | 12/31/03 | 12/31/04 | 12/31/05 | 12/31/06 | 12/31/07 |
|---|---|---|---|---|---|---|
| The South Financial Group | $100 | $138 | $165 | $143 | $141 | $ 86 |
| SNL Mid Cap Bank Index | 100 | 134 | 163 | 152 | 162 | 129 |
| S&P 500 | 100 | 129 | 143 | 150 | 173 | 183 |

Table of Contents

**Item 6.** ***Selected Financial Data***

See Item 8, Consolidated Financial Statements and the accompanying notes for factors including but not limited to business combinations and accounting changes that affect the comparability of the information presented.

**SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA**
**(dollars and shares (except per share data) in thousands)**

| | Years Ended December 31, | | | | | | Five-Year Compound Growth Rate |
|---|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | |
| **Earnings Summary** | | | | | | | |
| Net interest income | $ 382,781 | $ 401,371 | $ 409,056 | $ 335,841 | $ 250,890 | $ 210,143 | 12.7% |
| Noninterest income | 113,311 | 117,905 | 43,850 | 115,243 | 92,841 | 68,331 | 10.6 |
| Total revenue | 496,092 | 519,276 | 452,906 | 451,084 | 343,731 | 278,474 | 12.2 |
| Provision for credit losses | 68,568 | 32,789 | 40,592 | 34,987 | 20,581 | 22,266 | 25.2 |
| Noninterest expenses | 320,848 | 325,939 | 316,693 | 240,610 | 199,272 | 156,608 | 15.4 |
| Income from continuing operations | 73,276 | 112,866 | 70,217 | 119,998 | 83,583 | 65,239 | 2.4 |
| Net income | 73,276 | 112,866 | 69,821 | 119,508 | 83,583 | 63,833 | 2.8 |
| **Per Common Share** | | | | | | | |
| Basic: | | | | | | | |
| Income from continuing operations | $ 1.00 | $ 1.51 | $ 0.96 | $ 1.86 | $ 1.70 | $ 1.56 | (8.5)% |
| Net income | 1.00 | 1.51 | 0.95 | 1.85 | 1.70 | 1.53 | (8.2) |
| Diluted: | | | | | | | |
| Income from continuing operations | $ 0.99 | 1.49 | 0.94 | 1.81 | 1.66 | 1.53 | (8.3) |
| Net income | 0.99 | 1.49 | 0.94 | 1.80 | 1.66 | 1.49 | (7.9) |
| Average common shares outstanding: | | | | | | | |
| Basic | 73,618 | 74,940 | 73,307 | 64,592 | 49,204 | 41,715 | 12.0 |
| Diluted | 74,085 | 75,543 | 74,595 | 66,235 | 50,328 | 42,715 | 11.6 |
| Cash dividends declared | $ 0.73 | $ 0.69 | $ 0.65 | $ 0.61 | $ 0.57 | $ 0.50 | 7.9 |
| Book value (December 31) | 21.40 | 20.73 | 19.90 | 19.56 | 16.46 | 13.76 | 9.2 |
| Market price (December 31) | 15.63 | 26.59 | 27.54 | 32.53 | 27.75 | 20.66 | (5.4) |
| **Balance Sheet Data (Year End)** | | | | | | | |
| Loans held for investment | $ 10,213,420 | $ 9,701,867 | $ 9,439,395 | $ 8,107,757 | $ 5,732,205 | $ 4,434,011 | 18.2% |
| Allowance for credit losses | 128,695 | 112,688 | 109,350 | 96,918 | 73,287 | 70,275 | 12.9 |
| Securities | 2,025,903 | 2,795,764 | 3,159,617 | 4,310,088 | 4,007,571 | 2,572,186 | (4.7) |
| Intangible assets | 678,182 | 685,568 | 691,758 | 611,450 | 353,079 | 242,182 | 22.9 |
| Total assets | 13,877,584 | 14,210,516 | 14,319,285 | 13,798,689 | 10,724,715 | 7,939,960 | 11.8 |
| Customer funding (1) | 8,178,471 | 8,392,597 | 8,201,571 | 6,827,268 | 5,547,466 | 4,260,192 | 13.9 |
| Deposits | 9,788,568 | 9,516,740 | 9,234,437 | 7,670,944 | 6,032,238 | 4,585,927 | 16.4 |
| Long-term debt | 698,340 | 1,130,475 | 1,922,151 | 2,972,270 | 2,711,699 | 1,221,511 | (10.6) |
| Shareholders' equity | 1,550,308 | 1,562,032 | 1,486,907 | 1,393,460 | 972,299 | 651,683 | 18.9 |
| **Balance Sheet Data (Averages)** | | | | | | | |
| Loans | $ 10,013,387 | $ 9,621,846 | $ 8,883,837 | $ 6,927,336 | $ 4,915,437 | $ 4,008,094 | 20.1% |
| Securities (excludes unrealized gains, losses on available for sale securities) | 2,525,317 | 3,043,385 | 4,388,351 | 4,158,202 | 3,471,324 | 1,850,798 | 6.4 |
| Total earning assets | 12,545,223 | 12,692,872 | 13,307,956 | 11,101,951 | 8,425,590 | 5,924,077 | 16.2 |
| Total assets | 14,044,565 | 14,202,649 | 14,752,973 | 12,208,069 | 9,261,657 | 6,496,692 | 16.7 |
| Customer funding (1) | 8,216,762 | 8,077,605 | 7,606,071 | 6,167,731 | 4,788,040 | 3,666,123 | 17.5 |
| Deposits | 9,805,367 | 9,129,011 | 8,631,714 | 6,899,366 | 5,144,412 | 3,852,776 | 20.5 |
| Shareholders' equity | 1,543,552 | 1,506,195 | 1,463,125 | 1,164,004 | 709,791 | 499,579 | 25.3 |
| **Performance Ratios** | | | | | | | |
| Return on average assets | 0.52% | 0.79% | 0.47% | 0.98% | 0.90% | 0.98% | |
| Return on average equity | 4.75 | 7.49 | 4.77 | 10.27 | 11.78 | 12.78 | |
| Net interest margin (tax-equivalent) | 3.10 | 3.22 | 3.12 | 3.06 | 3.01 | 3.59 | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Tangible equity to tangible assets | 6.61 | 6.48 | 5.83 | 5.93 | 5.97 | 5.32 | |
| Dividend payout ratio | 73.74 | 46.31 | 69.15 | 33.89 | 34.34 | 33.56 | |
| **Credit Quality** | | | | | | | |
| Nonperforming assets | $ 89,907 | $ 41,509 | $ 43,977 | $ 55,976 | $ 60,774 | $ 74,186 | 3.9% |
| Nonperforming assets as a % of loans held for investment and foreclosed property | 0.88% | 0.43% | 0.47% | 0.69% | 1.06% | 1.67% | |
| Net charge-offs to average loans held for investment | 0.53 | 0.28 | 0.36 | 0.46 | 0.62 | 0.49 | |
| Allowance for credit losses as a % of loans held for investment | 1.26 | 1.16 | 1.16 | 1.20 | 1.28 | 1.58 | |
| **Operations Data** | | | | | | | |
| Branch offices | 172 | 167 | 172 | 154 | 134 | 117 | 8.0% |
| Employees (full-time equivalent) | 2,474 | 2,618 | 2,607 | 2,308 | 1,918 | 1,700 | 7.8 |

(1) Customer funding is total deposits less brokered deposits plus customer sweep accounts.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

## Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion and analysis are presented to assist in understanding the financial condition, changes in financial condition, results of operations, and cash flows of The South Financial Group, Inc. and its subsidiaries (collectively, "TSFG"), except where the context requires otherwise. TSFG may also be referred to herein as "we", "us", or "our." This discussion should be read in conjunction with the audited Consolidated Financial Statements and accompanying Notes presented in Item 8 of this report and the supplemental financial data appearing throughout this report. Percentage calculations contained herein have been calculated based upon actual, not rounded, results.

Effective July 1, 2007, TSFG primarily operates through its subsidiary bank, Carolina First Bank, which conducts operations in South Carolina and North Carolina (as Carolina First Bank) and in Florida (as Mercantile Bank).

**Index to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations**


| | Page |
|---|---|
| Forward-Looking Statements | 15 |
| Non-GAAP Financial Information | 16 |
| Overview | 16 |
| Critical Accounting Policies and Estimates | 18 |
| Expanded Corporate Facilities | 21 |
| Acquisitions and Sales | 21 |
| Balance Sheet Review | 22 |
| Results of Operations | 43 |
| Enterprise Risk Management | 51 |
| Off-Balance Sheet Arrangements | 54 |
| Liquidity | 55 |
| Recently Adopted/Issued Accounting Pronouncements | 56 |


### Forward-Looking Statements

This report contains certain forward-looking statements (as defined in the Private Securities Litigation Reform Act of 1995) to assist in the understanding of anticipated future operating and financial performance, growth opportunities, growth rates, and other similar forecasts and statements of expectations. These forward-looking statements may be identified by the use of such words as: "estimate", "anticipate", "expect", "believe", "intend", "plan", or words of similar meaning, or future or conditional verbs such as "may", "intend", "could", "will", or "should". These forward-looking statements reflect current views, but are based on assumptions and are subject to risks, uncertainties, and other factors, which may cause actual results to differ materially from those in such statements. A variety of factors, some of which are discussed in more detail in Item 1A – Risk Factors, may affect the operations, performance, business strategy and results of TSFG including, but not limited to, the following:

- risks from changes in economic, monetary policy, and industry conditions;
- changes in interest rates, shape of the yield curve, deposit rates, the net interest margin, and funding sources;
- market risk (including net income at risk analysis and economic value of equity risk analysis) and inflation;
- risks inherent in making loans including repayment risks and changes in the value of collateral;
- loan growth, the adequacy of the allowance for credit losses, provision for credit losses, and the assessment of problem loans (including loans acquired via acquisition and loans in the Penland Development in western North Carolina);
- continued deterioration in the overall credit environment;
- level, composition, and repricing characteristics of the securities portfolio;
- deposit growth, change in the mix or type of deposit products and cost of deposits;
- availability of wholesale funding;
- fluctuations in consumer spending;
- competition in the banking industry and demand for our products and services;
- continued availability of senior management;
- technological changes;
- ability to increase market share;



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

- income and expense projections, ability to control expenses, and expense reduction initiatives;
- changes in the compensation, benefit, and incentive plans, including compensation accruals;
- risks associated with income taxes, including the potential for adverse adjustments;
- acquisitions, greater than expected deposit attrition or customer loss, inaccuracy of related cost savings estimates, inaccuracy of estimates of financial results, and unanticipated integration issues;
- valuation of goodwill and intangibles and related impairment;
- significant delay or inability to execute strategic initiatives designed to grow revenues;
- changes in management's assessment of and strategies for lines of business, asset, and deposit categories;
- changes in accounting policies and practices;
- changes in the evaluation of the effectiveness of our hedging strategies;
- changes in regulatory actions, including the potential for adverse adjustments;
- changes, costs, and effects of litigation, and environmental remediation; and
- recently-enacted or proposed legislation.

Such forward-looking statements speak only as of the date on which such statements are made and shall be deemed to be updated by any future filings made by TSFG with the Securities and Exchange Commission ("SEC"). We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events. In addition, certain statements in future filings by TSFG with the SEC, in press releases, and in oral and written statements made by or with the approval of TSFG, which are not statements of historical fact, constitute forward-looking statements.

**Non-GAAP Financial Information**

This report also contains financial information determined by methods other than in accordance with Generally Accepted Accounting Principles ("GAAP"). TSFG's management uses these non-GAAP measures to analyze TSFG's performance. In particular, TSFG presents certain designated net interest income amounts on a tax-equivalent basis (in accordance with common industry practice). Management believes that these presentations of tax-equivalent net interest income aid in the comparability of net interest income arising from both taxable and tax-exempt sources over the periods presented. In addition, TSFG presents certain tax-equivalent net interest income and margin comparisons including the net cash settlements on certain interest rate swaps for 2005 to use data more comparable to current year presentations in order to better highlight trends. In discussing its deposits, TSFG presents information summarizing its funding generated by customers using the following definitions: "customer deposits," which are defined by TSFG as total deposits less brokered deposits, and "customer funding," which is defined by TSFG as total deposits less brokered deposits plus customer sweep accounts. TSFG also discusses its funding generated from non-customer sources using the following definition: "wholesale borrowings" which are defined by TSFG as short-term and long-term borrowings less customer sweep accounts plus brokered deposits. In addition, TSFG provides data eliminating intangibles in order to present data on a "tangible" basis. The limitations associated with operating measures are the risk that persons might disagree as to the appropriateness of items comprising these measures and that different companies might calculate these measures differently. Management compensates for these limitations by providing detailed reconciliations between GAAP and operating measures. These disclosures should not be viewed as a substitute for GAAP measures, and furthermore, TSFG's non-GAAP measures may not necessarily be comparable to non-GAAP performance measures of other companies.

**Overview**

The South Financial Group is a financial holding company, headquartered in Greenville, South Carolina, with $13.9 billion in total assets and 172 branch offices in South Carolina, Florida, and North Carolina at December 31, 2007. Founded in 1986, TSFG focuses on attractive Southeastern banking markets with long-term growth potential. TSFG operates Carolina First Bank, which conducts banking operations in South Carolina and North Carolina (as Carolina First Bank), in Florida (as Mercantile Bank), and on the Internet (as Bank CaroLine). At December 31, 2007, approximately 47% of TSFG's customer deposits (total deposits less brokered deposits) were in South Carolina, 38% were in Florida, and 15% were in North Carolina.

Prior to July 1, 2007, TSFG's Florida banking operations were conducted through a separate banking subsidiary, Mercantile Bank. However, effective July 1, 2007, Mercantile Bank was merged with and into Carolina First Bank. Subsequent to the merger, the former Mercantile Bank operates as a division of Carolina First Bank, still under the name "Mercantile Bank."



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

TSFG uses a super-community bank strategy, serving the needs of small business, middle market companies, and retail consumers. As a super-community bank, TSFG strives to combine personalized customer service and local decision-making, typical of community banks, with a full range of financial services normally found at larger regional institutions.

TSFG reported net income of $73.3 million, or $0.99 per diluted share, for 2007, compared with $112.9 million or $1.49 per diluted share for 2006. The decline in net income was principally from a higher provision for credit losses, including $18.4 million related to a well-publicized western North Carolina real estate development which was alleged by the North Carolina attorney general to involve fraud ("Penland Development Loans") and lower net interest income. Average diluted shares outstanding decreased 1.9% to 74.1 million shares, principally as a result of TSFG's repurchase of 3.6 million shares during 2007, partially offset by shares issued pursuant to the exercise of stock options.

TSFG continues to focus on improving its balance sheet mix by increasing the relative level and mix of customer assets and liabilities. On the asset side, average loans as a percentage of average earning assets increased to 79.8% for 2007 from 75.8% for 2006. On the funding side, average customer funding (which includes deposits less brokered deposits plus customer sweep accounts) as a percentage of average total funding increased to 67.0% for 2007, up from 64.8% for 2006.

Using period-end balances, TSFG's loans held for investment at December 31, 2007 increased 5.3% from a year ago, and total deposits, including brokered deposits, grew 2.9%. Customer funding (deposits less brokered deposits plus customer sweep accounts) decreased 2.6% since December 31, 2006.

Tax-equivalent net interest income was $389.0 million for 2007, a $19.2 million decrease from $408.3 million in 2006. The net interest margin decreased to 3.10% in 2007 from 3.22% for 2006. This margin compression reflects competitive deposit pricing, an unfavorable mix shift to higher-cost deposit categories, higher wholesale borrowing costs, and actions by management to reduce interest rate risk and optionality in the balance sheet.

Noninterest income totaled $113.3 million for 2007, compared to $117.9 million for 2006. The decrease in noninterest income was largely attributable to a $4.6 million net loss on securities (versus a $4.0 million net gain for the prior year). In addition, the change in noninterest income included a $4.3 million negative swing from the gain/loss associated with derivative activities and a $2.5 million decline from a 2006 gain on the sale of a branch. These items were partially offset by a $5.1 million increase from the 2006 loss on indirect auto loans and a $1.7 million increase in bank-owned life insurance income from insurance proceeds received in second quarter 2007. Mortgage banking income for 2007 declined $2.1 million compared with 2006 as mortgage banking origination volumes slowed in response to current market conditions. TSFG's wealth management income, merchant processing income (net), and customer fee income for 2007 increased over the prior year amounts.

Noninterest expenses for 2007 totaled $320.8 million, compared to $325.9 million for 2006, a decrease of 1.6%, as TSFG continued to make progress managing and controlling noninterest expenses. Salaries, wages and employee benefits (excluding contract buyouts and severance), which account for 54.3% of total noninterest expenses for 2007, increased 2.2% to $174.2 million, partly due to higher salaries attributable to annual salary increases and higher insurance expense. Occupancy and furniture and equipment expense increased 6.5% in 2007 due primarily to increased rent expense for new and expanded branch locations. Declines in professional fees and most other categories of expense more than offset these increases.

At December 31, 2007, nonperforming assets as a percentage of loans held for investment and foreclosed property increased to 0.88% from 0.43% at December 31, 2006. Net loan charge-offs as a percentage of average loans held for investment totaled 0.53% for 2007, compared to 0.28% for 2006. For 2007, net loan charge-offs included 0.19% for the Penland Development Loans. TSFG's provision for credit losses increased to $68.6 million for 2007 from $32.8 million for 2006, primarily due to continuing weakness in real estate markets as well as downgrades in TSFG's internal ratings of credits impacted by this weakness. The provision for credit losses in 2007 also included $18.4 million related to the Penland Development Loans.

TSFG's tangible equity to tangible asset ratio increased to 6.61% at December 31, 2007 from 6.48% at December 31, 2006, primarily due to the continued run-off of securities (which has contributed to lower tangible assets), as well as lower unrealized losses in the remaining securities portfolio.

*Strategic Plan.* Earlier in 2007, TSFG with the assistance of First Manhattan Consulting Group, began a strategic evaluation of each of its business lines to improve its overall profitability. This process focused on developing tactical plans for each of its business lines. As the process evolved, the opportunity to improve deposit levels, mix, and costs became the central point of focus relative to the Company's overall profitability. This resulted in the development of key initiatives to improve

funding and thereby lower our funding costs, which include: (i) an increased focus on retail deposit activities, (ii) leveraging the commercial base to grow deposits, and (iii) the expansion of private banking efforts to support deposit growth. The funding initiatives are in addition to the following initiatives to: (i) maintain balanced loan growth with asset quality and profitability, (ii) maintain credit quality longer-term, (iii) increase noninterest income through growth in deposits and expansion of private banking to increase wealth management revenues, (iv) manage operating noninterest expenses and improve efficiency, and (v) actively manage capital levels and mix.

**Critical Accounting Policies and Estimates**

TSFG's accounting policies are in accordance with accounting principles generally accepted in the United States and with general practice within the banking industry. TSFG makes a number of judgmental estimates and assumptions relating to reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during periods presented. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and reserve for unfunded lending commitments, the effectiveness of derivatives and other hedging activities, the fair value of certain financial instruments (securities, derivatives, and privately held investments), income tax assets or liabilities, share-based compensation, and accounting for acquisitions, including the fair value determinations and the analysis of goodwill impairment. To a lesser extent, significant estimates are also associated with the determination of contingent liabilities, discretionary compensation, and other employee benefit agreements. Different assumptions in the application of these policies could result in material changes in TSFG's Consolidated Financial Statements. Accordingly, as this information changes, the Consolidated Financial Statements could reflect the use of different estimates, assumptions, and judgments. Certain determinations inherently have a greater reliance on the use of estimates, assumptions, and judgments, and as such have a greater possibility of producing results that could be materially different than originally reported. TSFG has procedures and processes in place to facilitate making these judgments.

*Allowance for Loan Losses and Reserve for Unfunded Lending Commitments*

The allowance for loan losses ("Allowance") represents management's estimate of probable incurred losses in the lending portfolio. See "Balance Sheet Review – Allowance for Loan Losses" for additional discussion, including the methodology for analyzing the adequacy of the Allowance. This methodology relies upon management's judgment in segregating the portfolio into risk-similar segments, computing specific allocations for impaired loans, and setting the amounts within the probable loss range (from 95% to 105% of the adjusted historical loss ratio). Management's judgments evolve from an assessment of various issues, including but not limited to the pace of loan growth, collateral values, borrower's ability and willingness to repay, emerging portfolio concentrations, risk management system changes, entry into new markets, new product offerings, loan portfolio quality trends, and uncertainty in current economic and business conditions.

Assessing the adequacy of the Allowance is a process that requires considerable judgment. Management considers the year-end Allowance appropriate and adequate to cover probable incurred losses in the loan portfolio. However, management's judgment is based upon a number of assumptions about current events, which are believed to be reasonable, but which may or may not prove valid. Thus, there can be no assurance that loan losses in future periods will not exceed the current Allowance amount or that future increases in the Allowance will not be required. No assurance can be given that management's ongoing evaluation of the loan portfolio in light of changing economic conditions and other relevant circumstances will not require significant future additions to the Allowance, thus adversely affecting the operating results of TSFG.

The Allowance is also subject to examination and adequacy testing by regulatory agencies, which may consider such factors as the methodology used to determine adequacy and the size of the Allowance relative to that of peer institutions, and other adequacy tests. In addition, such regulatory agencies could require TSFG to adjust its Allowance based on information available to them at the time of their examination.

The methodology used to determine the reserve for unfunded lending commitments, which is included in other liabilities, is inherently similar to that used to determine the allowance for loan losses described above, adjusted for factors specific to binding commitments, including the probability of funding and historical loss ratio.

*Derivatives and Hedging Activities*

TSFG uses derivative financial instruments to reduce exposure to changes in interest rates and market prices for financial instruments. The application of hedge accounting requires judgment in the assessment of hedge effectiveness,

identification of similarly hedged item groupings, and measurement of changes in the fair value of derivatives and related hedged items. TSFG believes that its methods for addressing these judgmental areas are reasonable and in accordance with generally accepted accounting principles in the United States. See "Derivative Financial Instruments" and "Fair Value of Certain Financial Instruments" for additional information regarding derivatives.

*Fair Value of Certain Financial Instruments*

Fair value is defined as the amount at which a financial instrument could be liquidated in a transaction between willing, unrelated parties in a normal business transaction. Fair value is based on quoted market prices for the same or similar instruments, adjusted for any differences in terms. If market prices are not readily available, then the fair value is estimated. For example, when TSFG has an investment in a privately held company, TSFG's management evaluates the fair value of these investments based on the entity's ability to generate cash through its operations, obtain alternative financing, and subjective factors. Modeling techniques, such as discounted cash flow analyses, which use assumptions for interest rates, credit losses, prepayments, and discount rates, are also used to estimate fair value if market prices are not readily available.

TSFG carries its available for sale securities, trading securities, and derivatives at fair value. The unrealized gains or losses, net of income tax effect, on available for sale securities and the effective component of derivatives qualifying as cash flow hedges are included in accumulated other comprehensive income (loss), a separate component of shareholders' equity. The fair value adjustments for trading securities and derivative financial instruments not qualifying as cash flow hedges are included in earnings. In addition, for hedged items in a fair value hedge, changes in the hedged item's fair value attributable to the hedged risk are also included in noninterest income. No fair value adjustment is allowed for the related hedged asset or liability in circumstances where the derivatives do not meet the requirements for hedge accounting under SFAS No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities."

TSFG periodically evaluates its investment securities portfolio for other-than-temporary impairment. If a security is considered to be other-than-temporarily impaired, the related unrealized loss is charged to operations, and a new cost basis is established. Factors considered include the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to period-end, and forecasted performance of the security issuer. Impairment is considered other-than-temporary unless the holder of the security has both the intent and ability to hold the security until the fair value recovers and evidence supporting the recovery outweighs evidence to the contrary. However, for equity securities, which typically do not have a contractual maturity with a specified cash flow on which to rely, the ability to hold an equity security indefinitely, by itself, does not allow for avoidance of other-than-temporary impairment.

The fair values of TSFG's investments in privately held limited partnerships, corporations and LLCs are not readily available. These investments are accounted for using either the cost or the equity method of accounting. The accounting treatment depends upon TSFG's percentage ownership and degree of management influence. TSFG's management evaluates its investments in limited partnerships and LLCs quarterly for impairment based on the investee's ability to generate cash through its operations, obtain alternative financing, and subjective factors. There are inherent risks associated with TSFG's investments in privately held limited partnerships, corporations and LLCs, which may result in income statement volatility in future periods.

The process for valuing financial instruments, particularly those with little or no liquidity, is subjective and involves a high degree of judgment. Small changes in assumptions can result in significant changes in valuation. Valuations are subject to change as a result of external factors beyond our control that have a substantial degree of uncertainty. The inherent risks associated with determining the fair value of a financial instrument may result in income statement volatility in future periods.

Effective January 1, 2008, TSFG adopted SFAS No. 157 ("SFAS 157"), "Fair Value Measurements" for its financial assets and liabilities and SFAS No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities" with no significant impact on its Consolidated Financial Statements. These standards define fair value, establish guidelines for measuring fair value, and allow an irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis.

*Income Taxes*

Management uses certain assumptions and estimates in determining income taxes payable or refundable, deferred income tax liabilities and assets for events recognized differently in its financial statements and income tax returns, and income tax expense. Determining these amounts requires analysis of certain transactions and interpretation of tax laws and regulations.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Management exercises considerable judgment in evaluating the amount and timing of recognition of the resulting income tax liabilities and assets. These judgments and estimates are re-evaluated on a continual basis as regulatory and business factors change.

No assurance can be given that either the tax returns submitted by management or the income tax reported on the Consolidated Financial Statements will not be adjusted by either adverse rulings by the U.S. Tax Court, changes in the tax code, or assessments made by the Internal Revenue Service ("IRS"). TSFG is subject to potential adverse adjustments, including but not limited to: an increase in the statutory federal or state income tax rates, the permanent nondeductibility of amounts currently considered deductible either now or in future periods, and the dependency on the generation of future taxable income, including capital gains, in order to ultimately realize deferred income tax assets.

TSFG adopted FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes," on January 1, 2007. Under FIN 48, TSFG will only include the current and deferred tax impact of its tax positions in the financial statements when it is more likely than not (likelihood of greater than 50%) that such positions will be sustained by taxing authorities, with full knowledge of relevant information, based on the technical merits of the tax position. While TSFG supports its tax positions by unambiguous tax law, prior experience with the taxing authority, and analysis that considers all relevant facts, circumstances and regulations, management must still rely on assumptions and estimates to determine the overall likelihood of success and proper quantification of a given tax position.

*Share-Based Compensation*

TSFG measures compensation cost for share-based awards at fair value and recognizes compensation over the service period for awards expected to vest. The fair value of restricted stock and restricted stock units is based on the number of shares granted and the quoted price of our common stock, and the fair value of stock options is determined using the Black-Scholes valuation model. The Black-Scholes model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. In addition, the estimation of share-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. TSFG considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience. Actual results, and future changes in estimates, may differ substantially from our current estimates. For performance-based awards, TSFG estimates the degree to which performance conditions will be met to determine the number of shares which will vest and the related compensation expense prior to the vesting date.

*Accounting for Acquisitions*

TSFG has grown its operations, in part, through bank and non-bank acquisitions. Since 2000, and in accordance with SFAS No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets," TSFG has used the purchase method of accounting to account for acquisitions. Under this method, TSFG is required to record assets acquired and liabilities assumed at their fair value, which in many instances involves estimates based on third party, internal, or other valuation techniques. These estimates also include the establishment of various accruals for planned facilities dispositions and employee benefit related considerations, among other acquisition-related items. In addition, purchase acquisitions typically result in goodwill or other intangible assets, which are subject to periodic impairment tests, on an annual basis, or more often, if events or circumstances indicate that there may be impairment. These tests, which TSFG performed annually as of June 30th since 2002, use estimates such as projected cash flows, discount rates, time periods, and comparable market values in their calculations. Furthermore, the determination of which intangible assets have finite lives is subjective, as well as the determination of the amortization period for such intangible assets.

TSFG tests for goodwill impairment by determining the fair value for each reporting unit and comparing it to the carrying amount. If the carrying amount exceeds its fair value, the potential for impairment exists, and a second step of impairment testing is required. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities as if the reporting unit had been acquired in a business combination at the date of the impairment test. If the implied fair value of reporting unit goodwill is lower than its carrying amount, goodwill is impaired and is written down to its fair value.

The valuations as of June 30, 2007 indicated that no impairment charges were required as of that test date. During fourth quarter 2007, TSFG's common stock price declined such that it traded below book value for much of the quarter. The duration of the decline in stock price prompted TSFG to perform an interim evaluation of goodwill impairment as of December 31, 2007 for a substantial portion of the balance. This interim evaluation indicated that no impairment charge was required as of

December 31, 2007, and there have been no events or circumstances since that date indicating impairment. However, TSFG will continue to evaluate the balance for impairment as conditions change, including the trading price of its stock.

For several previous acquisitions, TSFG has agreed to issue earn-out payments based on the achievement of certain performance targets. Upon paying the additional consideration, TSFG would record additional goodwill.

TSFG's other intangible assets have an estimated finite useful life and are amortized over that life in a manner that reflects the estimated decline in the economic value of the identified intangible asset. TSFG periodically reviews its other intangible assets to determine whether there have been any events or circumstances which indicate the recorded amount is not recoverable from projected undiscounted cash flows. If the projected undiscounted net operating cash flows are less than the carrying amount, a loss is recognized to reduce the carrying amount to fair value, and when appropriate, the amortization period is also reduced.

**Expanded Corporate Facilities**

During 2005, TSFG initiated plans for a "corporate campus" to meet current and future facility needs and serve as the primary headquarters for its banking operations, including legal, human resources, accounting, finance, certain loan operations, credit, treasury, internal audit, risk management, and other support and administrative functions. The initial phase of the plans included the purchase of approximately 68 acres of land in Greenville County, South Carolina, for an aggregate investment of $10.4 million in early 2006. While the Company has flexibility in its plans, it expects to make additional investments of approximately $90 million between now and 2011, with the first phase being completed and occupied during the first half of 2009. The Company believes assimilating the workforce for these functions at one location will provide certain efficiencies through greater interaction and communication as well as an increased ability to attract and retain employees.

In connection with this project, the applicable state, county, and city governments and other sources will provide the Company's banking subsidiary certain tax and economic incentives based on, among other things, an investment of approximately $100 million and the creation of new positions at the campus. The current estimated incentives arising from the minimum investment of $100 million have a value up to $56.5 million ($26.4 million on a present value basis). In addition, the Company could receive additional incentives up to $12.8 million ($8.5 million on a present value basis) if minimum job creation requirements of 600 new positions at the campus by December 31, 2011 are attained. The requisite new positions must be in addition to the approximately 325 current Greenville-based positions that will be relocated from existing leased facilities to the campus beginning in early 2009.

The new positions to be located at the campus will be derived from (i) the management and consolidation of existing positions, including relocating some functions currently located outside of South Carolina; (ii) growth and expansion of current and future business lines; and (iii) future acquisitions (if any).

Prior to 2009, TSFG does not expect to recognize any significant expenses associated with the project due to the capitalization of costs during the construction period. However, upon completion of certain infrastructure elements (roads, sidewalks, etc.), the Company will contribute its net investment in those improvements to the City of Greenville in 2008 or early 2009 (currently estimated at $3 million to $5 million, net of certain economic grants). Additionally, the Company currently estimates it may incur one-time charges totaling $3 million to $5 million after-tax related to lease terminations and impairment of leasehold improvements.

Assuming a significant portion of the incentives are earned, TSFG does not currently expect the incremental occupancy costs to be significant in future periods. Although not finalized, the Company is also pursuing other incentives as well as managing the overall timing of the additional investments through 2011.

During 2007, TSFG started construction on these facilities. Through December 31, 2007, TSFG had invested approximately $25 million in the project and had entered into additional contractual commitments of approximately $29 million.

**Acquisitions and Sales**

The following table summarizes TSFG's significant acquisitions completed during the past three years. All of the transactions were accounted for using the purchase method of accounting. TSFG's Consolidated Financial Statements include the results of the acquired company's operations since the acquisition date.

**Table 1**
**Summary of Completed Acquisitions**
**(dollars in thousands)**

| | Acquisition Date | Total Assets(1) | Shares Issued | Purchase Price Paid in Cash | Identifiable Intangible Assets(2) | Goodwill(2) |
|---|---|---|---|---|---|---|
| **Bank Acquisitions** | | | | | | |
| Pointe Bank Boca Raton, Florida | 05/06/05 | $ 432,550 | 2,193,941 | $ 24,495 | $ 6,689 | $ 64,590 |
| **Insurance Agency/Other Acquisitions** | | | | | | |
| Lossing Insurance Agency Ocala, Florida | 11/01/05 | 476 | — | 5,646(3) | 2,184 | 4,368 |
| Bowditch Insurance Corporation Jacksonville, Florida | 06/06/05 | 713 | 89,077(4) | 2,081(4) | 2,276 | 3,327 |
| Koss Olinger Gainesville, Florida | 04/04/05 | 287 | 56,398(5) | 4,718 | 1,742 | 4,956 |

(1) Book value at the acquisition date.

(2) Carrying amount (identifiable intangible assets are not reported net of accumulated amortization) at December 31, 2007.

(3) TSFG agreed to issue annual cash earn-outs for each of September 30, 2006, 2007, 2008 and 2009, based on targeted earnings achievement. For each of 2007 and 2006, earn-outs totaled $321,000. The earn-outs would have a maximum total value of $1.3 million.

(4) TSFG agreed to issue annual earn-out shares/cash for each of May 31, 2006, 2007, 2008 and 2009, based on targeted earnings achievement. In 2007, earn-outs totaled 1,738 shares and $41,000 cash. The earn-outs would have a maximum total value of approximately $1.9 million.

(5) TSFG agreed to issue earn-out shares on May 17, 2010 based on earnings achievement. The base earn-out shares would have a total value of $3 million for achievement of the minimum performance target, with potential additional earn-out shares based on achievement of higher performance levels.

For additional information regarding TSFG's acquisitions, please see Item 8, Note 4 to the Consolidated Financial Statements. TSFG had no pending acquisitions as of December 31, 2007.

*Sales*

In September 2006, Carolina First Bank completed the sale of its branch office in Mullins, South Carolina. In connection with the sale of this branch, TSFG recorded a gain of $2.5 million and transferred deposits of $27.9 million and loans of $2.6 million to the purchaser.

**Balance Sheet Review**

*Loans*

TSFG focuses its lending activities on small and middle market businesses and individuals in its geographic markets. At December 31, 2007, outstanding loans totaled $10.2 billion, which equaled 105% of total deposits (125% of customer funding) and 74% of total assets. Loans held for investment increased $511.6 million, or 5.3%, to $10.2 billion at December 31, 2007 from $9.7 billion at December 31, 2006. The major components of the loan portfolio were commercial loans, commercial real estate loans, and consumer loans (including both direct and indirect loans). Substantially all loans were to borrowers located in TSFG's market areas in South Carolina, North Carolina, and Florida. At December 31, 2007, approximately 7% of the portfolio was unsecured.

As part of its portfolio and balance sheet management strategies, TSFG reviews its loans held for investment and determines whether its intent for specific loans or classes of loans has changed. If management changes its intent from held for investment to held for sale, the loans are transferred to the held for sale portfolio and recorded at the lower of cost basis or fair value.

TSFG generally sells a majority of its residential mortgage loans at origination in the secondary market. TSFG also retains certain of its mortgage loans, based on predetermined criteria, in its held for investment portfolio as part of its overall



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

balance sheet management strategy. Loans held for sale decreased $10.7 million to $17.9 million at December 31, 2007 from $28.6 million at December 31, 2006, primarily related to lower mortgage loan volume and timing of mortgage loan sales.

Table 2 summarizes outstanding loans by collateral type for real estate secured loans and by borrower type for all other loans. Collateral type represents the underlying assets securing the loan, rather than the purpose of the loan. Table 3 provides a more meaningful stratification of the loan portfolio by loan purpose, consistent with internal management of the portfolio. This presentation differs from that in Table 2, which stratifies the portfolio by collateral type and borrower type, consistent with external regulatory reporting.

**Table 2**
**Loan Portfolio Composition Based on Collateral/Borrower Type**
**(dollars in thousands)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Commercial, financial and agricultural | $ 2,309,294 | $ 2,152,375 | $ 1,936,963 | $ 1,584,198 | $ 1,358,409 |
| Real estate — construction (1) | 1,763,365 | 1,630,366 | 1,497,605 | 1,007,061 | 619,124 |
| Real estate — residential mortgages (1-4 family) | 1,390,729 | 1,416,005 | 1,493,317 | 1,278,310 | 940,744 |
| Commercial secured by real estate (1) | 3,946,440 | 3,727,316 | 3,441,576 | 3,109,242 | 2,146,650 |
| Consumer | 803,592 | 775,805 | 1,069,934 | 1,128,946 | 667,278 |
| Loans held for investment | $ 10,213,420 | $ 9,701,867 | $ 9,439,395 | $ 8,107,757 | $ 5,732,205 |

(1) These categories include loans to businesses other than real estate companies where owner-occupied real estate is pledged on loans to finance operations, equipment, and facilities.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Table 3**
**Loan Portfolio Composition Based on Loan Purpose**
**(dollars in thousands)**

| | December 31, 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| **Commercial Loans** | | | | | |
| Commercial and industrial | $ 2,759,492 | $ 2,491,210 | $ 2,258,789 | $ 2,049,160 | $ 1,593,346 |
| Owner — occupied real estate (1)(2) | 1,070,376 | 830,179 | 801,953 | 825,582 | 634,604 |
| Commercial real estate (2) | 4,158,384 | 4,171,631 | 3,933,927 | 3,246,729 | 2,071,242 |
| | 7,988,252 | 7,493,020 | 6,994,669 | 6,121,471 | 4,299,192 |
| **Consumer Loans (3)** | | | | | |
| Indirect — sales finance | 699,014 | 660,401 | 916,318 | 790,372 | 591,807 |
| Consumer lot loans | 311,386 | 357,325 | 310,532 | 103,473 | 42,039 |
| Direct retail | 94,228 | 98,181 | 107,295 | 111,516 | 91,532 |
| Home equity | 548,928 | 512,881 | 553,194 | 524,909 | 379,288 |
| | 1,653,556 | 1,628,788 | 1,887,339 | 1,530,270 | 1,104,666 |
| **Mortgage Loans (3)** | 571,612 | 580,059 | 557,387 | 456,016 | 328,347 |
| Total loans held for investment | $ 10,213,420 | $ 9,701,867 | $ 9,439,395 | $ 8,107,757 | $ 5,732,205 |
| **Percentage of Loans Held for Investment** | | | | | |
| Commercial and industrial | 27.0% | 25.7% | 23.9% | 25.3% | 27.8% |
| Owner — occupied real estate (1) | 10.5 | 8.6 | 8.5 | 10.2 | 11.1 |
| Commercial real estate | 40.7 | 43.0 | 41.7 | 40.0 | 36.1 |
| Consumer | 16.2 | 16.7 | 20.0 | 18.9 | 19.3 |
| Mortgage | 5.6 | 6.0 | 5.9 | 5.6 | 5.7 |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

(1) In Table 2, these loans are included in the “Real estate-construction” and “Commercial secured by real estate” categories, which also include loans to non-real estate industry borrowers.

(2) During 2007, TSFG reclassified certain loan balances from owner-occupied real estate to commercial real estate. Amounts for prior periods (specifically, $80.1 million for 2006) have been reclassified to conform to the current presentation.

(3) During 2007, TSFG reclassified certain loan balances from mortgage loans to consumer loans. Amounts for prior periods (including $146.5 million for 2006, $46.8 million for 2005, $91,000 for 2004, and $115,000 for 2003) have been reclassified to conform to the current presentation.

*Commercial and industrial loans* are loans to finance short-term and intermediate-term cash needs of businesses. Typical needs include the need to finance seasonal or other temporary cash flow imbalances, growth in working assets created by sales growth, and purchases of equipment and vehicles. Credit is extended in the form of short-term single payment loans, lines of credit for periods up to a year, revolving credit facilities for periods up to five years, and amortizing term loans for periods up to ten years.

*Owner-occupied real estate loans* are loans to finance the purchase or expansion of operating facilities used by businesses not engaged in the real estate business. Typical loans are loans to finance offices, manufacturing plants, warehouse facilities, and retail shops. Depending on the property type and the borrower’s cash flows, amortization terms vary from ten years up to 20 years. Although secured by mortgages on the properties financed, these loans are underwritten based on the cash flows generated by operations of the businesses they house.

*Commercial real estate loans* are loans to finance real properties that are acquired, developed, or constructed for sale or lease to parties unrelated to the borrower. Included are loans to acquire land for development, land development loans, and construction loans. A significant portion of the portfolio consists of completed income property loans, which would include projects in a cash flow stabilization period and stabilized projects financed on an amortizing basis. Generally, commercial real estate loans are booked in accordance with standard industry loan-to-value guidelines, depending on the specific property type, as follows: undeveloped land at 65%, acquisition and development at 75%, and completed income property at 80%. Actual loans may vary from these stated objectives depending on specific loan factors, with variances mostly around completed income

properties being dependent on amortization terms, quality of tenants, and type of property. The appraisals for these loans are ordered and reviewed by an independent group in credit administration.

*Indirect — sales finance loans* are loans to individuals to finance the purchase of motor vehicles. They are closed at the auto dealership but approved in advance by TSFG for immediate purchase. Loans are extended on new and used motor vehicles with terms varying from two to six years. During the second quarter of 2006, TSFG sold $359.6 million of indirect auto loans originated from August 2005 through the end of May 2006.

*Consumer lot loans* are loans to individuals to finance the purchase of residential lots.

*Direct retail consumer loans* are loans to individuals to finance personal, family, or household needs. Typical loans are loans to finance auto purchases or home repairs and additions.

*Home equity loans* are loans to homeowners, secured by junior mortgages on their primary residences, to finance personal, family, or household needs. These loans may be in the form of amortizing loans or lines of credit with terms up to 15 years. TSFG's home equity portfolio consists of loans to direct customers, with no brokered loans.

*Mortgage loans* are loans to individuals, secured by first or second mortgages on single-family residences, generally to finance the acquisition or construction of those residences. TSFG generally sells a majority of its residential mortgage loans at origination in the secondary market. TSFG also retains certain of its mortgage loans, based on predetermined criteria, in its held for investment portfolio as part of its overall balance sheet management strategy. TSFG's mortgage portfolio is bank-customer related, with minimal brokered loans or subprime exposure.

The portfolio's largest concentration is in commercial real estate loans. Real estate development and construction are major components of the economic activity that occurs in TSFG's markets. We attempt to manage the risk attributable to the concentration in commercial real estate loans by focusing our lending on markets with which we are familiar and on borrowers who have proven track records whom we believe possess the financial means to weather adverse market conditions.

Also, management believes that diversification by geography, property type, and borrower partially diversifies the risk of loss in its commercial real estate loan portfolio. Table 4 sorts the commercial real estate portfolio by geography and property type.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Table 4**
**Commercial Real Estate Loans**
**(dollars in thousands)**

| | December 31, 2007 | | December 31, 2006 | |
|---|---|---|---|---|
| | Balance | % of Total | Balance | % of Total CRE |
| **Commercial Real Estate Loans by Geographic Diversification (1)** | | | | |
| Western North Carolina (Hendersonville/Asheville) | $ 868,226 | 20.9% | $ 913,742 | 21.9% |
| Tampa Bay Florida | 565,917 | 13.6 | 562,905 | 13.5 |
| Upstate South Carolina (Greenville) | 400,936 | 9.6 | 338,576 | 8.1 |
| Northeast Florida (Jacksonville) | 327,877 | 7.9 | 354,372 | 8.5 |
| North Central Florida | 301,485 | 7.3 | 313,009 | 7.5 |
| Midlands South Carolina (Columbia) | 300,414 | 7.2 | 381,810 | 9.2 |
| North Coastal South Carolina (Myrtle Beach) | 297,075 | 7.2 | 274,548 | 6.6 |
| South Florida (Ft. Lauderdale) | 283,937 | 6.8 | 263,807 | 6.3 |
| Central Florida (Orlando) | 278,416 | 6.7 | 279,922 | 6.7 |
| South Coastal South Carolina (Charleston) | 231,881 | 5.6 | 233,834 | 5.6 |
| Marion County, Florida (Ocala) | 168,054 | 4.0 | 147,098 | 3.5 |
| Greater South Charlotte South Carolina (Rock Hill) | 134,166 | 3.2 | 108,008 | 2.6 |
| Total commercial real estate loans | $ 4,158,384 | 100.0% | $ 4,171,631 | 100.0% |

| | Balance | % of Total Loans HFI | Balance | % of Total Loans HFI |
|---|---|---|---|---|
| **Commercial Real Estate Loans by Product Type** | | | | |
| Completed income property | $ 2,000,010 | 19.6% | $ 1,961,961 | 20.2% |
| Residential acquisition and development | 666,999 | 6.5 | 725,248 | 7.5 |
| Commercial acquisition and development | 525,933 | 5.1 | 551,570 | 5.7 |
| Commercial construction | 471,772 | 4.6 | 412,014 | 4.2 |
| Residential construction | 262,224 | 2.6 | 266,779 | 2.8 |
| Undeveloped land | 231,446 | 2.3 | 254,059 | 2.6 |
| Total commercial real estate loans | $ 4,158,384 | 40.7% | $ 4,171,631 | 43.0% |

(1) Geography is primarily determined by the originating operating geographic market and not necessarily the ultimate location of the underlying collateral.

Note: At December 31, 2007 and 2006, average loan size for commercial real estate loans totaled $557,000 and $478,000, respectively.

Table 5 presents remaining maturities of certain loan classifications based on collateral type at December 31, 2007. The table also provides the breakdown between those loans with a predetermined interest rate and those loans with a floating interest rate.

**Table 5**
**Selected Loan Maturity and Interest Sensitivity**
**(dollars in thousands)**

| | One Year or Less | Over One But Less Than Five Years | Over Five Years | Total |
|---|---|---|---|---|
| Commercial secured by real estate | $ 1,256,480 | $ 2,052,613 | $ 637,347 | $ 3,946,440 |
| Commercial, financial and agricultural | 1,419,881 | 680,927 | 208,486 | 2,309,294 |
| Real estate—construction | 1,114,420 | 584,472 | 64,473 | 1,763,365 |
| Total of loans with: | | | | |
| Floating interest rates (1) | 3,171,007 | 1,560,621 | 468,440 | 5,200,068 |
| Predetermined interest rates | 619,774 | 1,757,391 | 441,866 | 2,819,031 |

(1) TSFG has entered into swaps and an interest rate floor to hedge the forecasted interest income from certain prime-based commercial loans. The notional amount of the swaps and the floor totaled $830.0 million and $200.0 million, respectively, at December 31, 2007.

Table 6 summarizes TSFG's loan relationships, including unused loan commitments, which are greater than $20 million.

**Table 6**
**Loan Relationships Greater than $20 Million**

| | | | Outstanding Principal Balance | |
|---|---|---|---|---|
| | Number of Borrowers | Total Commitment | Amount | Percentage of Loans Held for Investment |
| December 31, 2007 | 57 | $1.6 billion | $979.8 million | 9.6% |
| December 31, 2006 | 58 | 1.5 billion | 907.7 million | 9.4 |

Portfolio risk is also managed by maintaining a "house" lending limit at a level significantly lower than the legal lending limit of Carolina First Bank, and by requiring Director Risk Committee approval to exceed this house limit. At December 31, 2007, TSFG's house lending limit was $35 million, and eight credit relationships totaling $360.2 million were in excess of the house lending limit (but not the legal lending limit). The 20 largest credit relationships have an aggregate outstanding principal balance of $428.6 million, or 4.2% of total loans held for investment, at December 31, 2007, comparable to the 3.8% of total loans held for investment at December 31, 2006.

TSFG, through its Corporate Banking group, participates in "shared national credits" (multi-bank credit facilities of $20 million or more, or "SNCs"), primarily to borrowers who are headquartered or conduct business in or near our markets. At December 31, 2007, the loan portfolio included commitments totaling $1.3 billion in SNCs. Outstanding borrowings under these commitments totaled $660.7 million. The largest commitment was $40.0 million and the largest outstanding balance was $21.2 million at December 31, 2007. At December 31, 2006, the loan portfolio included commitments totaling $911.7 million in SNCs, of which $413.2 million was outstanding. In addition to internal limits that control our credit exposure to individual borrowers, we have established limits on the size of the overall SNC portfolio, and have established a sub-limit for total credit exposure to borrowers located outside of our markets. All of our SNC relationships are underwritten and managed in a centralized Corporate Banking Group staffed with experienced bankers. Our strategy targets borrowers whose management teams are well known to us and whose risk profile is above average. Our ongoing strategic plan is to maintain diversity in our portfolio and expand the profitability of our relationships through the sale of non-credit products.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

*Credit Quality*

A willingness to take credit risk is inherent in the decision to grant credit. Prudent risk-taking requires a credit risk management system based on sound policies and control processes that ensure compliance with those policies. TSFG's credit risk management system is defined by policies approved by the Board of Directors that govern the risk underwriting, portfolio monitoring, and problem loan administration processes. Adherence to underwriting standards is managed through a multi-layered credit approval process and after-the-fact review by credit risk management of loans approved by lenders. Through daily review by credit risk managers, monthly reviews of exception reports, and ongoing analysis of asset quality trends, compliance with underwriting and loan monitoring policies is closely supervised. The administration of problem loans is driven by policies that require written plans for resolution and periodic meetings with credit risk management to review progress. Credit risk management activities are monitored by Director's Risk Committee of the Board, which meets periodically to review credit quality trends, new large credits, loans to insiders, large problem credits, credit policy changes, and reports on independent credit reviews.

Table 7 presents a summary of TSFG's credit quality indicators.

**Table 7**
**Credit Quality Indicators**
**(dollars in thousands)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Loans held for investment | $ 10,213,420 | $ 9,701,867 | $ 9,439,395 | $ 8,107,757 | $ 5,732,205 |
| Allowance for loan losses | 126,427 | 111,663 | 107,767 | 96,434 | 72,811 |
| Allowance for credit losses (1) | 128,695 | 112,688 | 109,350 | 96,918 | 73,287 |
| Nonaccrual loans — commercial and industrial (2) | $ 25,944 | $ 7,052 | $ 25,145 | $ 38,015 | $ 47,137 |
| Nonaccrual loans — owner occupied real estate (2) | 4,085 | 4,512 | included above | included above | included above |
| Nonaccrual loans — commercial real estate (2) | 36,634 | 17,169 | included above | included above | included above |
| Nonaccrual loans — consumer | 7,911 | 5,250 | 3,417 | 2,312 | 2,686 |
| Nonaccrual loans — mortgage (3) | 5,617 | 3,185 | 4,693 | 4,755 | — |
| Restructured loans accruing interest | 1,440 | — | — | — | — |
| Total nonperforming loans | 81,631 | 37,168 | 33,255 | 45,082 | 49,823 |
| Foreclosed property (other real estate owned and personal property repossessions) (4) | 8,276 | 4,341 | 10,722 | 10,894 | 10,951 |
| Total nonperforming assets | 89,907 | 41,509 | 43,977 | 55,976 | 60,774 |
| Loans past due 90 days or more (mortgage and consumer with interest accruing) (3) | $ 5,349 | $ 3,129 | $ 4,548 | $ 3,764 | $ 3,960 |
| Total nonperforming assets as a percentage of loans held for investment and foreclosed property | 0.88% | 0.43% | 0.47% | 0.69% | 1.06% |
| Allowance for loan losses as a percentage of loans held for investment | 1.24 | 1.15 | 1.14 | 1.19 | 1.27 |
| Allowance for credit losses as a percentage of loans held for investment | 1.26 | 1.16 | 1.16 | 1.20 | 1.28 |
| Allowance for loan losses to nonperforming loans | 1.55x | 3.00x | 3.24x | 2.14x | 1.46x |

(1) The allowance for credit losses is the sum of the allowance for loan losses and the reserve for unfunded lending commitments.

(2) At December 31, 2007, 2006, 2005 and 2004, commercial nonaccrual loans included $218,000, $500,000, $1.9 million and $4.7 million, respectively, in restructured loans.

(3) Effective September 30, 2004, TSFG began placing residential mortgage loans in nonaccrual status when they become 150-days delinquent. Previously, these loans were not placed in nonaccrual status (unless impairment was evident), but any associated accrued interest was reserved.

(4)

At December 31, 2007, 2006, 2005, and 2004, personal property repossessions totaled $1.8 million, $900,000, $850,000, and $652,000, respectively, and were included in nonperforming assets. Personal property repossessions totaled $1.0 million at December 31, 2003, and were excluded from nonperforming assets.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

TSFG's nonperforming assets as a percentage of loans held for investment and foreclosed property increased to 0.88% at December 31, 2007 from 0.43% at December 31, 2006, primarily due to higher nonperforming asset levels in our residential related lending activities.

TSFG increased its allowance for credit losses to 1.26% of loans held for investment at December 31, 2007 from the December 31, 2006 level of 1.16%, primarily due to the continuing weakness in real estate markets as well as downgrades in our internal ratings of credits impacted by this weakness.

As disclosed on a Form 8-K filed June 13, 2007, since 2005, TSFG has financed purchases of the Penland Development Loans, which were certain residential lots in a real estate development project near Spruce Pine, North Carolina (Mitchell County). During second quarter 2007, TSFG learned that the developer of this project had abandoned the development. Moreover, on June 7, 2007, the North Carolina Attorney General issued a press release stating that the lot purchasers and the several lenders associated with this development have been victimized by fraudulent land sales schemes and announcing that a receiver has been appointed with respect to the project. The press release indicated that the investment scheme included more than $100 million in financing and multiple financial institutions. Table 8 summarizes information on TSFG's involvement in and exposure to the Penland Development Loans.

**Table 8**
**Penland Development Loans**
**(dollars in thousands)**

| | | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | # of Loans | June 30, 2007 Balance | 2007 Charge-offs | Net Balance | Nonaccrual | Allocated Allowance |
| Lot loans | 93 | $ 17,422 | $ 15,702 | $ 1,720 | $ 1,720 | — |
| Development loans | 2 | 3,007 | 2,707 | 300 | 300 | — |
| Total | 95 | $ 20,429 | $ 18,409 | $ 2,020 | $ 2,020 | $ — |

*Allowance for Loan Losses and Reserve for Unfunded Lending Commitments*

The allowance for loan losses represents management's estimate of probable incurred losses inherent in the lending portfolio. The adequacy of the allowance for loan losses (the "Allowance") is analyzed quarterly. For purposes of this analysis, adequacy is defined as a level sufficient to absorb probable incurred losses in the portfolio as of the balance sheet date presented. The methodology employed for this analysis is as follows.

The portfolio is segregated into risk-similar segments for which historical loss ratios are calculated and adjusted for identified changes in current portfolio characteristics. Historical loss ratios are calculated by product type for consumer loans (direct installment, indirect installment, revolving, and mortgage) and by credit risk grade for performing commercial loans. Nonperforming commercial loans are reviewed for impairment and impairment is measured in accordance with SFAS No. 114, "Accounting by Creditors for Impairment of a Loan, an amendment of FASB Statements No. 5 and 15" ("SFAS 114"), and assigned specific reserves. To allow for modeling margin for imprecision, a range of probable loss ratios (from 95% to 105% of the adjusted historical loss ratio) is then derived for each segment. The resulting percentages are then applied to the dollar amounts of loans in each segment to arrive at each segment's range of probable loss levels.

The Allowance for each portfolio segment is set at an amount within its range that reflects management's best judgment of the extent to which historical loss levels are more or less accurate indicators of current losses in the portfolio. Management's judgments evolve from an assessment of various issues, including but not limited to the pace of loan growth, emerging portfolio concentrations, risk management system changes, entry into new markets, new product offerings, loans acquired from acquisitions, loan portfolio quality trends, and uncertainty in current economic and business conditions.

The Allowance is then segregated into allocated and unallocated components. The allocated component is the sum of the loss estimates at the lower end of the probable loss range for each category. The unallocated component is the sum of the amounts by which final loss estimates exceed the lower end estimates for each category. The unallocated component of the Allowance represents probable incurred losses inherent in the portfolio based on our analysis that are not fully captured in the allocated component.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Allocation of the Allowance to respective loan portfolio components is not necessarily indicative of future losses or future allocations. The entire Allowance is available to absorb incurred probable incurred losses in the loan portfolio. (See "Critical Accounting Policies and Estimates" for additional discussion regarding the Allowance.)

Table 9, which summarizes the changes in the Allowance, and Table 10, which reflects the allocation of the Allowance at the end of each year, provides additional information with respect to the activity in the Allowance.

**Table 9**
**Summary of Loan Loss Experience**
**(dollars in thousands)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Allowance for loan losses, beginning of year | $ 111,663 | $ 107,767 | $ 96,434 | $ 72,811 | $ 69,625 |
| Purchase accounting adjustments | — | — | 3,741 | 20,682 | 12,690 |
| Allowance adjustment for loans sold | — | (3,089) | — | (506) | — |
| Charge-offs: | | | | | |
| Commercial, financial and agricultural | 18,716 | 16,895 | 23,188 | 20,882 | 18,474 |
| Real estate—construction | 10,770 | 6,814 | 1,329 | 2,513 | 3,049 |
| Real estate—residential mortgages (1-4 family) | 2,090 | 2,373 | 2,107 | 1,980 | 3,034 |
| Commercial secured by real estate | 6,105 | 5,200 | 6,644 | 4,842 | 2,410 |
| Consumer | 21,727 | 5,341 | 5,946 | 6,786 | 7,657 |
| Total loans charged-off | 59,408 | 36,623 | 39,214 | 37,003 | 34,624 |
| Recoveries: | | | | | |
| Commercial, financial and agricultural | 3,905 | 6,558 | 4,651 | 2,762 | 1,997 |
| Real estate—construction | 773 | 931 | 548 | 719 | 109 |
| Real estate—residential mortgages (1-4 family) | 319 | 287 | 537 | 416 | 355 |
| Commercial secured by real estate | 981 | 1,474 | 776 | 568 | 1,044 |
| Consumer | 869 | 1,011 | 801 | 1,006 | 860 |
| Total loans recovered | 6,847 | 10,261 | 7,313 | 5,471 | 4,365 |
| Net charge-offs | 52,561 | 26,362 | 31,901 | 31,532 | 30,259 |
| Additions through provision expense | 67,325 | 33,347 | 39,493 | 34,979 | 20,755 |
| Allowance for loan losses, end of year | $ 126,427 | $ 111,663 | $ 107,767 | $ 96,434 | $ 72,811 |
| Average loans held for investment | $ 9,985,751 | $ 9,581,602 | $ 8,848,279 | $ 6,909,545 | $ 4,864,168 |
| Loans held for investment (period end) | 10,213,420 | 9,701,867 | 9,439,395 | 8,107,757 | 5,732,205 |
| Net charge-offs as a percentage of average loans held for investment | 0.53% | 0.28% | 0.36% | 0.46% | 0.62% |

**Table 10**
**Composition of Allowance for Loan Losses Based on Collateral/Borrower Type**
**(dollars in thousands)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Commercial, financial and agricultural | $ 30,600 | $ 27,072 | $ 23,658 | $ 20,077 | $ 16,568 |
| Real estate — construction | 29,030 | 20,001 | 16,640 | 12,763 | 7,551 |
| Real estate — residential mortgages (1-4 family) | 3,285 | 2,675 | 3,965 | 2,092 | 804 |
| Commercial secured by real estate | 46,926 | 46,604 | 43,387 | 39,404 | 26,182 |
| Consumer | 10,570 | 8,950 | 14,525 | 17,325 | 18,162 |
| Unallocated | 6,016 | 6,361 | 5,592 | 4,773 | 3,544 |
| Total | $ 126,427 | $ 111,663 | $ 107,767 | $ 96,434 | $ 72,811 |

Note: See Table 2 for composition of loan portfolio.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

In addition to the allowance for loan losses, TSFG also estimates probable losses related to binding unfunded lending commitments. The methodology to determine such losses is inherently similar to the methodology utilized in calculating the allowance for commercial loans, adjusted for factors specific to binding commitments, including the probability of funding. The reserve for unfunded lending commitments is included in other liabilities on the balance sheet. Changes to the reserve for unfunded lending commitments are made by changes to the provision for credit losses. (See Item 8, Note 10 to the Consolidated Financial Statements for information regarding the reserve for unfunded lending commitments, which information is incorporated herein by reference.)

*Securities*

TSFG uses the investment securities portfolio for several purposes. It serves as a vehicle to manage interest rate risk, to generate interest and dividend income, to provide liquidity to meet funding requirements, and to provide collateral for pledges on public deposits, securities sold under repurchase agreements, and Federal Home Loan Bank borrowings. TSFG strives to provide adequate flexibility to proactively manage cash flow as market conditions change. Cash flow may be used to pay-off borrowings, to fund loan growth, or to reinvest in securities at then current market rates. Table 11 shows the carrying values of the investment securities portfolio at the end of each of the last five years.

**Table 11**
**Investment Securities Portfolio Composition**
**(dollars in thousands)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| **Trading Account** (at fair value) | | | | | |
| U.S. Treasury | $ — | $ — | $ 22 | $ — | $ — |
| U.S. Government agencies | — | — | 137 | — | 460 |
| State and municipal | — | — | 1,243 | — | 20 |
| | — | — | 1,402 | — | 480 |
| **Securities Available for Sale** (at fair value) | | | | | |
| U.S. Treasury | 27,592 | 166,719 | 182,468 | 234,538 | 246,659 |
| U.S. Government agencies | 503,571 | 653,034 | 656,442 | 930,046 | 866,968 |
| Agency mortgage-backed securities | 1,088,427 | 1,400,288 | 1,688,862 | 2,502,440 | 2,375,557 |
| State and municipal | 302,586 | 341,488 | 373,892 | 272,535 | 127,181 |
| Other investments: | | | | | |
| Corporate bonds | 20,380 | 113,365 | 112,246 | 141,970 | 148,517 |
| Federal Home Loan Bank (“FHLB”) stock | 35,333 | 52,246 | 67,553 | 72,733 | 50,411 |
| Community bank stocks | 4,988 | 12,406 | 10,067 | 14,899 | 23,487 |
| Federal National Mortgage Association preferred stock | — | — | — | 50,062 | 54,678 |
| Federal Home Loan Mortgage Corporation preferred stock | — | — | — | 11,990 | 12,130 |
| Other equity investments | 3,335 | 3,910 | 4,037 | 3,630 | 10,406 |
| | 1,986,212 | 2,743,456 | 3,095,567 | 4,234,843 | 3,915,994 |
| **Securities Held to Maturity** (at amortized cost) | | | | | |
| State and municipal | 39,451 | 52,208 | 62,548 | 75,145 | 90,745 |
| Other investments | 240 | 100 | 100 | 100 | 352 |
| | 39,691 | 52,308 | 62,648 | 75,245 | 91,097 |
| Total | $ 2,025,903 | $ 2,795,764 | $ 3,159,617 | $ 4,310,088 | $ 4,007,571 |
| Total securities as a percentage of total assets | 14.6% | 19.7% | 22.1% | 31.2% | 37.4% |

Securities (i.e., trading securities, securities available for sale, and securities held to maturity), excluding the unrealized loss on available for sale securities, averaged $2.5 billion in 2007, 17.0% below the average for 2006 of $3.0 billion. TSFG has continued to decrease securities by not reinvesting maturing investments and principal paydowns in an effort to reduce its reliance on wholesale borrowings. In addition, during 2007, TSFG sold approximately $280 million of securities available for sale, including the following: approximately $116 million in first quarter 2007 to manage interest rate risk as determined by its new asset/liability management model; approximately $70 million of its corporate bond portfolio in third quarter 2007 (see below); and



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

approximately $88 million of U.S. Treasury securities in fourth quarter, 2007 within 90 days of maturity. At December 31, 2007, TSFG had a securities-to-total asset ratio of 14.6%, down from 19.7% at December 31, 2006.

In June 2007, TSFG recorded $2.9 million in other-than-temporary impairment on its corporate bond portfolio due to a change in intent to hold the securities until a recovery in value based on a change in investment strategy and related credit risk considerations. In July 2007, TSFG sold approximately $70 million of corporate bonds and recognized an additional loss on sale of approximately $300,000. The remaining $20.4 million are being held until the unrealized loss recovers or until maturity.

The average tax-equivalent portfolio yield increased in 2007 to 4.81% from 4.75% in 2006. The securities yield increased primarily due to contractual runoff of the portfolio throughout 2007 and 2006.

The expected duration of the debt securities portfolio was approximately 3.3 years at December 31, 2007, a decrease from approximately 3.8 years at December 31, 2006. If interest rates rise, the duration of the debt securities portfolio may extend. Conversely, if interest rates fall, the duration of the debt securities portfolio may decline. Since total securities include some callable bonds and mortgage-backed securities, security paydowns are likely to accelerate if interest rates fall or decline if interest rates rise. Changes in interest rates and related prepayment activity impact yields and fair values of TSFG's securities.

The available for sale portfolio constituted 98.0% of total securities at December 31, 2007. Management believes that maintaining most of its securities in the available for sale category provides greater flexibility in the management of the overall investment portfolio. The majority of these securities are government or agency securities and, therefore, pose minimal credit risk.

Approximately 73% of mortgage-backed securities ("MBS") are collateralized mortgage obligations ("CMOs") with an average expected duration of 5.3 years. At December 31, 2007, approximately 17% of the MBS portfolio was variable rate or hybrid variable rate, where the rate adjusts on an annual basis after a specified fixed rate period, generally ranging from one to ten years. All of TSFG's MBS are agency-backed.

The net unrealized loss on available for sale securities (pre-tax) totaled $48.8 million at December 31, 2007, compared with a $75.3 million loss at December 31, 2006, as long term interest rates decreased and the reduction of the securities portfolio continued. If interest rates increase, TSFG expects its net unrealized loss on securities available for sale to increase. See Item 1, Note 8 to the Consolidated Financial Statements for information about TSFG's securities in unrealized loss positions.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Table of Contents

Table 12 shows the credit risk profile of the securities portfolio at December 31, 2007.

**Table 12**
**Investment Securities Portfolio Credit Risk Profile**
**(dollars in thousands)**

| | December 31, 2007 | |
|---|---|---|
| | Balance | % of Total |
| **Government and agency** | | |
| U.S. Treasury | $ 27,592 | 1.4% |
| U.S. Government agencies | 503,571 | 24.9 |
| Agency mortgage-backed securities (MBS) (1) | 1,088,427 | 53.7 |
| Federal Home Loan Bank Stock | 35,333 | 1.7 |
| Total government and agency | 1,654,923 | 81.7 |
| **State and municipal (2)(3)** | | |
| Pre-funded with collateral or AAA-rated backed by Texas Permanent School Fund | 214,675 | 10.6 |
| Underlying issuer or collateral rated A or better (including South Carolina State Aid) | 102,187 | 5.1 |
| Underlying issuer or collateral rated BBB | 12,930 | 0.6 |
| Non-rated | 12,245 | 0.6 |
| Total state and municipal | 342,037 | 16.9 |
| **Corporate bonds** | | |
| AA or A rated | 17,068 | 0.8 |
| BBB rated | 3,312 | 0.2 |
| Total corporate bonds | 20,380 | 1.0 |
| **Community bank stocks and other** | 8,563 | 0.4 |
| Total securities | $ 2,025,903 | 100.0% |
| | | |
| Percent of total securities: (3) | | |
| Rated A or higher | | 98.2% |
| Investment grade | | 99.0% |

(1) MBS, including CMOs, are agency-backed with no sub-prime exposure. Current policies restrict MBS/CMO purchases to agency-backed and a small percent of private-label securities and prohibit securities collateralized by sub-prime assets.

(2) Includes $39.5 million of securities held to maturity at amortized cost.

(3) Ratings shown above do not reflect the benefit of guarantees by bond insurers or the State of South Carolina. In total, $43.5 million of municipal bonds are guaranteed by bond insurers and approximately $55 million are guaranteed by the State of South Carolina.

Note: Within each category, securities are ordered based on risk assessment from lowest to highest. TSFG holds no collateralized debt obligations.

Table 13 shows the contractual maturity schedule for securities held to maturity and securities available for sale at December 31, 2007. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. The table also reflects the weighted average yield of the investment securities.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Table 13**
**Investment Securities Maturity Schedule**
**(dollars in thousands)**

**Available for Sale — Fair Value**

| | Within One Year | After One But Within Five Years | After Five But Within Ten Years | After Ten Years | No Contractual Maturity(1) | Total |
|---|---|---|---|---|---|---|
| U.S. Treasury | $ — | $ 2,092 | $ 25,500 | $ — | $ — | $ 27,592 |
| U.S. Government agencies | — | 92,438 | 227,062 | 184,071 | — | 503,571 |
| Agency mortgage-backed securities | 92,038 | 427,774 | 209,342 | 359,273 | — | 1,088,427 |
| State and municipal | 34,870 | 163,326 | 94,313 | 10,077 | — | 302,586 |
| Other investments | 761 | 9,452 | 10,934 | — | 42,889 | 64,036 |
| | $ 127,669 | $ 695,082 | $ 567,151 | $ 553,421 | $ 42,889 | $ 1,986,212 |
| **Weighted Average Yield** | | | | | | |
| U.S. Treasury | —% | 5.93% | 3.81% | —% | —% | 3.96% |
| U.S. Government agencies | — | 4.92 | 5.06 | 5.49 | — | 5.19 |
| Agency mortgage-backed securities | 4.22 | 4.55 | 4.47 | 4.75 | — | 4.57 |
| State and municipal | 3.95 | 4.85 | 5.56 | 6.83 | — | 5.03 |
| Other investments | 4.50 | 5.55 | 5.96 | — | n/a | 5.46 |
| | 4.15% | 4.68% | 4.88% | 5.02% | —% | 4.80% |
| **Held to Maturity — Amortized Cost** | | | | | | |
| State and municipal | $ 11,484 | $ 22,999 | $ 4,968 | $ — | $ — | $ 39,451 |
| Other investments | 140 | 100 | — | — | — | 240 |
| | $ 11,624 | $ 23,099 | $ 4,968 | $ — | $ — | $ 39,691 |
| **Weighted Average Yield** | | | | | | |
| State and municipal | 5.50% | 6.00% | 5.39% | —% | —% | 5.78% |
| Other investments | 5.10 | 5.48 | — | — | — | 5.26 |
| | 5.50% | 6.00% | 5.39% | —% | —% | 5.77% |

(1) These securities have no contractual maturity or yield and accordingly are excluded from the “Other Investments” yield calculation, as well as the overall “Available for Sale” yield calculation.

*Community Bank Stocks.* At December 31, 2007, TSFG had equity investments in five community banks located in the Southeast with a cost basis of $4.2 million and a fair value of $5.0 million. In each case, TSFG owns less than 5% of the community bank’s outstanding common stock. These investments in community banks are included in securities available for sale. During 2007, TSFG sold approximately $6 million of such securities for a net gain of $1.7 million. In fourth quarter 2007, TSFG entered into a contract to sell approximately $2 million of additional community bank stocks to a third party at no significant gain or loss. This transaction closed early in first quarter 2008, based on the previously agreed upon terms.

*Investments Included in Other Assets.* TSFG also invests in limited partnerships, limited liability companies (LLC’s) and other privately held companies. These investments are included in other assets. Fair values are estimated based on information available as no quoted market prices are available. In 2007, TSFG recorded $2.0 million of other-than-temporary impairment on these investments. At December 31, 2007, TSFG’s investment in these entities totaled $16.4 million, of which $6.9 million were accounted for under the cost method and $9.5 million were accounted for under the equity method.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

*Derivative Financial Instruments*

Derivative financial instruments used by TSFG may include interest rate swaps, caps, collars, floors, options, futures and forward contracts. Derivative contracts are primarily used to hedge identified risks and also to provide risk-management products to customers. TSFG has derivatives that qualify for hedge accounting under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), derivatives that do not qualify for hedge accounting under SFAS 133 but otherwise achieve economic hedging goals ("economic hedges"), as well as derivatives that are used in trading and customer hedging programs. Table 14 shows the fair value of TSFG's derivative assets and liabilities (which are included in other assets and other liabilities, respectively, in the Consolidated Financial Statements) and their related notional amounts. TSFG's trading derivatives, economic hedges, and customer hedging programs are included in Other Derivatives in Table 14.

**Table 14**
**Summary of Derivative Assets and Liabilities**
**(dollars in thousands)**

| | December 31, 2007 | | | December 31, 2006 | | |
|---|---|---|---|---|---|---|
| | Fair Value | | Notional | Fair Value | | Notional |
| | Asset | Liability | Amount | Asset | Liability | Amount |
| **Cash Flow Hedges** | | | | | | |
| Interest rate swaps associated with borrowing activities | $ — | $ — | $ — | $ 143 | $ — | $ 183,000 |
| Interest rate swaps associated with lending activities | 20,114 | — | 830,000 | 1,979 | 3,408 | 870,000 |
| Interest rate floor associated with lending activities | 4,531 | — | 200,000 | 1,564 | — | 200,000 |
| **Fair Value Hedges** | | | | | | |
| Interest rate swaps associated with brokered CDs | 672 | 8,235 | 988,477 | — | 33,541 | 1,167,585 |
| **Other Derivatives** | | | | | | |
| Forward foreign currency contracts | 5 | 5 | 653 | 36 | 36 | 18,119 |
| Customer swap contracts | 5,065 | 5,065 | 238,224 | 918 | 918 | 155,448 |
| Options, interest rate swaps and other | 5,807 | 7,712 | 161,832 | 5,318 | 5,004 | 123,398 |
| | $ 36,194 | $ 21,017 | $ 2,419,186 | $ 9,958 | $ 42,907 | $ 2,717,550 |

Noninterest income included $1.2 million of net losses, $3.2 million of net gains, and $3.3 million of net losses in 2007, 2006, and 2005, respectively, for trading and derivative activities. These gains and losses include the following: the change in fair value of derivatives that do not qualify for hedge accounting under SFAS 133, as well as the net cash settlement from these interest rate swaps; hedge ineffectiveness; and other miscellaneous items.

*Customer Hedging Programs.* TSFG offers programs that permit its customers to hedge various risks, including fluctuations in interest rates and foreign exchange rates. Through these programs, derivative contracts are executed between the customers and TSFG. Offsetting contracts are executed between TSFG and selected third parties to hedge market risk created through the customer contracts. The interest rates on the third party contracts are identical to the interest rates on the customer contracts. As a result, the change in fair value of the customer contracts will generally be offset by the change in fair value of the related third-party contracts. Customer contracts are frequently interest rate swaps in conjunction with floating rate loans to achieve fixed rate financing and foreign exchange forward contracts to manage currency risk associated with non-dollar denominated transactions.

All derivative contracts associated with these programs are carried at fair value and are not considered hedges under SFAS 133. At December 31, 2007, the largest fair value adjustment to any single customer derivative or third-party derivative totaled $2.1 million.

*Fair Value Hedges.* TSFG enters into interest rate swaps to effectively convert its fixed rate brokered CDs to floating rates. The interest rate swaps are structured such that the notional amount, termination date, fixed rate and other relevant terms match those of the brokered CD it is hedging. These interest rate swaps are designated as fair value hedges under SFAS 133 using the "long-haul" method of assessing hedge effectiveness. Upon entering into a brokered CD, TSFG pays a commission to the CD

broker. These commissions are treated as prepaid fees and are amortized over the life of the related CD. Amortization of the prepaid fees on the brokered CDs, included in interest expense, was $4.6 million and $2.6 million for 2007 and 2006, respectively.

TSFG has entered into interest rate swaps to hedge the risk created from certain indexed brokered CD products, including equity-linked CDs and inflation-indexed CDs. These interest rate swaps are designated as fair value hedges under SFAS 133 using the "long-haul" method of assessing hedge ineffectiveness.

Based on recent declines in market interest rates, we expect that interest rate swaps which convert up to $700 million fixed-rate brokered CDs to a floating rate will be called throughout 2008, at which time we would expect to call the corresponding CDs and replace with new brokered CD issuance or other wholesale funding sources. In connection with these calls, we expect to recognize modest gains from early extinguishment of debt; such gains are expected to be offset by losses on the payoff and/or restructuring of other wholesale borrowings.

In 2007, 2006, and 2005, noninterest income included losses of $481,000, $88,000, and $181,000, respectively, representing ineffectiveness of fair value hedges.

*Cash Flow Hedges.* TSFG uses interest rate swaps and floors to hedge the repricing characteristics of certain floating rate assets and liabilities. The initial assessment of expected hedge effectiveness and the ongoing periodic measures of hedge ineffectiveness are based on the expected change in cash flows of the hedged item caused by changes in either the benchmark interest rate or overall cash flows, depending on the specific hedge relationship. TSFG has entered into pay-fixed interest rate swaps to convert a portion of its variable rate structured repurchase agreement portfolio and FHLB advances to fixed rates. In addition, TSFG has entered into receive-fixed interest rate swaps to hedge the forecasted interest income from prime-based commercial loans and may enter into additional interest rate swaps on its prime-based commercial loans. TSFG has also purchased an interest rate floor which protects the Company from decreases in the hedged cash flows on its prime-based interest receipts below the strike rate on the floor. There were no significant cash flow hedging gains or losses, as a result of hedge ineffectiveness, recognized for the years ended December 31, 2007, 2006 and 2005.

*Trading.* From time to time, TSFG enters into derivative financial contracts that are not designed to hedge specific transactions or identified assets or liabilities and therefore do not qualify for hedge accounting, but are rather part of the Company's overall risk management strategy. Such contracts include interest rate futures, option contracts on certain U.S. agency debt securities, and certain other interest rate swaps that are not designated as hedges. The futures contracts are exchange-traded, while the option contracts are over-the-counter instruments with money center and super-regional financial institution counterparties. These contracts are marked to market through earnings each period and are generally short-term in nature.

*Mortgage Loan Commitments and Forward Sales Commitments.* As part of its mortgage lending activities, TSFG originates certain residential loans and commits these loans for sale. The commitments to originate residential loans ("rate locks') and the sales commitments are freestanding derivative instruments and are generally funded within 90 days. TSFG's strategy also includes selling mortgage loans on a pooled basis in addition to individual loan sales. As a result, the amount of time between origination date and sale date has increased, which has increased the amount of interest rate risk associated with these loans. The value of the rate locks (and of the forward sale commitments mentioned below) is estimated based on indicative market prices being bid on similarly structured mortgage backed securities.

The Company enters into forward sales commitments of closed mortgage loans to third parties at a specified price. The forward sales commitments are entered into to economically hedge the change in fair value of the underlying mortgage loans. The change in the value of the forward sales commitments is recognized through current period earnings. The loans are accounted for on the basis of the lower of cost or market guidelines. Fair value gains or losses related to the forward sales commitments were not material for the year ended December 31, 2007 or 2006

*Indirect Auto Loan Sales.* In June and July of 2006, the Company hedged the anticipated monthly sale of indirect auto loans with pay-fixed interest rate swaps. These swaps did not qualify for hedge accounting and were marked to market through earnings with no offsetting adjustment for the hedged item. TSFG terminated these hedges as of July 31, 2006 when it transferred its indirect auto loan production for June and July, originally classified as held for sale, to held for investment. For the year ended December 31, 2006, the loss on indirect auto loans includes losses of $150,000 on these swaps.

*Credit Risk of Derivative Financial Instruments.* Entering into derivative financial contracts creates credit risk for potential amounts contractually due to TSFG from the derivative counterparties. Derivative credit risk is generally measured as the net



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

replacement cost to TSFG in the event that a counterparty to a contract in a gain position to TSFG completely fails to perform under the terms of the contract. Derivative credit risk related to existing bank customers (in the case of "customer loan swaps" and foreign exchange contracts) is monitored through existing credit policies and procedures. The effects of changes in interest rates or foreign exchange rates are evaluated across a range of possible options to limit the maximum exposures to individual customers. Customer loan swaps are generally cross-collateralized with the related loan. In addition, customers may also be required to provide margin collateral to further limit TSFG's derivative credit risk.

Counterparty credit risk with other derivative counterparties (generally money-center and super-regional financial institutions) is evaluated through existing policies and procedures. This evaluation considers the total relationship between TSFG and each of the counterparties. Individual limits are established by management and approved by the credit department.

A deterioration of the credit standing of one or more of the counterparties to these contracts may result in the related hedging relationships being deemed ineffective or in TSFG not achieving its desired economic hedging outcome.

Please see Item 8, Note 1 to the Consolidated Financial Statements for a description of TSFG's significant accounting policies.

*Deposits*

Deposits remain TSFG's primary source of funds. Average customer deposits equaled 62.7% of average total funding in 2007 and 62.0% in 2006. TSFG faces strong competition from other banking and financial services companies in gathering deposits. TSFG also maintains short and long-term wholesale sources, including federal funds, repurchase agreements, brokered CDs, and FHLB advances to fund a portion of loan demand and, if appropriate, any increases in investment securities.

Table 15 shows the breakdown of total deposits by type of deposit and the respective percentage of total deposits, while Table 16 shows the breakdown of customer funding by type.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Table 15**
**Types of Deposits**
**(dollars in thousands)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Noninterest-bearing demand deposits | $ 1,127,657 | $ 1,280,908 | $ 1,458,914 | $ 1,237,877 | $ 882,129 |
| Interest-bearing checking | 1,117,850 | 1,208,125 | 1,162,891 | 816,933 | 699,956 |
| Money market accounts | 2,188,261 | 2,435,413 | 2,290,134 | 2,704,287 | 2,237,299 |
| Savings accounts | 158,092 | 181,192 | 187,101 | 192,769 | 159,013 |
| Time deposits under $100,000 (1) | 1,442,030 | 1,272,056 | 1,246,791 | 836,386 | 794,802 |
| Time deposits of $100,000 or more (1) | 1,496,270 | 1,514,615 | 1,549,925 | 665,820 | 557,588 |
| Customer deposits (2) | 7,530,160 | 7,892,309 | 7,895,756 | 6,454,072 | 5,330,787 |
| Brokered deposits | 2,258,408 | 1,624,431 | 1,338,681 | 1,216,872 | 701,451 |
| Total deposits | $ 9,788,568 | $ 9,516,740 | $ 9,234,437 | $ 7,670,944 | $ 6,032,238 |
| **Percentage of Deposits** | | | | | |
| Noninterest-bearing demand deposits | 11.5% | 13.4% | 15.8% | 16.1% | 14.6% |
| Interest-bearing checking | 11.4 | 12.7 | 12.6 | 10.6 | 11.6 |
| Money market accounts | 22.4 | 25.6 | 24.8 | 35.3 | 37.1 |
| Savings accounts | 1.6 | 1.9 | 2.0 | 2.5 | 2.7 |
| Time deposits under $100,000 | 14.7 | 13.4 | 13.5 | 10.9 | 13.2 |
| Time deposits of $100,000 or more | 15.3 | 15.9 | 16.8 | 8.7 | 9.2 |
| Customer deposits (2) | 76.9 | 82.9 | 85.5 | 84.1 | 88.4 |
| Brokered deposits | 23.1 | 17.1 | 14.5 | 15.9 | 11.6 |
| Total deposits | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

(1) In 2007, TSFG reclassified certain deposit balances from time deposits under $100,000 to time deposits of $100,000 or more. Amounts presented for prior periods have been reclassified to conform to the current presentation. The reclassification totaled $408.8 million and $154.7 million, respectively, for December 31, 2006 and 2005.

(2) TSFG defines customer deposits as total deposits less brokered deposits.

**Table 16**
**Types of Customer Funding**
**(dollars in thousands)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| Customer deposits (1) | $ 7,530,160 | $ 7,892,309 | $ 7,895,756 | $ 6,454,072 | $ 5,330,787 |
| Customer sweep accounts (2) | 648,311 | 500,288 | 305,815 | 373,196 | 216,679 |
| Customer funding | $ 8,178,471 | $ 8,392,597 | $ 8,201,571 | $ 6,827,268 | $ 5,547,466 |

(1) TSFG defines customer deposits as total deposits less brokered deposits.

(2) TSFG includes customer sweep accounts in short-term borrowings on its consolidated balance sheet.

While reported in short-term borrowings on the consolidated balance sheet, customer sweep accounts represent excess overnight cash to/from commercial customer operating accounts and are a source of funding for TSFG. Currently, sweep balances are generated through two products: 1) collateralized customer repurchase agreements ($493.6 million at December 31, 2007) and 2) uninsured Eurodollar deposits ($154.7 million at December 31, 2007). Given that these balances are tied directly to commercial customer checking accounts, growth in this category is representative of the overall improvement and focus on growing commercial customer relationships. In addition to the funding balances generated from these relationships, sweep accounts generate treasury services noninterest income.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

At December 31, 2007, period-end customer funding decreased $214.1 million, or 2.6%, from December 31, 2006, partly due to TSFG's focus on improving the net interest margin and profitability rather than purely focusing on customer funding growth. TSFG continues to refine the mix and pricing of its customer funding.

TSFG uses brokered deposits and other borrowed funds as an alternative funding source while continuing its efforts to maintain and grow its local customer funding base. Brokered deposits increased as a percentage of total deposits since December 31, 2006 as TSFG replaced certain puttable funding with brokered deposits.

Table 21 in "Results of Operations — Net Interest Income" details average balances for the deposit portfolio for both 2007 and 2006. Comparing 2007 and 2006, average customer funding increased $139.2 million, or 1.7%. Within customer funding, the mix continues to shift toward higher cost products, with increases in average interest-bearing checking, time deposits, and customer sweep accounts partially offset by a decrease in noninterest-bearing deposits, savings, and money markets. Average brokered deposits increased $712.8 million, or 50.9%.

Average customer funding equaled 67.0% of average total funding for 2007 and 64.8% for 2006. As part of its overall funding strategy, TSFG expects to continue its focus on lowering its funding costs by trying to improve the customer funding level, mix, and rate paid. TSFG attempts to enhance its deposit mix by working to attract lower-cost transaction accounts through actions such as new transaction account opening goals, new checking products, and changing incentive plans to place a greater emphasis on lower-cost customer deposit growth. Deposit pricing is very competitive, and we expect this pricing environment to continue, together with customer behavior driving the mix towards higher rate deposit products—money markets and CDs.

Time deposits of $100,000 or more are generally from customers within our local markets and include public deposits. During 2007, time deposits of $100,000 or more decreased $18.3 million, or 1.2%, to $1.5 billion, as TSFG generally elected not to price its certificates of deposit aggressively during 2007. Table 17 shows a maturity schedule for time deposits of $100,000 or more at December 31, 2007.

**Table 17**
**Maturity Distribution of Time Deposits of $100,000 or More**
**(dollars in thousands)**

| | |
|---|---|
| Three months or less | $ 743,873 |
| Over three through six months | 436,086 |
| Over six through twelve months | 247,759 |
| Over twelve months | 68,552 |
| Total outstanding | $1,496,270 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

*Borrowed Funds*

Table 18 shows the breakdown of total borrowed funds by type.

**Table 18**
**Types of Borrowed Funds**
**(dollars in thousands)**

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2007 | 2006 | 2005 | 2004 | 2003 |
| **Short-Term Borrowings** | | | | | |
| Federal funds purchased and repurchase agreements | $ 206,216 | $ 920,811 | $ 1,115,486 | $ 1,210,299 | $ 618,187 |
| Customer sweep accounts | 648,311 | 500,288 | 305,815 | 373,196 | 216,679 |
| FHLB advances | — | 175,000 | — | — | — |
| Treasury, tax and loan note | 752,195 | 139,989 | 20,131 | 14,111 | 11,781 |
| Commercial paper | 30,828 | 32,631 | 32,933 | 29,405 | 36,949 |
| Lines of credit and other | — | — | — | — | 7,349 |
| | 1,637,550 | 1,768,719 | 1,474,365 | 1,627,011 | 890,945 |
| **Long-Term Borrowings** | | | | | |
| Repurchase agreements | 200,000 | 521,000 | 821,000 | 1,665,134 | 1,494,800 |
| FHLB advances | 223,087 | 328,113 | 852,140 | 1,057,167 | 989,500 |
| Subordinated notes | 216,704 | 188,871 | 155,695 | 155,695 | 135,075 |
| Mandatorily redeemable preferred stock of REIT subsidiary | 56,800 | 89,800 | 89,800 | 89,800 | 89,800 |
| Employee stock ownership plan note payable | — | 200 | 500 | 800 | 1,100 |
| Note payable | 786 | 828 | 865 | 900 | 927 |
| Purchase accounting premiums, net of amortization | 963 | 1,663 | 2,151 | 2,774 | 497 |
| Total long-term borrowings | 698,340 | 1,130,475 | 1,922,151 | 2,972,270 | 2,711,699 |
| Total borrowings | 2,335,890 | 2,899,194 | 3,396,516 | 4,599,281 | 3,602,644 |
| Less: customer sweep accounts | (648,311) | (500,288) | (305,815) | (373,196) | (216,679) |
| Add: brokered deposits(1) | 2,258,408 | 1,624,431 | 1,338,681 | 1,216,872 | 701,451 |
| Total wholesale borrowings | $ 3,945,987 | $ 4,023,337 | $ 4,429,382 | $ 5,442,957 | $ 4,087,416 |
| Total wholesale borrowings as a percentage of total assets | 28.4% | 28.3% | 30.9% | 39.4% | 38.1% |

(1) TSFG includes brokered deposits in total deposits on its consolidated balance sheet.

TSFG uses both short-term and long-term borrowings to fund growth of earning assets in excess of deposit growth. In 2007, average borrowings totaled $2.5 billion, compared with $3.3 billion in 2006. Since mid-2006, the FHLB and certain structured repurchase agreement counterparties have exercised options to put certain borrowings back to TSFG. The termination of these borrowings was funded by issuance of 3 to 5-year brokered certificates of deposit combined with securities portfolio reductions. While the decision to issue brokered CDs rather than reissue similar puttable funding increased TSFG's current funding cost, removing the related funding optionality reduced future interest rate risk exposure.

Average wholesale borrowings totaled $4.1 billion in 2007, compared with $4.4 billion in 2006. TSFG plans to reduce its reliance on wholesale borrowings, principally by growth in customer funding.

Table 19 shows balance and interest rate information on TSFG's short-term borrowings.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Table 19**
**Short-Term Borrowings**
**(dollars in thousands)**

| Year Ended December 31, | Maximum Outstanding at any Month End | Average Balance | Average Interest Rate | Ending Balance | Interest Rate at Year End |
|---|---|---|---|---|---|
| **2007** | | | | | |
| Federal funds purchased and repurchase agreements | $ 1,048,334 | $ 767,413 | 5.17% | $ 206,216 | 3.70% |
| Customer sweep accounts | 648,311 | 525,606 | 4.32 | 648,311 | 3.79 |
| FHLB advances | 175,000 | 83,288 | 5.37 | — | — |
| Treasury, tax and loan note | 752,195 | 227,045 | 4.94 | 752,195 | 4.13 |
| Commercial paper | 35,704 | 33,454 | 5.35 | 30,828 | 5.04 |
| | | $ 1,636,806 | 4.88% | $ 1,637,550 | 3.96% |
| **2006** | | | | | |
| Federal funds purchased and repurchase agreements | $ 1,462,673 | $ 1,225,832 | 5.06% | $ 920,811 | 5.27% |
| Customer sweep accounts | 500,288 | 349,963 | 4.36 | 500,288 | 4.44 |
| FHLB advances | 175,000 | 87,500 | 4.67 | 175,000 | 5.32 |
| Treasury, tax and loan note | 140,821 | 68,280 | 4.93 | 139,989 | 5.18 |
| Commercial paper | 39,532 | 35,122 | 5.12 | 32,631 | 5.36 |
| | | $ 1,766,697 | 4.90% | $ 1,768,719 | 5.03% |
| **2005** | | | | | |
| Federal funds purchased and repurchase agreements | $ 1,428,510 | $ 1,129,523 | 3.34% | $ 1,115,486 | 4.27% |
| Customer sweep accounts | 373,202 | 320,965 | 2.72 | 305,815 | 3.63 |
| Treasury, tax and loan note | 183,001 | 43,002 | 4.28 | 20,131 | 3.06 |
| Commercial paper | 35,085 | 31,045 | 3.51 | 32,933 | 4.42 |
| | | $ 1,524,535 | 3.24% | $ 1,474,365 | 4.13% |

Daily funding needs are met through federal funds purchased and short-term brokered CDs, term TT&L, repurchase agreements, and FHLB advances. Balances in these accounts can fluctuate on a day-to-day basis.

FHLB advances are a source of funding which TSFG uses depending on the current level of deposits and the availability of collateral to secure FHLB borrowings.

During 2007, TSFG recognized a loss on early extinguishment of debt of $2.0 million, primarily from the write-off of unamortized debt issuance costs associated with $131.5 million of subordinated notes and mandatorily redeemable preferred stock, with an average spread of 347 basis points over LIBOR, which TSFG called for redemption. During 2006, TSFG recognized a loss on early extinguishment of debt of $821,000, which reflects the write-off of unamortized debt issuance costs associated with $38.1 million of subordinated notes, with interest rates ranging from 8.99% to 9.17%, which TSFG called for redemption.

*Capital Resources and Dividends*

Shareholders' equity totaled $1.6 billion, or 11.2% of total assets, compared with $1.6 billion, or 11.0% of total assets, at December 31, 2006. Shareholders' equity remained basically flat as retention of earnings and the decrease in the net unrealized loss on securities available for sale were offset by cash dividends paid and TSFG's repurchase of 3.6 million shares of its common stock during 2007. On December 14, 2006, TSFG's Board of Directors authorized a stock repurchase program of up to 4 million shares. This authorization replaced TSFG's existing stock repurchase authorization. Through August 2007, TSFG had repurchased 3 million shares pursuant to this authorization. In August 2007, the Board of Directors amended and restated the existing stock repurchase authorization to be an additional $100 million, which expires if unused on or before June 30, 2008. In fourth quarter, TSFG repurchased 600,000 shares for $12.0 million, leaving $88.0 million under this authorization.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

TSFG's unrealized loss on securities available for sale, net of tax, which is included in accumulated other comprehensive loss, was $30.8 million as of December 31, 2007 compared with $47.4 million at December 31, 2006.

Book value per share at December 31, 2007 and 2006 was $21.40 and $20.73, respectively. Tangible book value per share at December 31, 2007 and 2006 was $12.04 and $11.63, respectively. Tangible book value was below book value as a result of goodwill and intangibles associated with acquisitions of entities and assets accounted for as purchases. At December 31, 2007, goodwill totaled $651.0 million, or $8.98 per share, and is not being amortized, while other intangibles totaled $27.2 million and will continue to be amortized.

TSFG is subject to the risk-based capital guidelines administered by bank regulatory agencies. The guidelines are designed to make regulatory capital requirements more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Under these guidelines, assets and certain off-balance sheet items are assigned to broad risk categories, each with appropriate weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and certain off-balance sheet items. TSFG and Carolina First Bank exceeded the well-capitalized regulatory requirements at December 31, 2007. 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 our Consolidated Financial Statements.

Table 20 sets forth various capital ratios for TSFG and Carolina First Bank. Under current regulatory guidelines, debt associated with trust preferred securities qualifies for tier 1 capital treatment. At December 31, 2007, trust preferred securities included in tier 1 capital totaled $200.5 million. For further information regarding the regulatory capital of TSFG and Carolina First Bank, see Item 8, Note 22 to the Consolidated Financial Statements.

**Table 20**
**Capital Ratios**

| | December 31, 2007 | Well Capitalized Requirement |
|---|---|---|
| **TSFG** | | |
| Total risk-based capital | 10.88% | n/a |
| Tier 1 risk-based capital | 9.49 | n/a |
| Leverage ratio | 8.42 | n/a |
| **Carolina First Bank** | | |
| Total risk-based capital | 10.78% | 10.00% |
| Tier 1 risk-based capital | 9.16 | 6.00 |
| Leverage ratio | 8.12 | 5.00 |

At December 31, 2007, TSFG's tangible equity to tangible asset ratio was at 6.61%, an increase from 6.48% at December 31, 2006, primarily due to the continued run-off of securities (which has contributed to lower tangible assets), as well as lower unrealized losses in the remaining securities portfolio.

Carolina First Bank is subject to certain regulatory restrictions on the amount of dividends it is permitted to pay. TSFG has paid a cash dividend each quarter since the initiation of cash dividends on February 1, 1994. TSFG presently intends to pay a quarterly cash dividend on its common stock; however, future dividends will depend upon TSFG's financial performance and capital requirements.

TSFG, through a real estate investment trust subsidiary, had 568 mandatorily redeemable preferred shares outstanding at December 31, 2007 with a stated value of $100,000 per share. At December 31, 2007, these preferred shares, which are reported as long-term debt on the consolidated balance sheet, totaled $56.8 million. Under Federal Reserve Board guidelines, $26.3 million qualified as tier 1 capital, and $24.4 million qualified as tier 2 capital. The terms for the preferred shares include certain asset coverage and cash flow tests, which if triggered, may prohibit TSFG's real estate trust subsidiary from paying dividends to Carolina First Bank, which in turn may limit its ability to pay dividends to TSFG.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

## Results of Operations

*Net Interest Income*

Net interest income is TSFG's primary source of revenue. Net interest income is the difference between the interest earned on assets, including loan fees and dividends on investment securities, and the interest incurred for the liabilities to support such assets. The net interest margin measures how effectively a company manages the difference between the yield on earning assets and the rate paid on funds used to support those assets. Fully tax-equivalent net interest income adjusts the yield for assets earning tax-exempt income to a comparable yield on a taxable basis based on a 35% marginal federal income tax rate. Table 21 presents average balance sheets and a net interest income analysis on a tax equivalent basis for each of the years in the three-year period ended December 31, 2007. Table 22 provides additional analysis of the effects of volume and rate on net interest income.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Table 21**
**Comparative Average Balances — Yields and Costs**
**(dollars in thousands)**

| | Years Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2007 | | | 2006 | | | 2005 | | |
| | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate | Average Balance | Income/ Expense | Yield/ Rate |
| **Assets** | | | | | | | | | |
| Earning assets | | | | | | | | | |
| Loans (1) | $ 10,013,387 | $ 764,828 | 7.64% | $ 9,621,846 | $ 721,020 | 7.49% | $ 8,883,837 | $ 568,222 | 6.40% |
| Investment securities, taxable (2) | 2,165,589 | 103,525 | 4.78 | 2,628,947 | 124,850 | 4.75 | 4,000,697 | 173,657 | 4.34 |
| Investment securities, nontaxable (2) (3) | 359,728 | 17,847 | 4.96 | 414,438 | 19,722 | 4.76 | 387,654 | 17,297 | 4.46 |
| Total investment securities | 2,525,317 | 121,372 | 4.81 | 3,043,385 | 144,572 | 4.75 | 4,388,351 | 190,954 | 4.35 |
| Federal funds sold and interest-bearing bank balances | 6,519 | 402 | 6.17 | 27,641 | 1,511 | 5.47 | 35,768 | 1,175 | 3.29 |
| Total earning assets | 12,545,223 | $ 886,602 | 7.07 | 12,692,872 | $ 867,103 | 6.83 | 13,307,956 | $ 760,351 | 5.71 |
| Non-earning assets | 1,499,342 | | | 1,509,777 | | | 1,445,017 | | |
| Total assets | $ 14,044,565 | | | $ 14,202,649 | | | $ 14,752,973 | | |
| **Liabilities and Shareholders' Equity** | | | | | | | | | |
| Liabilities | | | | | | | | | |
| Interest-bearing liabilities | | | | | | | | | |
| Interest-bearing deposits | | | | | | | | | |
| Interest-bearing checking | $ 1,140,753 | $ 22,141 | 1.94 | $ 1,137,031 | $ 21,099 | 1.86 | $ 981,947 | $ 8,758 | 0.89 |
| Savings | 174,100 | 2,756 | 1.58 | 185,649 | 1,858 | 1.00 | 191,727 | 678 | 0.35 |
| Money market | 2,275,380 | 89,338 | 3.93 | 2,336,433 | 81,876 | 3.50 | 2,640,614 | 63,069 | 2.39 |
| Time deposits, excluding brokered deposits | 2,900,260 | 144,299 | 4.98 | 2,681,737 | 115,304 | 4.30 | 2,125,474 | 64,605 | 3.04 |
| Brokered deposits | 2,114,211 | 109,761 | 5.19 | 1,401,369 | 71,155 | 5.08 | 1,346,608 | 59,579 | 4.42 |
| Total interest-bearing deposits | 8,604,704 | 368,295 | 4.28 | 7,742,219 | 291,292 | 3.76 | 7,286,370 | 196,689 | 2.70 |
| Customer sweep accounts | 525,606 | 22,723 | 4.32 | 349,963 | 15,241 | 4.36 | 320,965 | 8,746 | 2.72 |
| Other borrowings (4) | 1,938,851 | 106,557 | 5.50 | 2,993,210 | 152,296 | 5.09 | 4,193,133 | 139,806 | 3.33 |
| Total interest-bearing liabilities | 11,069,161 | $ 497,575 | 4.50 | 11,085,392 | $ 458,829 | 4.14 | 11,800,468 | $ 345,241 | 2.93 |
| Noninterest-bearing liabilities | | | | | | | | | |
| Noninterest-bearing deposits | 1,200,663 | | | 1,386,792 | | | 1,345,344 | | |
| Other noninterest-bearing liabilities | 231,189 | | | 224,270 | | | 144,036 | | |
| Total liabilities | 12,501,013 | | | 12,696,454 | | | 13,289,848 | | |
| Shareholders' equity | 1,543,552 | | | 1,506,195 | | | 1,463,125 | | |
| Total liabilities and shareholders' equity | $ 14,044,565 | | | $ 14,202,649 | | | $ 14,752,973 | | |
| Net interest income (tax-equivalent) | | $ 389,027 | 3.10% | | $ 408,274 | 3.22% | | $ 415,110 | 3.12% |
| Less: tax-equivalent adjustment (3) | | 6,246 | | | 6,903 | | | 6,054 | |
| Net interest income | | $ 382,781 | | | $ 401,371 | | | $ 409,056 | |
| Supplemental data: | | | | | | | | | |
| Customer funding(5) | $ 8,216,762 | $ 281,257 | 3.42% | $ 8,077,605 | $ 235,378 | 2.91% | $ 7,606,071 | $ 145,856 | 1.92% |
| Wholesale borrowings (6) | 4,053,062 | 216,318 | 5.34 | 4,394,579 | 223,451 | 5.08 | 5,539,741 | 199,385 | 3.60 |
| Total funding (7) | $ 12,269,824 | $ 497,575 | 4.06 | $ 12,472,184 | $ 458,829 | 3.68 | $ 13,145,812 | $ 345,241 | 2.63 |

(1) Nonaccrual loans are included in average balances for yield computations.

(2) The average balances for investment securities exclude the unrealized loss recorded for available for sale securities.

(3) The tax-equivalent adjustment to net interest income adjusts the yield for assets earning tax-exempt income to a comparable yield on a taxable basis.

(4) During the year ended December 31, 2007, TSFG capitalized $505,000 of interest in conjunction with the construction of its expanded corporate facilities.

(5) Customer funding includes total deposits (total interest-bearing plus noninterest-bearing deposits) less brokered deposits plus customer sweep accounts.

(6) Wholesale borrowings include borrowings less customer sweep accounts plus brokered deposits. For purposes of this table, wholesale borrowings equal the sum of other borrowings and brokered deposits, as customer sweep accounts are presented separately.

(7) Total funding includes customer funding and wholesale borrowings.

Note: Average balances are derived from daily balances.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Table 22**
**Rate/Volume Variance Analysis**
**(dollars in thousands)**

| | 2007 Compared to 2006 | | | 2006 Compared to 2005 | | |
|---|---|---|---|---|---|---|
| | Total Change | Change in Volume | Change in Rate | Total Change | Change in Volume | Change in Rate |
| Earning assets | | | | | | |
| Loans | $ 43,808 | $ 29,724 | $ 14,084 | $ 152,798 | $ 49,846 | $ 102,952 |
| Investment securites, taxable | (21,325) | (22,145) | 820 | (48,807) | (63,939) | 15,132 |
| Investment securites, nontaxable | (1,875) | (2,687) | 812 | 2,425 | 1,236 | 1,189 |
| Federal funds sold and interest- bearing bank balances | (1,109) | (1,281) | 172 | 336 | (312) | 648 |
| Total interest income | 19,499 | 3,611 | 15,888 | 106,752 | (13,169) | 119,921 |
| Interest-bearing liabilities | | | | | | |
| Interest-bearing deposits | | | | | | |
| Interest-bearing checking | 1,042 | 69 | 973 | 12,341 | 1,574 | 10,767 |
| Savings | 898 | (122) | 1,020 | 1,180 | (22) | 1,202 |
| Money market | 7,462 | (2,185) | 9,647 | 18,807 | (7,936) | 26,743 |
| Time deposits | 28,995 | 9,900 | 19,095 | 50,699 | 19,620 | 31,079 |
| Brokered deposits | 38,606 | 36,973 | 1,633 | 11,576 | 2,500 | 9,076 |
| Total interest-bearing deposits | 77,003 | 44,635 | 32,368 | 94,603 | 15,736 | 78,867 |
| Customer sweep accounts | 7,482 | 7,617 | (135) | 6,495 | 861 | 5,634 |
| Other borrowings | (45,739) | (57,149) | 11,410 | 12,490 | (47,422) | 59,912 |
| Total interest expense | 38,746 | (4,897) | 43,643 | 113,588 | (30,825) | 144,413 |
| Net interest income | $ (19,247) | $ 8,508 | $ (27,755) | $ (6,836) | $ 17,656 | $ (24,492) |

Note: Changes that are not solely attributable to volume or rate have been allocated to volume and rate on a pro-rata basis.

Fully tax-equivalent net interest income decreased to $389.0 million in 2007 from $408.3 million in 2006 and $415.1 million in 2005. During 2005, tax-equivalent net interest income excluded $10.4 million of income for the net cash settlement of interest rate swaps that did not meet the criteria for hedge accounting treatment. Instead, the net cash settlement of these interest rate swaps was recorded in noninterest income. If the impact of these net cash settlements was included in net interest income, tax-equivalent net interest income would have totaled $425.5 million for 2005.

TSFG's average earning assets declined 1.2% to $12.5 billion for 2007 from $12.7 billion for 2006 due primarily to the continued reduction of securities and the second quarter 2006 sale of indirect loans, partially offset by loan growth in other categories. As a result, average loans as a percentage of average earning assets increased to 79.8% for 2007, up from 75.8% for 2006, improving the earning asset mix. At December 31, 2007, approximately 60% of TSFG's accruing loans were variable rate loans, the majority of which are tied to the prime rate. TSFG has entered into receive-fixed interest rate swaps to hedge the forecasted interest income from certain prime-based commercial loans as part of its overall interest rate risk management. TSFG also has an interest rate floor that is designated as a hedge of commercial loans and is intended to mitigate earnings exposure to falling interest rates.

The net interest margin for 2007 was 3.10%, compared with 3.22% for 2006 and 3.12% for 2005 (or 3.20% including the net cash settlement of certain interest rate swaps mentioned above). In 2007, the yield on earning assets increased 24 basis points from 2006, aided by improved loan yields, which were up 15 basis points. However, the improved yield on earning assets was more than offset by a 38 basis point increase in the average cost of funding in 2007 compared with 2006, partially from a 26 basis point increase in wholesale borrowing costs. This margin compression reflects competition for customer deposit accounts within the industry, an unfavorable mix shift to higher-cost deposit categories, higher wholesale borrowing costs, and continued challenging interest rate environment, as well as TSFG's decision to replace puttable funding since mid-2006 primarily with higher-cost non-puttable funding. Average noninterest-bearing deposits, which decreased 13.4% to $1.2 billion in 2007 from $1.4 billion in 2006, contributed to the net interest margin decrease.

*Provision for Credit Losses*

The provision for credit losses is recorded in amounts sufficient to bring the allowance for loan losses and the reserve for unfunded lending commitments to a level deemed appropriate by management. Management determines this amount based upon many factors, including its assessment of loan portfolio quality, loan growth, changes in loan portfolio composition, net loan charge-off levels, and expected economic conditions. The provision for credit losses was $68.6 million, $32.8 million, and $40.6 million in 2007, 2006, and 2005, respectively. The higher provision for credit losses in 2007 was primarily due to continuing weakness in real estate markets as well as downgrades in TSFG's internal ratings of credits impacted by this weakness. The provision for credit losses in 2007 also included $18.4 million related to the Penland Development Loans (see discussion in "Credit Quality"). The allowance for credit losses equaled 1.26% and 1.16% of loans held for investment at December 31, 2007 and 2006, respectively.

Net loan charge-offs were $52.6 million, or 0.53% of average loans held for investment in 2007, compared with $26.4 million, or 0.28% of average loans held for investment in 2006. Net loan charge-offs for 2007 included $18.4 million, or 0.18% of average loans held for investment, related to the aforementioned Penland Development Loans. See "Loans," "Credit Quality," and "Allowance for Loan Losses."



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

*Noninterest Income*

Table 23 shows the components of noninterest income during the three years ended December 31, 2007.

**Table 23**
**Components of Noninterest Income**
**(dollars in thousands)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Service charges on deposit accounts | $ 44,519 | $ 45,041 | $ 42,645 |
| Debit card income, net (1) | 7,182 | 5,437 | 4,111 |
| Customer service fee income | 5,648 | 4,467 | 4,049 |
| Total customer fee income | 57,349 | 54,945 | 50,805 |
| Insurance income | 12,029 | 12,025 | 7,447 |
| Retail investment services, net (2) | 7,902 | 6,533 | 5,922 |
| Trust and investment management income | 6,595 | 6,124 | 4,819 |
| Benefits administration fees | 3,261 | 2,933 | 2,693 |
| Total wealth management income | 29,787 | 27,615 | 20,881 |
| Change in fair value of certain interest rate swaps | — | — | (13,278) |
| Net cash settlement of certain interest rate swaps | — | — | 10,360 |
| (Loss) gain on trading and certain derivative activities | (1,197) | 3,150 | (335) |
| Total (loss) gain on trading and certain derivative activities | (1,197) | 3,150 | (3,253) |
| Bank-owned life insurance income | 13,344 | 11,636 | 11,608 |
| Mortgage banking income | 6,053 | 8,155 | 7,434 |
| Merchant processing income, net (3) | 3,263 | 2,307 | 1,874 |
| (Loss) gain on securities | (4,623) | 4,037 | (52,139) |
| Gain on disposition of assets and liabilities | — | 2,498 | — |
| Loss on indirect auto loans | — | (5,129) | — |
| Other | 9,335 | 8,691 | 6,640 |
| Total noninterest income | $ 113,311 | $ 117,905 | $ 43,850 |

(1) In 2007, TSFG began presenting its debit card income net of related expenses. Debit card expense totaled (in thousands) $2,363, $2,832, and $2,437, respectively, for the years ended December 31, 2007, 2006, and 2005. Amounts presented for prior periods have been reclassified to conform to the current presentation.

(2) In 2007, TSFG began presenting its retail investment services income net of certain revenue sharing arrangements with a third party. Such amounts for these arrangements totaled (in thousands) $996, $1,099, and $980, respectively, for the years ended December 31, 2007, 2006, and 2005. Amounts presented for prior periods have been reclassified to conform to the current presentation.

(3) In 2007, TSFG began presenting its merchant income net of direct processing costs. Direct merchant processing costs totaled (in thousands) $14,801, $10,215, and $7,943, respectively, for the years ended December 31, 2007, 2006, and 2005. Amounts presented for prior periods have been reclassified to conform to the current presentation.

Total customer fee income rose 4.4% in 2007 compared with 2006, as increases in debit card income (primarily due to increased usage) and customer service fee income were partially offset by a decrease in service charges on deposit accounts.

In 2007, wealth management income increased $2.2 million, or 7.9%, compared to 2006, reflecting increases in each category of wealth management. Bank-owned life insurance increased $1.7 million in 2007 relative to 2006 due to the receipt of life insurance proceeds during 2007. Merchant processing income (net of direct processing costs) increased 41.4% in 2007 compared to 2006 as a result of increased transactions.

In 2007, noninterest income included net losses on securities of $4.6 million compared to net gains of $4.0 million in 2006. During 2007, TSFG recorded other-than-temporary impairment of $2.9 million in on its corporate bond portfolio (due to a change in intent to hold the securities until a recovery in value based on a change in investment strategy and related credit risk

considerations) and $2.0 million on non-marketable equity investments. TSFG subsequently sold approximately $70 million of its corporate bond portfolio; see "Securities" for further detail.

Noninterest income also included a loss on certain derivative activities of $1.2 million in 2007 (see "Derivative Financial Instruments" for further detail on this line item), compared with a gain of $3.2 million in 2006 and a loss of $3.3 million in 2005. As a result of not having the proper hedge documentation in place upon inception of certain hedging relationships, TSFG was not able to apply hedge accounting under SFAS 133 for those hedges for most of 2005. As a result, the related derivative instrument's gain or loss was included in noninterest income, with no offsetting fair value adjustment for the hedged item. This fair value adjustment was a loss of $13.3 million in 2005. Since these swaps were subsequently either terminated or redesignated under the "long-haul" method of assessing hedge effectiveness, the fair value adjustments for both the derivative and the hedged item are included in noninterest income in 2007 and 2006.

In 2007, mortgage banking income decreased 25.8% compared with 2006. Mortgage loan originations totaled $505.0 million, $737.0 million, and $827.4 million in 2007, 2006 and 2005, respectively. The decrease in mortgage banking income was principally the result of lower origination volumes in response to industry conditions.

Table 24 shows the components of mortgage banking income for the three years ended December 31, 2007.

**Table 24**
**Components of Mortgage Banking Income**
**(dollars in thousands)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Origination income and secondary marketing operations | $ 6,053 | $ 8,199 | $ 8,262 |
| Mortgage servicing loss, net of related amortization and subservicing payments | — | (558) | (828) |
| Gain on sale of mortgage servicing rights | — | 514 | — |
| Total mortgage banking income | $ 6,053 | $ 8,155 | $ 7,434 |

TSFG's mortgage banking strategy is to sell most of the loans it originates in the secondary market with servicing rights released. However, during 2007 TSFG retained approximately $53.5 million of its mortgage loans in loans held for investment.

In 2006, TSFG recorded a loss on indirect auto loans of $5.1 million, which included a $3.5 million loss on the sale of $359.6 million of indirect auto loans originally classified as held for investment, as well as lower of cost or market adjustments on indirect auto loans originated as held for sale (but subsequently transferred to held for investment) and losses on swaps economically hedging the anticipated monthly sale of these loans. TSFG retained servicing rights on indirect auto loans sold and received $1.4 million and $1.1 million, respectively, of servicing fees on these loans in 2007 and 2006. The servicing fee income is included in other noninterest income.

Other noninterest income also includes income related to international banking services, wire transfer fees, overdraft protection fee income, internet banking fees, and gains/losses on disposition of other real estate owned/fixed assets.

*Noninterest Expenses*

Table 25 shows the components of noninterest expenses for the three years ended December 31, 2007.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Table 25**
**Components of Noninterest Expense**
**(dollars in thousands)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| Salaries and wages, excluding employment contract buyouts and severance | $ 137,085 | $ 134,743 | $ 117,850 |
| Employee benefits | 37,098 | 35,739 | 34,802 |
| Occupancy | 34,659 | 31,802 | 27,764 |
| Furniture and equipment | 26,081 | 25,216 | 23,301 |
| Professional services | 17,062 | 21,462 | 22,820 |
| Advertising and business development | 7,401 | 9,894 | 8,627 |
| Amortization of intangibles | 7,897 | 8,775 | 8,637 |
| Telecommunications | 5,668 | 5,630 | 5,802 |
| Employment contract buyouts and severance | 2,306 | 5,588 | 10,327 |
| Loss on early extinguishment of debt | 2,029 | 821 | 7,101 |
| Merger-related costs | — | — | 4,009 |
| Other | 43,562 | 46,269 | 45,653 |
| Total noninterest expenses | $ 320,848 | $ 325,939 | $ 316,693 |

Total noninterest expense in 2007 decreased $5.1 million, or 1.6%, from 2006, compared to an increase in 2006 of $9.2 million, or 2.9%, from 2005. In first quarter 2007, TSFG implemented an expense reduction initiative, the goal of which is to reduce annual operating expenses from the fourth quarter 2006 run rate (excluding employment contract buyouts and severance, loss on early extinguishment of debt, and Visa-related settlement).

Salaries, wages, and employee benefits (excluding employment contract buyouts) increased $3.7 million, or 2.2%, in 2007 after rising 11.7% in 2006. Full-time equivalent employees (“FTEs”) as of December 31, 2007 decreased to 2,474 from 2,618 and 2,607 at December 31, 2006 and 2005, respectively. In addition to normal annual salary increases and increased insurance costs which offset the savings associated with the decrease in FTEs, TSFG has invested in several key hires in an effort to strengthen its management team and has incurred additional salary expense in order to attract and retain this talent.

Occupancy and furniture and equipment expense increased 6.5% in 2007 due primarily to increased rent expense for new and expanded branch locations. Professional services decreased 20.5% for 2007 compared with 2006. In 2006, professional services included outsourcing costs for internal audit projects which are now performed by TSFG’s staff; this decrease was partially offset in 2007 with additional professional services related to the development of TSFG’s strategic initiatives. In addition, most other categories decreased in 2007 compared to 2006 due to the aforementioned expense reduction initiatives implemented in first quarter of 2007.

During 2007, TSFG recognized a loss on early extinguishment of debt of $2.0 million, primarily from the write-off of unamortized debt issuance costs associated with $131.5 million of subordinated notes and mandatorily redeemable preferred stock, with an average spread of 347 basis points over LIBOR, which TSFG called for redemption. During 2006, TSFG recognized a loss on early extinguishment of debt of $821,000 related to the write-off of unamortized debt issuance costs associated with $38.1 million of subordinated notes, with interest rates ranging from 8.99% to 9.17%, which TSFG called for redemption. See “Borrowed Funds.”

During 2007, TSFG recorded an $881,000 reserve for losses for Visa-related litigation (shared among Visa and Visa member banks) and recorded $1.2 million in FDIC insurance premiums, as the one-time credit which had been offsetting these premiums for all of 2006 and the first three quarters of 2007 was fully utilized. Both of these expenses were included in other noninterest expenses

*Income Taxes*

The effective income tax rate as a percentage of pretax income was 31.3% in 2007, 29.7% in 2006, and 26.6% in 2005. The 2007 tax rate is lower than the expected tax rate due to the change in the level and mix of pretax income. The 2006 and 2005 tax rates reflect a $5.2 million reduction in federal and state income taxes related to the settlement of certain tax matters and the effect of a



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

$52.1 million loss on sale of securities, respectively. The blended statutory federal and state income tax rate was approximately 37% during all three periods. TSFG anticipates the effective income tax rate to decrease to between 29% and 31% for 2008.

On October 5, 2007, TSFG was awarded a $100 million allocation under the New Markets Tax Credits ("NMTC") program from the Community Development Financial Institution Fund ("CDFI") of the Department of the Treasury. This award, the first allocation TSFG has received under this initiative, is designed to attract private-sector investment to help finance community development projects, stimulate economic growth and create jobs in lower and moderate income communities by providing tax credits to lenders who have an allocation. The NMTC provides tax credits aggregating 39% of the invested amount over seven years, although a substantial portion of the value gained via the tax credits must be used to benefit the respective projects.

For further information concerning income tax expense, refer to Item 8, Note 16 to the Consolidated Financial Statements.

*Fourth Quarter Summary*

Net income for the three months ended December 31, 2007 totaled $9.0 million, or $0.12 per diluted share, compared with $23.6 million, or $0.31 per diluted share for the fourth quarter 2006.

Fully tax-equivalent net interest income totaled $96.5 million, a decrease of $1.9 million, or 1.9%, compared with $98.3 million for the fourth quarter of 2006. For fourth quarter 2007, average earning assets decreased 0.9% compared to fourth quarter 2006 principally as a result of the continued reduction of investment securities, partially offset by loan growth.

The net interest margin for fourth quarter 2007 was 3.09%, compared with 3.12% for fourth quarter 2006. The yield on average earning assets decreased eight basis points, primarily due to a 30 basis point decline in average loan yields, as the Federal Reserve decreased the federal funds rate by 100 basis points during 2007. The average cost of customer funding decreased only two basis points in fourth quarter 2007 compared to the same period in 2006, as deposit repricing has lagged behind the Federal Reserve cuts in the target rate. As a result, average total funding costs decreased five basis points.

TSFG's provision for credit losses was $31.9 million in fourth quarter 2007, compared with $8.8 million in fourth quarter 2006. The provision for credit losses in fourth quarter 2007 included $7.9 million related to the Penland Development Loans (see discussion in "Credit Quality"). In addition, the higher provision for credit losses in fourth quarter 2007 was due to continuing weakness in real estate markets as well as downgrades in TSFG's internal ratings of credits impacted by this weakness. The allowance for loan losses as a percentage of loans held for investment increased to 1.24% at December 31, 2007 from 1.15% at December 31, 2006. Net loan charge-offs, annualized, as a percentage of average loans held for investment increased to 0.92% for fourth quarter 2007 from 0.27% for fourth quarter 2006. Net loan charge-offs in fourth quarter 2007 included $9.2 million of Penland Development Loans.

Noninterest income totaled $28.7 million for fourth quarter 2007, compared to $29.2 million for fourth quarter 2006. Fourth quarter 2007 noninterest income included a loss on securities of $1.3 million (primarily due to other-than-temporary impairment on non-marketable equity investments) compared with a loss of $239,000 in fourth quarter 2006. Customer fee income, wealth management income, and merchant processing income increased, while mortgage banking income declined as loan origination volume slowed.

For fourth quarter 2007, noninterest expenses decreased to $80.5 million from $90.0 million for the fourth quarter 2006, as TSFG continued its focus on expenses in keeping with its expense control initiative. This decrease was despite the fact that during fourth quarter 2007, TSFG recorded an $881,000 reserve for losses for Visa-related litigation (shared among Visa and Visa member banks) and recorded $1.2 million in FDIC insurance premiums, as the one-time credit which had been offsetting these premiums for all of 2006 and the first three quarters of 2007 was fully utilized. Fourth quarter 2006 included $5.0 million of contract buyouts and severance which did not recur in fourth quarter 2007.

In fourth quarter 2007, the effective income tax rate was 20.3% compared with 12.9% for fourth quarter 2006. The fourth quarter 2006 tax rate reflected a $5.2 million reduction in federal and state income taxes related to the settlement of certain tax matters during the quarter.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Enterprise Risk Management**

Risk, to varying degrees and in different forms, is present in virtually all business activities of a financial services organization. In certain activities, the bank proactively assumes risk as a means of generating revenue, while in other activities risk arises by virtue of engaging in that activity. The primary goals of risk management are to ensure that (1) the outcomes of risk-taking activities are within TSFG's risk tolerance and (2) that there is an appropriate balance between risk and reward to maximize shareholder returns.

Several key principles guide our enterprise-wide risk management activities. The active participation of the Board and executive and business line management in the risk management process is designed to ensure consistency with risk-taking activities and integrity with these principles which, in varying forms, apply to all business and risk types:

- Board oversight—The Board approves risk strategies, policies and associated limits; and the Board directly, or through its Risk Review and Capital Committee, receives regular updates on the key risks to TSFG.
- Accountability—Business units are responsible for identifying and managing risks within their areas, as outlined in their policies and procedures.
- Monitoring—The risk management functions within the Company seek to provide objective oversight of business unit activities and work with business units to ensure key risks are properly identified and controlled.
- Independent review—The internal audit group reports directly to the Audit Committee of the Board of Directors and provides an independent assessment of our system of internal controls.

*Market Risk and Asset/Liability Management*

*Market Risk Management.* We refer to "market risk" as the risk of loss from adverse changes in market prices of fixed income securities, equity securities, other earning assets, interest-bearing liabilities, and derivative financial instruments as a result of changes in interest rates or other factors. TSFG's market risk arises principally from interest rate risk inherent in its core banking activities. Interest rate risk is the risk of a change in earnings or equity represented by the impact of potential changes in market interest rates, both short-term and long-term, and includes, but is not limited to, the following:

- assets and liabilities (including derivative positions) may mature or reprice at different times;
- assets and liabilities may reprice at the same time but by different amounts;
- short-term and long-term interest rates may change by different amounts;
- remaining maturities of assets or liabilities may shorten or lengthen as interest rates change;
- the fair value of assets and liabilities may adjust by varying amounts; and
- changes in interest rates may have an indirect impact on loan and deposit demand, credit quality, and other sources of earnings.

TSFG has risk management policies and systems which attempt to monitor and limit exposure to interest rate risk. Specifically, TSFG manages its exposure to fluctuations in interest rates through policies established by our Asset/Liability Committee ("ALCO"), reviewed by the Risk Committee of the Board, and approved by the Board of Directors. A primary goal of ALCO is to monitor and limit exposure to interest rate risk through implementation of various strategies. These strategies include positioning the balance sheet to minimize fluctuations in income associated with interest rate risk, while maintaining adequate liquidity and capital. As of December 31, 2007, the overall interest rate risk position of TSFG and Carolina First Bank fell within risk guidelines established by ALCO.

In evaluating interest rate risk, TSFG uses a simulation model to analyze various interest rate scenarios, which take into account potential changes in the shape of the yield curve, forward interest rates implied by current yield curves, and immediate and gradual interest rate shifts. ALCO assesses interest rate risk by comparing the base case scenario results to the various interest rate scenarios. The variations of net income and economic value of equity ("EVE"), as compared with our base case, provide insight into our interest rate risk exposures.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

The assumptions used in this process possess an inherent uncertainty. As a result, we cannot precisely predict the impact of changes in interest rates on net income or the fair value of net assets. Actual results may differ significantly from our projections, due to, but not limited to the following:

- the timing, magnitude and frequency of interest rate changes;
- changes in market conditions;
- differences in the yields on earning assets and costs of interest-bearing liabilities; and
- actions taken by TSFG to counter such changing market conditions.

*Interest Sensitivity Analysis.* The information presented in Tables 26 and 27 are not projections, and are presented with static balance sheet positions. This methodology allows for an analysis of our inherent risk associated with changes in interest rates. There are some similar assumptions used in both Table 26 and 27. Primary assumptions include, but are not limited to, the following:

- a static balance sheet for net income analysis;
- as assets and liabilities mature or reprice they are reinvested at current rates and keep the same characteristics (i.e., remain as either variable or fixed rate) for net income analysis;
- mortgage backed securities prepayments are based on historical industry data;
- loan prepayments are based upon historical bank-specific analysis and historical industry data;
- deposit retention and average lives are based on historical bank-specific analysis;
- whether callable/puttable assets and liabilities are called/put is based on the implied forward yield curve for each interest rate scenario; and
- management takes no action to counter any change.

Table 26 reflects the sensitivity of net income to changes in interest rates. It shows the effect that the indicated changes in interest rates would have on net income over the next 12 months compared with the base case or flat interest rate scenario. The base case or flat scenario assumes interest rates stay at December 31, 2007 and 2006 levels, respectively.

**Table 26**
**Net Income at Risk Analysis**

| | Annualized Hypothetical Percentage Change in Net Income December 31, | |
|---|---|---|
| **Interest Rate Scenario**(1) | **2007** | **2006** |
| 2.00 % | (3.6)% | (2.0)% |
| 1.00 | (2.5) | (0.8) |
| Flat | — | — |
| (1.00) | (0.1) | 1.3 |
| (2.00) | 0.5 | 2.3 |

(1) Net income sensitivity is shown for gradual rate shifts over a 12 month period.

Table 27 reflects the sensitivity of the EVE to changes in interest rates. EVE is a measurement of the inherent, long-term economic value of TSFG (defined as the fair value of all assets minus the fair value of all liabilities and their associated off balance sheet amounts) at a given point in time. Table 27 shows the effect that the indicated changes in interest rates would have on the fair value of net assets at December 31, 2007 and 2006, respectively, compared with the base case or flat interest rate scenario. The base case scenario assumes interest rates stay at December 31, 2007 and 2006 levels, respectively.

**Table 27**
**Economic Value of Equity Risk Analysis**

| Interest Rate Scenario(1) | Annualized Hypothetical Percentage Change in Economic Value of Equity December 31, 2007 | 2006 |
|---|---|---|
| 2.00 % | (8.7)% | (13.0)% |
| 1.00 | (3.4) | (6.3) |
| Flat | — | — |
| (1.00) | 0.5 | 3.4 |
| (2.00) | (3.6) | (2.1) |

(1) The rising 100 and 200 basis points and falling 100 and 200 basis point interest rate scenarios assume an immediate and parallel change in interest rates along the entire yield curve.

There are material limitations with TSFG's models presented in Tables 26 and 27, which include, but are not limited to, the following:

- the flat scenarios are base case and are not indicative of historical results;
- they do not project an increase or decrease in net income or the fair value of net assets, but rather the risk to net income and the fair value of net assets because of changes in interest rates;
- they present the balance sheet in a static position; however, when assets and liabilities mature or reprice, they do not necessarily keep the same characteristics (i.e., variable or fixed interest rate);
- the computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions and should not be relied upon as indicative of actual results; and
- the computations do not contemplate any additional actions TSFG could undertake in response to changes in interest rates.

*Derivatives and Hedging Activities.* TSFG uses derivative instruments as part of its interest rate risk management activities to reduce risks associated with its lending, investment, deposit taking, and borrowing activities. Derivatives used for interest rate risk management may include interest rate swaps, interest rate floors, options, and futures contracts.

By using derivative instruments, TSFG is exposed to credit and market risk. Derivative credit risk, which is the risk that a counterparty to a derivative instrument will fail to perform, is equal to the extent of the fair value gain in a derivative. Derivative credit risk is created when the fair value of a derivative contract is positive, since this generally indicates that the counterparty owes us. When the fair value of a derivative is negative, no credit risk exists since TSFG would owe the counterparty. TSFG minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties as evaluated by management. Market risk is the adverse effect on the value of a financial instrument from a change in interest rates, or implied volatility of rates. TSFG manages the market risk associated with derivative contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. The market risk associated with derivatives used for interest rate risk management activity is fully incorporated into our market risk sensitivity analysis.

In accordance with SFAS 133, TSFG records derivatives at fair value, as either assets or liabilities, on the consolidated balance sheet, included in other assets or other liabilities. See Table 14 for the fair value of TSFG's derivative assets and liabilities and their related notional amounts. Derivative transactions are measured in terms of the notional amount, but this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instrument. The notional amount is not exchanged, but is used only as the basis upon which interest and other payments are calculated.

*Economic Risk*

TSFG's performance is impacted by U.S. and particularly Southeastern economic conditions, and as non-U.S. companies continue to move into TSFG's footprint, by international economic circumstances. This includes the level of interest rates, price compression, competition, bankruptcy filings and unemployment rates, as well as political and international policies, regulatory guidelines and general developments. TSFG remains diversified in its products and customers and continues to monitor the economic situations in all areas of operations to achieve growth and limit risk.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

*Credit Risk*

Credit risk is the potential for financial loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligation. Credit risk arises in many of TSFG's business activities, most prominently in its lending activities, derivative activities, ownership of debt securities, and when TSFG acts as an intermediary on behalf of its customers and other third parties. TSFG has a risk management system designed to help ensure compliance with its policies and control processes. See "Critical Accounting Policies and Estimates – Allowance for Loan Losses and Reserve for Unfunded Lending Commitments" and "Credit Quality."

*Liquidity Risks*

TSFG's business is also subject to liquidity risk, which arises in the normal course of business. TSFG's liquidity risk is that we will be unable to meet a financial commitment to a customer, creditor, or investor when due. See "Liquidity."

*Operational Risk*

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or external events. It includes reputation and franchise risks associated with business practices or market conduct that TSFG may undertake. TSFG has an operational risk management system with policies and procedures designed to help limit our operational risks.

Managing merger integration risk is a key component of TSFG's operational risk management. A significant resource commitment is made to manage such integration risk. For each significant acquisition, TSFG establishes a steering committee, which includes the bank president, key members of finance, and key members of technology, for oversight of the integration process. In addition, an integration team is comprised of managers from all affected departments. Finally, a project team of dedicated resources is established to manage our merger-task list, monitor risks, host regular meetings, coordinate information-sharing, and make on-site visits to the acquiree.

*Compliance and Litigation Risks*

TSFG is a public company in a heavily regulated industry. Failure to comply with applicable laws and regulations can result in monetary penalties and/or prohibition from conducting certain types of activities. Furthermore, TSFG's conduct of business may result in litigation associated with contractual disputes or other alleged liability to third parties.

TSFG's regulatory compliance risk is managed by our compliance group. This group works with our business lines regularly monitoring activities and evaluating policies and procedures. See Item 1, "Supervision and Regulation" for some of the laws and regulations which impact TSFG and its subsidiaries. TSFG has policies and control processes that are designed to help ensure compliance with applicable laws and regulations and limit litigation. These policies and control processes comply with the Gramm-Leach-Bliley Act, the Sarbanes-Oxley Act, and other regulatory guidance.

TSFG's Audit Committee and Disclosure Committee help to ensure compliance with financial reporting matters. TSFG's Audit Committee is involved in the following: selecting the independent auditor, communicating with the independent auditor, reviewing the financial statements and the results of the financial statement audit, monitoring the performance of the independent auditor, and monitoring the work of the internal audit function. The Audit Committee has chartered a Disclosure Committee to help ensure that TSFG's internal controls and reporting systems are sufficient to satisfy compliance with disclosure requirements related to TSFG's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q.

**Off-Balance Sheet Arrangements**

In the normal course of operations, TSFG engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. These transactions involve, to varying degrees, elements of credit, interest rate, and liquidity risk. Such transactions are used by TSFG for general corporate purposes or for customer needs. Corporate purpose transactions are used to help manage credit, interest rate, and liquidity risk or to optimize capital. Customer transactions are used to manage customers' requests for funding.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

*Lending Commitments.* Lending commitments include loan commitments, standby letters of credit, unused business credit card lines, and documentary letters of credit. These instruments are not recorded in the consolidated balance sheet until funds are advanced under the commitments. TSFG provides these lending commitments to customers in the normal course of business. TSFG estimates probable losses related to binding unfunded lending commitments and records a reserve for unfunded lending commitments in other liabilities on the consolidated balance sheet.

For commercial customers, loan commitments generally take the form of revolving credit arrangements to finance customers' working capital requirements. For retail customers, loan commitments are generally lines of credit secured by residential property. At December 31, 2007, commercial and retail loan commitments totaled $2.2 billion. Documentary letters of credit are typically issued in connection with customers' trade financing requirements and totaled $153,000 at December 31, 2007. Unused business credit card lines, which totaled $32.9 million at December 31, 2007, are generally for short-term borrowings.

Standby letters of credit represent an obligation of TSFG to a third party contingent upon the failure of TSFG's customer to perform under the terms of an underlying contract with the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the customer's delivery of merchandise, completion of a construction contract, release of a lien, or repayment of an obligation. Under the terms of a standby letter, drafts will be generally drawn only when the underlying event fails to occur as intended. TSFG has legal recourse to its customers for amounts paid, and these obligations are secured or unsecured, depending on the customers' creditworthiness. Commitments under standby letters of credit are usually for one year or less. TSFG evaluates its obligation to perform as a guarantor and records reserves as deemed necessary. The maximum potential amount of undiscounted future payments related to standby letters of credit at December 31, 2007 was $184.5 million.

TSFG applies essentially the same credit policies and standards as it does in the lending process when making these commitments. See Item 8, Note 20 to the Consolidated Financial Statements for additional information regarding lending commitments.

*Derivatives.* In accordance with SFAS 133, TSFG records derivatives at fair value, as either assets or liabilities, on the consolidated balance sheet. Derivative transactions are measured in terms of the notional amount, but this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instrument. The notional amount is not exchanged, but is used only as the basis upon which interest and other payments are calculated.

See "Derivative Financial Instruments" under "Balance Sheet Review" for additional information regarding derivatives.

**Liquidity**

Liquidity management ensures that adequate funds are available to meet deposit withdrawals, fund loan and capital expenditure commitments, maintain reserve requirements, pay operating expenses, provide funds for dividends and debt service, manage operations on an ongoing basis, and capitalize on new business opportunities. Funds are primarily provided by customer funding, wholesale borrowings, principal and interest payments on loans, loan sales, sales of securities available for sale, maturities and paydowns of securities, and earnings. Securities classified as available for sale, which are not pledged, may be sold in response to changes in interest rates or liquidity needs. A significant portion of TSFG's securities are pledged as collateral for repurchase agreements and public funds deposits. Management believes that TSFG's available borrowing capacity and efforts to grow deposits are sufficient to provide the necessary funding for 2008.

In managing its liquidity needs, TSFG focuses on its existing assets and liabilities, as well as its ability to enter into additional borrowings, and on the manner in which they combine to provide adequate liquidity to meet its needs. Table 28 summarizes future contractual obligations as of December 31, 2007. Table 28 does not include payments which may be required under employment and deferred compensation agreements (see Item 8, Note 26 of the Consolidated Financial Statements). In addition, Table 28 does not include payments required for interest and income taxes (see Item 8, Consolidated Statements of Cash Flows for details on interest and income taxes paid for 2007).



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Table 28**
**Contractual Obligations**
**(dollars in thousands)**

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| Time deposits | $ 5,196,708 | $ 3,521,825 | $ 652,183 | $ 329,684 | $ 693,016 |
| Short-term borrowings | 1,637,550 | 1,637,550 | — | — | — |
| Long-term debt | 697,377 | 52,874 | 135,167 | 266,179 | 243,157 |
| Operating leases | 181,645 | 19,094 | 33,527 | 29,738 | 99,286 |
| Expanded corporate facilities contracts | 28,659 | 28,589 | 70 | — | — |
| Total contractual cash obligations | $ 7,741,939 | $ 5,259,932 | $ 820,947 | $ 625,601 | $ 1,035,459 |

Net cash provided by operations, deposits from customers, and wholesale borrowings have been the primary sources of liquidity for TSFG. TSFG is focusing additional efforts aimed at acquiring new deposits through its established branch network to enhance liquidity and reduce reliance on wholesale borrowing. Liquidity needs are a factor in developing the deposit pricing structure, which may be altered to retain or grow deposits if deemed necessary.

TSFG has the ability to borrow from the FHLB and maintain short-term lines of credit from unrelated banks. FHLB advances outstanding as of December 31, 2007, totaled $223.1 million. At December 31, 2007, TSFG had $273.1 million of unused borrowing capacity from the FHLB. TSFG funds its short-term needs principally with deposits, including brokered deposits, federal funds purchased, repurchase agreements, FHLB advances, treasury tax and loan notes, and the principal run-off of investment securities. At December 31, 2007, TSFG had unused short-term lines of credit totaling $1.9 billion (which may be canceled at the lender's option).

The Federal Reserve Bank provides back-up funding for commercial banks. A collateralized borrowing relationship with the Federal Reserve Banks of Richmond is in place for Carolina First Bank to meet emergency funding needs. At December 31, 2007, TSFG had qualifying collateral to secure advances up to $1.4 billion, of which none was outstanding.

At December 31, 2007, the parent company had three short-term lines of credit totaling $35.0 million. These lines of credit mature June 30, 2008 for $10.0 million, August 10, 2008 for $15.0 million, and November 15, 2008 for $10.0 million. No amounts were outstanding under these lines of credit at December 31, 2007 or during the year 2007.

TSFG enters into agreements in the normal course of business to extend credit to meet the financial needs of its customers. For amounts and types of such agreements at December 31, 2007, see "Off-Balance Sheet Arrangements." Increased demand for funds under these agreements would reduce TSFG's available liquidity and could require additional sources of liquidity.

### Recently Adopted/Issued Accounting Pronouncements

See Note 1 – Recently Adopted Accounting Pronouncements and Recently Issued Accounting Pronouncements in the accompanying Notes to the Consolidated Financial Statements for details of recently adopted and recently issued accounting pronouncements and their expected impact on the Company's Consolidated Financial Statements.

### Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

See "Enterprise Risk Management" in Item 7, and Item 8, Notes 8, 14, and 29, for quantitative and qualitative disclosures about market risk, which information is incorporated herein by reference.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Item 8.** ***Financial Statements and Supplementary Data***

## MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of The South Financial Group, Inc. ("TSFG") and subsidiaries is committed to enhanced shareholder value, financial stability, and integrity in all dealings. Management has prepared the accompanying Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America. The statements include amounts that are based on management's best estimates and judgments. Other financial information in this report is consistent with the Consolidated Financial Statements.

TSFG's management is also responsible for establishing and maintaining adequate internal control over financial reporting. TSFG's internal control system is designed to provide reasonable assurance to TSFG's management and Board of Directors regarding the preparation and fair presentation of published financial statements. In meeting its responsibility, management relies on its internal control structure that is supplemented by a program of internal audits.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

TSFG's management assessed the effectiveness of TSFG's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, we believe that, as of December 31, 2007, TSFG's internal control over financial reporting was effective.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited TSFG's Consolidated Financial Statements and the effectiveness of TSFG's internal control over financial reporting in accordance with standards of the Public Company Accounting Oversight Board (United States). PricewaterhouseCoopers LLP reviews the results of its audit with both management and the Audit Committee of the Board of Directors of TSFG. In connection with its audit, PricewaterhouseCoopers LLP has issued an attestation report on our internal control over financial reporting as of December 31, 2007. This attestation report "Report of Independent Registered Public Accounting Firm" appears on page 58.

The Audit Committee, composed entirely of independent directors, meets periodically with management, TSFG's internal auditors and PricewaterhouseCoopers LLP (separately and jointly) to discuss audit, financial reporting and related matters. PricewaterhouseCoopers LLP and the internal auditors have direct access to the Audit Committee.

Mack I. Whittle, Jr.
President and
Chief Executive Officer
February 28, 2008

James R. Gordon
Executive Vice President
and Chief Financial Officer
February 28, 2008



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Report of Independent Registered Public Accounting Firm

**The Board of Directors and Shareholders**
**The South Financial Group, Inc.:**

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of shareholders' equity and comprehensive income and of cash flows present fairly, in all material respects, the financial position of The South Financial Group, Inc. and its subsidiaries at December 31, 2007 and 2006 and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007 based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects Our audits of the financial statements included 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, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's 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. 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.

Charlotte, North Carolina
February 28, 2008

## Report of Independent Registered Public Accounting Firm

**The Board of Directors and Shareholders**
**The South Financial Group, Inc.:**

We have audited the accompanying consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows of The South Financial Group, Inc. and subsidiaries for the year ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of The South Financial Group, Inc. and subsidiaries for the year ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Greenville, South Carolina
March 10, 2006



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**THE SOUTH FINANCIAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**(in thousands, except share data)**

| | December 31, 2007 | December 31, 2006 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 290,974 | $ 326,567 |
| Interest-bearing bank balances | 5,551 | 31,264 |
| Securities | | |
| Available for sale, at fair value | 1,986,212 | 2,743,456 |
| Held to maturity (fair value $39,782 in 2007 and $52,101 in 2006) | 39,691 | 52,308 |
| Total securities | 2,025,903 | 2,795,764 |
| Loans held for sale | 17,867 | 28,556 |
| Loans held for investment | 10,213,420 | 9,701,867 |
| Less: Allowance for loan losses | (126,427) | (111,663) |
| Net loans held for investment | 10,086,993 | 9,590,204 |
| Premises and equipment, net | 233,852 | 219,163 |
| Accrued interest receivable | 70,464 | 77,523 |
| Goodwill | 651,003 | 650,492 |
| Other intangible assets, net | 27,179 | 35,076 |
| Other assets | 467,798 | 455,907 |
| Total assets | $ 13,877,584 | $ 14,210,516 |
| **Liabilities and Shareholders' Equity** | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | $ 1,127,657 | $ 1,280,908 |
| Interest-bearing | 8,660,911 | 8,235,832 |
| Total deposits | 9,788,568 | 9,516,740 |
| Short-term borrowings | 1,637,550 | 1,768,719 |
| Long-term debt | 698,340 | 1,130,475 |
| Accrued interest payable | 69,288 | 68,940 |
| Other liabilities | 133,530 | 163,610 |
| Total liabilities | 12,327,276 | 12,648,484 |
| Commitments and contingencies (Note 20) | — | — |
| Shareholders' equity | | |
| Preferred stock-no par value; authorized 10,000,000 shares; issued and outstanding none | — | — |
| Common stock-par value $1 per share; authorized 200,000,000 shares; issued and outstanding 72,455,205 shares in 2007 and 75,341,276 shares in 2006 | 72,455 | 75,341 |
| Surplus | 1,107,601 | 1,167,685 |
| Retained earnings | 386,061 | 367,261 |
| Guarantee of employee stock ownership plan debt | — | (151) |
| Accumulated other comprehensive loss, net of tax | (15,809) | (48,104) |
| Total shareholders' equity | 1,550,308 | 1,562,032 |
| Total liabilities and shareholders' equity | $ 13,877,584 | $ 14,210,516 |

See Notes to Consolidated Financial Statements, which are an integral part of these statements.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**THE SOUTH FINANCIAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**(in thousands, except per share data)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2007** | **2006** | **2005** |
| **Interest Income** | | | |
| Interest and fees on loans | $ 764,828 | $ 721,020 | $ 568,222 |
| Interest and dividends on securities: | | | |
| Taxable | 103,525 | 124,850 | 173,657 |
| Exempt from federal income taxes | 11,601 | 12,819 | 11,243 |
| Total interest and dividends on securities | 115,126 | 137,669 | 184,900 |
| Interest on short-term investments | 402 | 1,511 | 1,175 |
| Total interest income | 880,356 | 860,200 | 754,297 |
| **Interest Expense** | | | |
| Interest on deposits | 368,295 | 291,292 | 196,689 |
| Interest on short-term borrowings | 79,853 | 86,524 | 49,381 |
| Interest on long-term debt | 49,427 | 81,013 | 99,171 |
| Total interest expense | 497,575 | 458,829 | 345,241 |
| **Net Interest Income** | 382,781 | 401,371 | 409,056 |
| **Provision for Credit Losses** | 68,568 | 32,789 | 40,592 |
| Net interest income after provision for credit losses | 314,213 | 368,582 | 368,464 |
| **Noninterest Income** | 113,311 | 117,905 | 43,850 |
| **Noninterest Expenses** | 320,848 | 325,939 | 316,693 |
| Income before income taxes and discontinued operations | 106,676 | 160,548 | 95,621 |
| Income taxes | 33,400 | 47,682 | 25,404 |
| Income from continuing operations | 73,276 | 112,866 | 70,217 |
| Discontinued operations, net of income tax | — | — | (396) |
| **Net Income** | $ 73,276 | $ 112,866 | $ 69,821 |
| | | | |
| **Average Common Shares Outstanding, Basic** | 73,618 | 74,940 | 73,307 |
| **Average Common Shares Outstanding, Diluted** | 74,085 | 75,543 | 74,595 |
| **Per Common Share, Basic** | | | |
| Income from continuing operations | $ 1.00 | $ 1.51 | $ 0.96 |
| Discontinued operations | — | — | (0.01) |
| Net income | $ 1.00 | $ 1.51 | $ 0.95 |
| **Per Common Share, Diluted** | | | |
| Income from continuing operations | $ 0.99 | $ 1.49 | $ 0.94 |
| Discontinued operations | — | — | — |
| Net income | $ 0.99 | $ 1.49 | $ 0.94 |

See Notes to Consolidated Financial Statements, which are an integral part of these statements.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**THE SOUTH FINANCIAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES**
**IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME**
**(dollars in thousands, except per share data)**

| | Shares of Common Stock | Common Stock | Surplus | Retained Earnings and Other* | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|---|
| **Balance, December 31, 2004** | 71,252,346 | $ 71,252 | $ 1,056,185 | $ 284,519 | $ (18,496) | $ 1,393,460 |
| Net income | — | — | — | 69,821 | — | 69,821 |
| Other comprehensive loss, net of tax of $16,015 | — | — | — | — | (27,404) | (27,404) |
| Comprehensive income | — | — | — | — | — | 42,417 |
| Cash dividends declared ($0.65 per common share) | — | — | — | (48,055) | — | (48,055) |
| Common stock activity: | | | | | | |
| Acquisitions | 2,341,462 | 2,341 | 75,054 | 241 | — | 77,636 |
| Exercise of stock options, including income tax benefit of $4,306 | 890,757 | 891 | 14,500 | — | — | 15,391 |
| Dividend reinvestment plan | 129,176 | 129 | 3,335 | — | — | 3,464 |
| Restricted stock plan | 75,218 | 75 | 899 | 314 | — | 1,288 |
| Employee stock purchase plan | 17,903 | 18 | 458 | — | — | 476 |
| Director compensation | 14,599 | 15 | 413 | — | — | 428 |
| Common stock purchased by trust for deferred compensation | — | — | — | (503) | — | (503) |
| Deferred compensation payable in common stock | — | — | — | 503 | — | 503 |
| Other, net | — | — | 161 | 241 | — | 402 |
| **Balance, December 31, 2005** | 74,721,461 | 74,721 | 1,151,005 | 307,081 | (45,900) | 1,486,907 |
| Net income | — | — | — | 112,866 | — | 112,866 |
| Other comprehensive loss, net of tax of $1,272 | — | — | — | — | (2,204) | (2,204) |
| Comprehensive income | — | — | — | — | — | 110,662 |
| Cash dividends declared ($0.69 per common share) | — | — | — | (51,960) | — | (51,960) |
| Common stock activity: | | | | | | |
| Acquisitions | 4,991 | 5 | 68 | — | — | 73 |
| Exercise of stock options, including income tax benefit of $1,612 | 459,317 | 460 | 8,111 | — | — | 8,571 |
| Dividend reinvestment plan | 127,303 | 127 | 3,092 | — | — | 3,219 |
| Restricted stock plan | (8,988) | (9) | 3,178 | — | — | 3,169 |
| Employee stock purchase plan | 19,057 | 19 | 460 | — | — | 479 |
| Director compensation | 18,135 | 18 | 461 | — | — | 479 |
| Common stock released by trust for deferred compensation | — | — | — | 289 | — | 289 |
| Deferred compensation payable in common stock | — | — | — | (289) | — | (289) |
| Cumulative effect of initial application of SAB 108, net of income tax of $1,858 | — | — | — | (3,412) | — | (3,412) |
| Reversal of unearned compensation upon adoption of SFAS 123R | — | — | (2,301) | 2,301 | — | — |
| Stock option expense | — | — | 3,483 | — | — | 3,483 |
| Other, net | — | — | 128 | 234 | — | 362 |
| **Balance, December 31, 2006** | 75,341,276 | 75,341 | 1,167,685 | 367,110 | (48,104) | 1,562,032 |
| Net income | — | — | — | 73,276 | — | 73,276 |
| Other comprehensive income, net of tax of $18,292 | — | — | — | — | 32,295 | 32,295 |
| Comprehensive income | — | — | — | — | — | 105,571 |
| Cash dividends declared ($0.73 per common share) | — | — | — | (53,695) | — | (53,695) |
| Common stock activity: | | | | | | |
| Stock repurchase | (3,600,000) | (3,600) | (79,691) | — | — | (83,291) |
| Acquisitions | 7,918 | 8 | 183 | — | — | 191 |
| Exercise of stock options, including income tax benefit of $1,067 | 476,386 | 476 | 8,675 | — | — | 9,151 |
| Dividend reinvestment plan | 149,021 | 149 | 3,057 | — | — | 3,206 |
| Restricted stock plan | 39,617 | 40 | 3,078 | (293) | — | 2,825 |
| Employee stock purchase plan | 19,378 | 19 | 402 | — | — | 421 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Director compensation | 22,098 | 22 | 512 | — | — | 534 |
| Common stock released by trust for deferred compensation | — | — | — | 122 | — | 122 |
| Deferred compensation payable in common stock | — | — | — | (122) | — | (122) |
| Cumulative effect of initial application of FIN 48 | — | — | — | (488) | — | (488) |
| Stock option expense | — | — | 3,657 | — | — | 3,657 |
| Other, net | (489) | — | 43 | 151 | — | 194 |
| **Balance, December 31, 2007** | 72,455,205 | $ 72,455 | $ 1,107,601 | $ 386,061 | $ (15,809) | $ 1,550,308 |

* Other includes guarantee of employee stock ownership plan debt, deferred compensation, and (prior to January 1, 2006) nonvested restricted stock.

See Notes to Consolidated Financial Statements, which are an integral part of these statements.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**THE SOUTH FINANCIAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(dollars in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| **Cash Flows from Operating Activities** | | | |
| Net income | $ 73,276 | $ 112,866 | $ 69,821 |
| Adjustments to reconcile net income to net cash provided by operating activities | | | |
| Depreciation, amortization, and accretion, net | 33,963 | 40,504 | 48,973 |
| Provision for credit losses | 68,568 | 32,789 | 40,592 |
| Share-based compensation expense | 7,469 | 6,418 | 1,720 |
| Loss (gain) on securities | 4,623 | (4,037) | 52,139 |
| Loss (gain) on trading and certain derivative activities | 1,197 | (3,150) | 13,613 |
| Gain on sale of mortgage loans | (5,179) | (7,022) | (6,607) |
| Loss on early extinguishment of debt | 2,029 | 821 | 7,101 |
| Loss (gain) on disposition of premises and equipment | 70 | (476) | (458) |
| Loss on disposition of other real estate owned | 401 | 341 | 43 |
| Deferred income tax expense (benefit) | 7,426 | 5,674 | (11,854) |
| Excess tax benefits from share-based compensation | (1,067) | (1,612) | — |
| Loss on indirect auto loans | — | 5,129 | — |
| Gain on disposition of assets and liabilities | — | (2,498) | — |
| Origination of loans held for sale | (411,539) | (632,920) | (526,490) |
| Sale of loans held for sale and principal repayments | 454,948 | 565,832 | 514,755 |
| (Increase) decrease in other assets | (6,364) | 6,499 | (44,254) |
| (Decrease) increase in other liabilities | (12,894) | 22,231 | 58,730 |
| Net cash provided by operating activities | 216,927 | 147,389 | 217,824 |
| **Cash Flows from Investing Activities** | | | |
| Sale of securities available for sale | 309,110 | 40,274 | 2,903,526 |
| Maturity, redemption, call, or principal repayments of securities available for sale | 483,630 | 355,569 | 992,708 |
| Maturity, redemption, call, or principal repayments of securities held to maturity | 12,655 | 10,206 | 12,385 |
| Purchase of securities available for sale | (12,616) | (38,267) | (2,869,204) |
| Purchase of securities held to maturity | (140) | — | — |
| Origination of loans held for investment, net of principal repayments | (601,055) | (591,378) | (1,069,808) |
| Sale of loans held for investment | — | 353,044 | — |
| Sale of other real estate owned | 4,746 | 11,705 | 7,850 |
| Sale of premises and equipment | 445 | 6,004 | 11,338 |
| Purchase of premises and equipment | (35,658) | (50,991) | (51,577) |
| Disposition of assets and liabilities, net | — | (22,655) | — |
| Cash equivalents acquired, net of payment for purchase acquisitions | (363) | (374) | 71,101 |
| Net cash provided by investing activities | 160,754 | 73,137 | 8,319 |

See Notes to Consolidated Financial Statements, which are an integral part of these statements.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**THE SOUTH FINANCIAL GROUP, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(dollars in thousands)**

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| **Cash Flows from Financing Activities** | | | |
| Increase in deposits | $ 249,876 | $ 311,011 | $ 1,240,031 |
| (Decrease) increase in short-term borrowings | (132,959) | 292,556 | (200,065) |
| Issuance of long-term debt | 126,290 | 127,321 | 1,638,743 |
| Payment of long-term debt | (557,726) | (918,509) | (2,715,340) |
| Cash dividends paid on common stock | (53,493) | (51,097) | (46,750) |
| Repurchase of common stock | (83,291) | — | — |
| Excess tax benefits from share-based compensation | 1,067 | 1,612 | — |
| Other common stock activity | 11,249 | 11,706 | 15,427 |
| Net cash used for financing activities | (438,987) | (225,400) | (67,954) |
| Net change in cash and cash equivalents | (61,306) | (4,874) | 158,189 |
| Cash and cash equivalents at beginning of year | 357,831 | 362,705 | 204,516 |
| Cash and cash equivalents at end of year | $ 296,525 | $ 357,831 | $ 362,705 |
| | | | |
| **Supplemental Cash Flow Data** | | | |
| Interest paid, net of amounts capitalized | $ 492,913 | $ 442,237 | $ 311,935 |
| Income taxes paid, net | 30,313 | 19,466 | 45,072 |
| Significant non-cash investing and financing transactions: | | | |
| Decrease (increase) in unrealized loss on available for sale securities | 26,461 | (1,667) | (44,111) |
| Loans transferred from held for sale to held for investment | 59 | 97,196 | — |
| Loans transferred to other real estate owned | 8,173 | 5,616 | 8,323 |
| Security sales, redemptions and calls settled subsequent to period-end | — | — | 2,569 |
| Business combinations: | | | |
| Fair value of assets acquired (includes cash and cash equivalents) | 554 | 572 | 515,276 |
| Fair value of common stock issued and stock options recognized | (191) | (73) | (77,636) |
| Cash paid | (363) | (381) | (36,257) |
| Liabilities assumed | — | 118 | 401,383 |

See Notes to Consolidated Financial Statements, which are an integral part of these statements.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**THE SOUTH FINANCIAL GROUP, INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies followed by The South Financial Group, Inc. and all its subsidiaries and the methods of applying these policies conform with U.S. generally accepted accounting principles and with general practices within the banking industry. Certain policies, which significantly affect the determination of financial position, results of operations and cash flows, are summarized below. "TSFG" refers to The South Financial Group, Inc. and its subsidiaries, except where the context requires otherwise.

### Nature of Operations

TSFG is a financial holding company headquartered in Greenville, South Carolina that offers a broad range of financial products and services, including banking, merchant processing, mortgage, treasury services, and wealth management (which consists of benefits administration, insurance, private banking, retail investment, and trust and investment management). TSFG's banking subsidiary Carolina First Bank conducts banking operations in South Carolina and North Carolina (as Carolina First Bank) and in Florida (as Mercantile Bank). TSFG also owns several non-bank subsidiaries. At December 31, 2007, TSFG operated through 79 branch offices in South Carolina, 66 in Florida, and 27 in North Carolina. In South Carolina, the branches are primarily located in the state's largest metropolitan areas. The Florida operations are principally concentrated in the Jacksonville, Orlando, Tampa Bay, Southeast Florida, and Gainesville areas. The North Carolina branches are primarily located in the Hendersonville and Asheville areas of western North Carolina and in the Wilmington area of eastern North Carolina. Prior to July 1, 2007, TSFG's Florida banking operations were conducted through a separate banking subsidiary, Mercantile Bank. However, effective July 1, 2007, Mercantile Bank was merged with and into Carolina First Bank. Subsequent to the merger, the former Mercantile Bank now operates as a division of Carolina First Bank, still under the name "Mercantile Bank."

### Accounting Estimates and Assumptions

The preparation of the Consolidated Financial Statements and accompanying notes requires management of TSFG to make a number of estimates and assumptions relating to reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the period. Actual results could differ significantly from these estimates and assumptions. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and reserve for unfunded lending commitments, for the effectiveness of derivative and other hedging activities, the fair value of certain financial instruments (securities, derivatives, and privately held investments), income tax assets or liabilities, share-based compensation, and accounting for acquisitions, including the fair value determinations, the analysis of goodwill impairment and the analysis of valuation allowances in the initial accounting of loans acquired. To a lesser extent, significant estimates are also associated with the determination of contingent liabilities, discretionary compensation, and other employee benefit agreements.

### Principles of Consolidation

The Consolidated Financial Statements include the accounts of The South Financial Group, Inc. and all other entities in which it has a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation.

TSFG determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under U.S. generally accepted accounting principles. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable each entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns, and the right to make decisions about the entity's activities. TSFG consolidates voting interest entities in which it has all, or at least majority of, the voting interest. As defined in applicable accounting standards, variable interest entities ("VIEs") are entities that lack one or more of the characteristics of a voting interest entity described above. A controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a

majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. At December 31, 2007, TSFG had six subsidiaries that were VIEs for which TSFG was not the primary beneficiary. Accordingly, the accounts of these statutory business trusts ("Trusts") were not included in TSFG's Consolidated Financial Statements. At December 31, 2007 and 2006, the Trusts had outstanding trust preferred securities with an aggregate par value of $200.5 million and $173.5 million, respectively. At December 31, 2007 and 2006, the principal assets of the Trusts are $206.7 million and $178.9 million, respectively, of the Company's subordinated notes with identical rates of interest and maturities as the trust preferred securities (see Note 19). At December 31, 2007 and 2006, the Trusts have issued $6.2 million and $5.4 million, respectively, of common securities to the Company. The Company records interest expense on the subordinated debt and recognizes the dividend income on the common stock of the trust entities.

**Reclassifications**

Certain prior year amounts have been reclassified to conform to the 2007 presentations. Specifically, in 2007, TSFG began presenting its merchant income, debit card income, and retail investment services income net of certain related amounts (see Note 3). In addition, TSFG reclassified certain deposit balances from time deposits under $100,000 to time deposits of $100,000 or more (see Note 15). Amounts for prior periods have been reclassified to conform to the current presentation. These reclassifications had no impact on total deposits, shareholders' equity, or net income.

**Business Combinations**

For all business combination transactions initiated after June 30, 2001, the purchase method of accounting has been used, and accordingly, the assets and liabilities of the acquired company have been recorded at their estimated fair values as of the merger date. The fair values are subject to adjustment as information relative to the fair values as of the acquisition date becomes available. The Consolidated Financial Statements include the results of operations of any acquired company since the acquisition date.

**Cash and Cash Equivalents**

Cash and cash equivalents include cash and due from banks, interest-bearing bank balances, and federal funds sold. Generally, both cash and cash equivalents have maturities of three months or less, and accordingly, the carrying amount of these instruments is deemed to be a reasonable estimate of fair value.

**Securities**

TSFG classifies its investment securities in one of three categories: trading, available for sale or held to maturity. Trading securities are bought and held principally for the purpose of selling in the near term. Securities held to maturity are debt securities in which TSFG has the ability and intent to hold until maturity. All securities not included in trading or held to maturity are classified as available for sale. TSFG classifies its investment securities at the date of commitment or purchase.

Trading securities are carried at fair value. Adjustments for realized and unrealized gains or losses from trading securities are included in noninterest income.

Securities available for sale are carried at fair value. Such securities are used to execute asset/liability management strategy, manage liquidity, collateralize public deposits, borrowings, and derivatives and leverage capital. Adjustments for unrealized gains or losses, net of the income tax effect, are made to accumulated other comprehensive income (loss), a separate component of shareholders' equity.

Securities held to maturity are stated at cost, net of unamortized balances of premiums and discounts.

TSFG determines the fair value of its securities based on quoted market prices from observable market data. On a quarterly basis, TSFG evaluates declines in the market value below cost of any available for sale or held to maturity security for other-than-temporary impairment and, if necessary, charges the unrealized loss to operations and establishes a new cost basis in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") and the Securities and Exchange Commission ("SEC") Staff Accounting Bulletin No. 59,

"Noncurrent Marketable Equity Securities" ("SAB 59"). To determine whether impairment is other-than-temporary, TSFG considers the reasons for the impairment, recent events specific to the issuer or industry, the severity and duration of the impairment, volatility of fair value, changes in value subsequent to period-end, external credit ratings, and forecasted performance of the investee. In addition, TSFG considers whether it has the ability and intent to hold the investment until a market price recovery and whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. As the forecasted market price recovery period lengthens, the uncertainties inherent in the estimate increase, impacting the reliability of that estimate. To be included in assessment of recoverability, market price recoveries must reasonably be expected to occur within an acceptable forecast period. Ultimately, a lack of objective evidence to support recovery of a security's cost over a reasonable period of time will result in an other-than-temporary impairment charge.

Dividend and interest income are recognized when earned. Premiums and discounts are amortized or accreted over the expected life of the related held to maturity or available for sale security as an adjustment to yield. Gains or losses on the sale of securities are recognized on a specific identification, trade date basis.

**Loans Held for Sale**

Loans held for sale include residential mortgage loans intended to be sold in the secondary market and other loans that management has an active plan to sell. Loans held for sale are carried at the lower of cost or estimated fair value on an aggregate basis. Prior to sale, decreases in fair value and subsequent recoveries in fair value up to the cost basis are included in noninterest income. Gains or losses on sales of loans are recognized in noninterest income at the time of sale and are determined by the difference between net sales proceeds and the carrying value of the loans sold.

Loans or pools of loans are transferred from the held for investment portfolio to the held for sale portfolio when the intent to hold the loans has changed due to portfolio management or risk mitigation strategies and when there is a plan to sell the loans within a reasonable period of time. At the time of transfer, if the fair value is less than the cost, the difference related to the credit quality of the loan is recorded as an adjustment to the allowance for loan losses. Decreases in fair value subsequent to the transfer are recognized in noninterest income.

Loans or pools of loans are transferred from the held for sale portfolio to the held for investment portfolio when the intent to sell the loans has changed. Any previously recorded lower of cost or market adjustments are amortized to interest income over the remaining life of the loans.

**Loans Held for Investment**

Loans held for investment are reported at their outstanding principal balances, adjusted for any deferred fees (net of associated direct costs) and unamortized premiums or unearned discounts. TSFG recognizes interest on the unpaid balance of the loans when earned. The net amount of the nonrefundable loan origination fees, commitment fees, and certain direct costs associated with the lending process are deferred and amortized to interest income over the term of the loan. The premium or discount on purchased loans is amortized over the expected life of the loans and is included in interest and fees on loans.

In accordance with SFAS No. 114 ("SFAS 114"), "Accounting by Creditors for Impairment of a Loan," loans are considered to be impaired when, in management's judgment and based on current information, the full collection of principal and interest becomes doubtful. A loan is also considered impaired if its terms are modified in a troubled debt restructuring. Impaired loans are placed in nonperforming status, and future payments are applied to principal until such time as collection of the obligation is no longer doubtful. Interest accrual resumes only when loans return to performing status. To return to performing status, loans must be fully current, and continued timely payments must be a reasonable expectation.

Loans are charged-off (if unsecured) or written-down (if secured) when losses are reasonably quantifiable. Commercial loans are generally placed in nonaccrual status (if secured) or charged-off (if unsecured) when full collection of principal and interest becomes doubtful or when they become 90-days delinquent. Consumer loans are generally placed in nonaccrual status (if secured) or charged-off (if unsecured) when they become greater than 120 days past due or upon determination that full collection of principal and interest is doubtful. Mortgage loans are generally placed in nonaccrual status when they become greater than 150 days past due or upon determination that full collection of principal and interest is doubtful. Once placed in nonaccrual, in the event the net realizable

liquidation value of the collateral is less than the principal balance of the mortgage loan, the anticipated deficiency balance is charged off at the conclusion of the foreclosure sale.

When loans are placed in nonaccrual status, accrued but unpaid interest is charged against accrued interest income and other accrued but unpaid charges or fees are charged to current expenses. Generally, loans are returned to accrual status when the loan is brought current and ultimate collectibility of principal and interest is no longer in doubt. TSFG defines past due loans based upon contractual maturity dates for commercial loans. For consumer and mortgage loans, past dues are defined as loans with two or more payments due.

**Allowance for Loan Losses and Reserve for Unfunded Lending Commitments**

The allowance for loan losses and reserve for unfunded lending commitments are based on management’s ongoing evaluation of the loan portfolio and unfunded lending commitments and reflect an amount that, in management’s opinion, is adequate to absorb probable incurred losses in these items. In evaluating the portfolio, management takes into consideration numerous factors, including current economic conditions, prior loan loss experience, the composition of the loan portfolio, and management’s estimate of credit losses. Loans are charged against the allowance at such time as they are determined to be losses. Subsequent recoveries are credited to the allowance.

Management considers the year-end allowance appropriate and adequate to cover probable incurred losses in the loan portfolio; however, management’s judgment is based upon a number of assumptions about current events, which are believed to be reasonable, but which may or may not prove valid. Thus, there can be no assurance that loan losses in future periods will not exceed the allowance for loan losses or that additional increases in the allowance for loan losses will not be required. In addition, various regulatory agencies periodically review TSFG’s allowance for loan losses as part of their examination process and could require TSFG to adjust its allowance for loan losses based on information available to them at the time of their examination.

The methodology used to determine the reserve for unfunded lending commitment, which is included in other liabilities, is inherently similar to that used to determine the allowance for loan losses described above, adjusted for factors specific to binding commitments, including the probability of funding and exposure at default.

**Concentrations of Credit Risk**

TSFG’s loan portfolio is composed primarily of loans to individuals and small and medium sized businesses for various personal and commercial purposes primarily in South Carolina, the western and coastal regions of North Carolina, and the Jacksonville, Orlando, Tampa Bay, Gainesville, and certain southeastern Florida markets. The loan portfolio is diversified by borrower and geographic area within these regions. Industry concentrations parallel the mix of economic activity in these markets, the most significant of which is commercial real estate, and, to a lesser extent, the tourism and automobile industries. Although the portfolio is affected by economic conditions, repayment of loans therein is not excessively dependent on any specific economic segment.

**Premises and Equipment**

Premises and equipment are carried at cost including capitalized interest, when appropriate, less accumulated depreciation. Depreciation is charged to expense over the estimated useful lives of the assets. Leasehold improvements and capital leases are amortized over the terms of the respective lease or the estimated useful lives of the improvements, whichever is shorter. Depreciation and amortization are computed primarily using the straight-line method. Estimated useful lives generally range from 30 to 40 years for buildings, 3 to 12 years for furniture, fixtures, and equipment, 5 to 7 years for capitalized software, and 3 to 30 years for leasehold improvements.

Additions to premises and equipment and major replacements or improvements are capitalized at cost. Maintenance, repairs, and minor replacements are expensed when incurred.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Impairment of Long-Lived Assets**

TSFG periodically reviews the carrying value of its long-lived assets including premises and equipment for impairment whenever events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. For long-lived assets to be held and used, impairments are recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. An impairment loss is measured as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

Long-lived assets to be disposed of by abandonment or in an exchange for a similar productive long-lived asset are classified as held and used until disposed of.

Long-lived assets to be sold are classified as held for sale and are no longer depreciated. Certain criteria have to be met in order for the long-lived asset to be classified as held for sale, including that a sale is probable and expected to occur within one year. Long-lived assets classified as held for sale are recorded at the lower of their carrying amount or fair value less the cost to sell.

**Intangible Assets**

Intangible assets include goodwill and other identifiable assets, such as core deposit intangibles, customer list intangibles, and non-compete agreement intangibles, resulting from TSFG acquisitions. Core deposit intangibles are amortized over 10 to 15 years using the straight-line or the sum-of-the-years' digits method based upon historical studies of core deposits. The non-compete agreement intangibles are amortized on a straight-line basis over the non-compete period, which is generally seven years or less. Customer list intangibles are amortized on a straight-line or accelerated basis over their estimated useful life of 10 to 17 years. Goodwill is not amortized but tested annually for impairment or at any time an event occurs or circumstances change that may trigger a decline in the value of the reporting unit. Examples of such events or circumstances include adverse changes in legal factors, business climate, unanticipated competition, change in regulatory environment, or loss of key personnel.

TSFG tests for impairment in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Potential impairment of goodwill exists when the carrying amount of a reporting unit exceeds its implied fair value. The fair value for each reporting unit is computed using one or a combination of the following three methods: income, market value, or cost method. The income method uses a discounted cash flow analysis to determine fair value by considering estimated future cash flows that the reporting unit will generate over its remaining useful life. These cash flows are discounted at a rate appropriate for the risk of the reporting unit. The market value method uses recent transaction analysis or publicly traded comparable analysis for similar companies to determine fair value. The cost method estimates the current cost to purchase or replace the assets of the reporting unit. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired, and a second step of impairment testing will be performed. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities as if the reporting unit had been acquired in a business combination at the date of the impairment test. If the implied fair value of reporting unit goodwill is lower than its carrying amount, goodwill is impaired and is written down to its implied fair value. The loss recognized is limited to the carrying amount of goodwill. Once an impairment loss is recognized, future increases in fair value will not result in the reversal of previously recognized losses.

TSFG's other intangible assets have an estimated finite useful life and are amortized over that life in a manner that reflects the estimated decline in the economic value of the identified intangible asset. TSFG periodically reviews its other intangible assets for impairment.

**Derivative Financial Instruments and Hedging Activities**

TSFG's derivative activities, along with its other exposures to market risk, are monitored by its Asset/Liability Committee ("ALCO") based upon the interest rate risk guidelines TSFG has established. Market risk is the adverse effect on the value of a financial instrument from a change in interest rates, implied volatility of rates, counterparty credit risk and other market-driven factors. TSFG manages the market risk associated with derivative contracts by establishing and monitoring limits as to the types



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

and degree of risk that may be undertaken. The market risk associated with trading and derivative activities used for risk management activities is fully incorporated into its market risk sensitivity analysis.

TSFG uses derivatives to manage exposure to interest rate and foreign exchange risk and offers derivatives to its customers which they use to meet their risk management objectives. TSFG manages risks associated with its lending, investment, deposit taking, and borrowing activities. Derivatives for interest rate risk management include interest rate swaps, floors, options, and futures contracts. Derivatives used for foreign currency risk management consist of forward contracts. Interest rate swaps used by TSFG effectively convert specific fixed rate borrowings to a floating rate index, or vice versa, or serve to convert prime-based variable loan cash flows to fixed rate income streams. TSFG has also entered into swap contracts that effectively convert exposure taken on through the issuance of equity-linked and inflation-indexed certificates of deposit to LIBOR-based funding.

TSFG enters into forward sales commitments to hedge the interest rate risk arising from its mortgage banking activities.

TSFG may also, from time to time, enter into certain option and futures contracts that are not designated as hedging a specific asset, liability or forecasted transaction and are therefore considered trading positions. Such options and futures contracts typically have indices that relate to the pricing of specific on-balance sheet instruments and forecasted transactions and may be more speculative in nature. TSFG has policies that limit the amount of outstanding trading positions.

TSFG also offers various derivatives, including interest rate, commodity, equity, credit, and foreign exchange contracts, to its customers; however TSFG neutralizes its market risk exposure with offsetting financial contracts from third party dealers. All derivative contracts associated with these programs are carried at fair value and are not considered hedges under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133").

TSFG uses derivatives to modify the repricing characteristics of certain assets and liabilities so that changes in interest rates do not have a significant adverse effect on net interest income and cash flows and to better match the repricing profile of our interest bearing assets and liabilities. As a result of interest rate fluctuations, certain interest-sensitive assets and liabilities will gain or lose market value. In an effective fair value hedging strategy, the effect of this change in value will generally be offset by a corresponding change in value on the derivatives linked to the hedged assets and liabilities. In an effective cash flow hedging strategy, the variability of cash flows due to interest rate fluctuations on floating rate instruments is managed by derivatives that effectively lock-in the amount of cash payments or receipts.

By using derivative instruments, TSFG is also exposed to credit risk. Credit risk, which is the risk that a counterparty to a derivative instrument will fail to perform, equals the fair value gain in a derivative. Credit risk is created when the fair value of a derivative contract is positive, since this generally indicates that the counterparty owes TSFG. When the fair value of a derivative is negative, no credit risk exists since TSFG owes the counterparty and the counterparty has the credit risk to TSFG. TSFG minimizes the credit risk in derivative instruments by entering into transactions with highly rated counterparties, which management confirms with its own analysis.

At the inception of a hedge transaction, TSFG formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking the hedge. This process includes identification of the hedging instrument, hedged item, risk being hedged and the method for assessing effectiveness and measuring ineffectiveness. In addition, on a quarterly basis, TSFG assesses whether the derivative used in the hedging transaction is highly effective in offsetting changes in fair value or cash flows of the hedged item, and measures and records any ineffectiveness.

All derivatives are recognized on the consolidated balance sheet in either other assets or other liabilities at their fair value in accordance with SFAS 133. On the trade date, TSFG designates the derivative as (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation. Changes in fair value for derivatives that qualify as fair value hedges are recorded along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk as noninterest income in the consolidated statements of income. Changes in fair value for derivatives that qualify as cash flow hedges are recorded through other comprehensive income (net of tax) in shareholders' equity to the extent that the hedge is effective. The net cash settlement on derivatives qualifying for hedge accounting is recorded in interest income or interest expense, as appropriate, based on the item being hedged. The net cash settlement on



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

derivatives not qualifying for hedge accounting is included in noninterest income. Changes in the fair value of derivative instruments that fail to meet the criteria for hedge designation as a hedge under SFAS 133 or fail to meet the criteria thereafter are recorded as noninterest income in the consolidated statements of income.

TSFG discontinues hedge accounting in accordance with SFAS 133 when the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; the derivative expires or is sold, terminated or exercised; the derivative is dedesignated as a hedge instrument because it is unlikely that a forecasted transaction will occur; or management determines that designation of the derivative as a hedge instrument is no longer appropriate.

When hedge accounting is discontinued, the future gains and losses on derivatives are recognized as noninterest income in the consolidated statements of income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transaction are still expected to occur, gains and losses that were accumulated in other comprehensive income are amortized or accreted into earnings as the hedged cash flows impact earnings. They are recognized in earnings immediately if the cash flow hedge was discontinued because a forecasted transaction is no longer probable of occurring.

TSFG may occasionally enter into a contract (the host contract) that contains an embedded derivative. If applicable, an embedded derivative is separated from the host contract, recorded at fair value and can be designated as a hedge that qualifies for hedge accounting; otherwise, the derivative is recorded at fair value with gains and losses recognized in the consolidated statements of income. TSFG's equity-linked certificates of deposit contain embedded derivatives that require separation from the host contract.

**Other Investments**

TSFG accounts for its investments in limited partnerships, limited liability companies ("LLCs"), and other privately held companies using either the cost or the equity method of accounting. The accounting treatment depends upon TSFG's percentage ownership and degree of management influence.

Under the cost method of accounting, TSFG records an investment in stock at cost and generally recognizes cash dividends received as income. If cash dividends received exceed the investee's earnings since the investment date, these payments are considered a return of investment and reduce the cost of the investment.

Under the equity method of accounting, TSFG records its initial investment at cost. Subsequently, the carrying amount of the investment is increased or decreased to reflect TSFG's share of income or loss of the investee. TSFG's recognition of earnings or losses from an equity method investment is based on TSFG's ownership percentage in the limited partnership or LLC and the investee's earnings on a quarterly basis. The limited partnerships and LLCs generally provide their financial information during the quarter following the end of a given period. TSFG's policy is to record its share of earnings or losses on equity method investments in the quarter the financial information is received.

All of the limited partnerships and LLCs in which TSFG invests are privately held, and their market values are not readily available. TSFG's management evaluates its investments in limited partnerships and LLCs for impairment based on the investee's ability to generate cash through its operations or obtain alternative financing, and other subjective factors. There are inherent risks associated with TSFG's investments in limited partnerships and LLCs, which may result in income statement volatility in future periods.

**Bank-Owned Life Insurance**

TSFG has purchased life insurance policies on certain key employees. These policies are recorded in other assets at their cash surrender value, or the amount that can be realized. Income from these policies and changes in the net cash surrender value are recorded in noninterest income.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Foreclosed Property**

Other real estate owned, included in other assets, is comprised of real estate properties acquired in partial or total satisfaction of problem loans. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), the property is classified as held for sale when the sale is probable and is expected to occur within one year. The property is initially carried at the lower of cost or estimated fair value less estimated selling costs. Principal losses existing at the time of acquisition of such properties are charged against the allowance for loan losses. Interest losses are charged to interest income. Subsequent write-downs that may be required to the carrying value of these properties and gains and losses realized from the sale of other real estate owned are included in other noninterest income. Costs related to the development and improvements of such property are capitalized, whereas the costs related to holding the property are charged to expense. Other real estate owned totaled $6.5 million and $3.4 million at December 31, 2007 and 2006, respectively.

Personal property repossessions are acquired in partial or total satisfaction of problem loans and are included in other assets. These repossessions are initially carried at the lower of cost or estimated fair value. Principal losses existing at the time of acquisition of such personal properties are charged against the allowance for loan losses. Personal property repossessions totaled $1.8 million and $900,000 at December 31, 2007 and 2006, respectively.

**Debt Issuance Costs**

TSFG amortizes debt issuance costs over the life of the related debt using a method that approximates the effective interest method.

**Borrowed Funds**

TSFG's short-term borrowings are defined as borrowings with maturities of one year or less when made. Long-term borrowings have maturities greater than one year when made. Any premium or discount on borrowed funds is amortized over the term of the borrowing.

**Commitments and Contingencies**

Contingencies arising from environmental remediation costs, claims, assessments, guarantees, litigation, recourse reserves, fines, penalties and other sources are recorded when deemed probable and estimable.

**Deposit Accounts**

TSFG recognizes service charges on deposit accounts when collected. Any premium or discount on fixed maturity deposits is amortized over the term of the deposits.

TSFG is charged a fee in connection with its acquisition of brokered certificates of deposit. The fee is included in other assets as a prepaid charge and is amortized into interest expense over the maturity period of the brokered CD on a straight-line basis.

**Income Taxes**

TSFG accounts for income taxes under the asset and liability method. The federal taxable operating results of TSFG and its eligible subsidiaries are included in its consolidated federal income tax return. Each subsidiary included in the consolidated federal income tax return receives an allocation of federal income taxes due to the Parent Company or is allocated a receivable from the Parent Company to the extent tax benefits are realized. Where federal and state tax laws do not permit consolidated or combined income tax returns, applicable separate subsidiary federal or state income tax returns are filed and payment, if any, is remitted directly to the federal or state governments from such subsidiary. In addition, TSFG periodically reviews the sustainability of its federal and state income tax positions and, if necessary, in accordance with FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109," records contingent tax liabilities.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective income tax basis and operating loss and income tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

**Comprehensive Income**

Comprehensive income is the change in TSFG's equity during the period from transactions and other events and circumstances from non-owner sources. Total comprehensive income consists of net income and other comprehensive income (loss). TSFG's other comprehensive income (loss) and accumulated other comprehensive income (loss) are comprised of unrealized gains and losses on certain investments in debt securities, equity securities, and derivatives that qualify as cash flow hedges to the extent that the hedge is effective.

**Share-Based Compensation**

In 2006, TSFG adopted SFAS No. 123R ("SFAS 123R"), "Share-Based Payment," which requires companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees. Under SFAS 123R, the way an award is classified will affect the measurement of compensation cost. Liability-classified awards are remeasured to fair value at each balance-sheet date until the award is settled. Equity-classified awards are measured at grant-date fair value, amortized over the subsequent vesting period, and are not subsequently remeasured. The fair value of non-vested stock awards for the purposes of recognizing stock-based compensation expense is the market price of the stock on the grant date. The fair value of options is estimated on the grant date using the Black-Scholes option pricing model (see Note 25).

TSFG had several share-based employee compensation plans, which are described more fully in Note 25. Prior to January 1, 2006, TSFG accounted for its option plans under the recognition and measurement principles of APB Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations ("APB Opinion 25"), as permitted by SFAS 123. No stock-based employee compensation cost was recognized in net income related to these stock options for the year ended December 31, 2005, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2006, TSFG adopted SFAS 123R using the modified prospective transition method. Under that method of transition, compensation cost recognized in 2007 and 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of Statement 123R. Since this compensation cost is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. TSFG has elected to expense future grants of awards with graded vesting on a straight-line basis over the requisite service period of the entire award. Results for prior periods have not been restated.

Prior to the adoption of SFAS 123R, TSFG presented all tax benefits resulting from share-based compensation as cash flows from operating activities in the consolidated statements of cash flows. SFAS 123R requires cash flows resulting from tax deductions in excess of the grant-date fair value of share-based awards to be included in cash flows from financing activities. Cash flows from financing activities for 2007 and 2006 included $1.1 million and $1.6 million, respectively, in cash inflows from excess tax benefits related to stock compensation. TSFG has elected the "short-cut method" to determine the pool of windfall tax benefits.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

The following table provides pro forma net income and earnings per share information, as if TSFG had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation option plans for the periods presented (dollars in thousands, except per share data). Since SFAS 123R was adopted as of January 1, 2006, no pro forma presentation of 2007 or 2006 is required.

| | 2005 |
|---|---|
| **Net Income** | |
| Net income, as reported | $ 69,821 |
| Deduct: | |
| Total stock-based employee compensation expense determined under fair value based method for all option awards, net of income tax | (2,381) |
| Pro forma net income | $ 67,440 |
| | |
| **Basic Earnings Per Share** | |
| As reported | $ 0.95 |
| Pro forma | 0.92 |
| | |
| **Diluted Earnings Per Share** | |
| As reported | $ 0.94 |
| Pro forma | 0.90 |

See Note 25 for a summary of TSFG's assumptions used to estimate the grant-date per share fair value of options in the above table.

**Per Share Data**

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted-average number of shares of common stock outstanding during the year. Diluted earnings per share is computed by dividing net income available to common shareholders by the weighted average number of shares of common stock, common stock equivalents and other potentially dilutive securities using the treasury stock method. Grants of restricted stock and restricted stock units ("RSUs") are considered as issued for purposes of calculating diluted net income per share in accordance with SFAS No. 128, "Earnings Per Share."

**Business Segments**

TSFG reports operating segments in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). Operating segments are components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. SFAS 131 requires that a public enterprise report a measure of segment profit or loss, certain specific revenue and expense items, segment assets, information about the way that the operating segments were determined and other items. TSFG has three reportable operating segments: South Carolina Bank, North Carolina Bank, and Florida Bank (see Note 30).

**Risk and Uncertainties**

In the normal course of its business, TSFG encounters significant economic and regulatory risks. There are two main components of economic risk: credit risk and market risk. Credit risk is the risk of default on TSFG's loan portfolio that results from borrowers' failure to make contractually required payments. Market risk arises principally from interest rate risk inherent in TSFG's lending, investing, deposit, and borrowing activities.

TSFG is subject to the regulations of various government agencies. These regulations may change significantly from period to period. TSFG also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions resulting from the regulators' judgments based on information available to them at the time of their examination.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Recently Adopted Accounting Pronouncements**

*Accounting for Purchases of Life Insurance*

In September 2006, the Financial Accounting Standards Board ("FASB") ratified the consensus reached by the Emerging Issues Task Force ("EITF") on Issue No. 06-5, "Accounting for Purchases of Life Insurance — Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance." FASB Technical Bulletin No. 85-4 requires that the amount that could be realized under the insurance contract as of the date of the statement of financial position should be reported as an asset. Since the issuance of FASB Technical Bulletin No. 85-4, there has been diversity in practice in the calculation of the amount that could be realized under insurance contracts. Issue No. 06-5 concludes that the Company should consider any additional amounts (e.g., cash stabilization reserves and deferred acquisition cost taxes) included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized in accordance with FASB Technical Bulletin No. 85-4. TSFG adopted this standard in the first quarter of 2007 with no significant impact on the Consolidated Financial Statements.

*Accounting for Uncertainty in Income Taxes*

In July 2006, the FASB released FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting and reporting for uncertainties in income tax law. This Interpretation prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. TSFG adopted FIN 48 effective January 1, 2007. As a result, the Company recognized a $488,000 increase to reserves for uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings; therefore, prior period results have not been restated.

*Accounting for Certain Hybrid Financial Instruments*

In February 2006, the FASB issued SFAS No. 155 ("SFAS 155"), "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140." SFAS 155 permits an entity to measure at fair value any financial instrument that contains an embedded derivative that otherwise would require bifurcation. In December 2006, the FASB issued a narrow exception to SFAS 155 in the form of a Derivative Implementation Guide that would exempt most securitized financial instruments that are subject to prepayment from the bifurcation requirements of SFAS 155 and SFAS 133. The Company adopted this standard in the first quarter of 2007 with no significant impact on its Consolidated Financial Statements.

*Fair Value Measurements*

In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), "Fair Value Measurements," which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007, although the FASB has deferred the effective date for one year for nonfinancial assets and liabilities. TSFG adopted this standard for financial assets and liabilities effective January 1, 2008 with no significant impact on its Consolidated Financial Statements.

*Endorsement Split-Dollar Life Insurance Arrangements*

In September 2006, the Emerging Issues Task Force ("EITF") reached a final consensus on Issue 06-4 ("EITF 06-4"), "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements." EITF 06-4 stipulates that an agreement by the employer to share a portion of the proceeds of a life insurance policy with the employee during the postretirement period is a postretirement benefit arrangement for which a liability must be recorded. The consensus is effective for fiscal years beginning after December 15, 2007. Entities will have the option of applying the provisions of EITF 06-4 as a cumulative effect adjustment to the opening balance of retained earnings or retrospectively to all

prior periods. TSFG currently has several arrangements as described by EITF 06-4. TSFG adopted this standard effective January 1, 2008 with no significant impact on its Consolidated Financial Statements.

*Fair Value Option for Financial Assets and Financial Liabilities*

On February 15, 2007, the FASB issued SFAS No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities," which allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS 159 further establishes certain additional disclosure requirements. TSFG adopted this standard effective January 1, 2008 and elected to account for its portfolio of mortgage loans held for sale at fair value with no significant impact on its Consolidated Financial Statements.

**Recently Issued Accounting Pronouncements**

*Business Combinations*

On December 4, 2007, the FASB issued SFAS No. 141R ("SFAS 141R"), "Business Combinations," which requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS No. 5, "Accounting for Contingencies." SFAS 141R is effective for business combinations closing in fiscal years beginning after December 15, 2008. TSFG expects SFAS 141R to have a significant impact on its accounting for business combinations, if any, closing on or after January 1, 2009.

*Noncontrolling Interests in Consolidated Financial Statements*

On December 4, 2007, the FASB issued SFAS No. 160 ("SFAS 160"), "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51," which establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 clarifies that a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, SFAS 160 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. SFAS 160 is effective for fiscal years beginning after December 15, 2008, and TSFG does not expect the adoption of this standard to have a significant impact on its Consolidated Financial Statements.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Note 2. Accumulated Other Comprehensive (Loss) Income**

The following summarizes accumulated other comprehensive (loss) income, net of tax (in thousands) for the years ended December 31:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Net Unrealized Losses on Securities Available for Sale** | | | |
| Balance at beginning of year | $ (47,378) | $ (46,350) | $ (18,496) |
| Other comprehensive income (loss): | | | |
| Unrealized holding gains (losses) arising during the period | 23,129 | (1,654) | (96,250) |
| Income tax (expense) benefit | (8,682) | 634 | 35,605 |
| Less: Reclassification adjustment for losses (gains) included in net income | 3,332 | (13) | 52,139 |
| Income tax (benefit) expense | (1,166) | 5 | (19,348) |
| | 16,613 | (1,028) | (27,854) |
| Balance at end of year | (30,765) | (47,378) | (46,350) |
| **Net Unrealized Gains (Losses) on Cash Flow Hedges** | | | |
| Balance at beginning of year | (726) | 450 | — |
| Other comprehensive (loss) income: | | | |
| Unrealized gain (loss) on change in fair values | 24,678 | (113) | 692 |
| Income tax (expense) benefit | (8,637) | 40 | (242) |
| Less: Amortization of terminated swaps | (552) | (1,696) | — |
| Income tax expense | 193 | 593 | — |
| | 15,682 | (1,176) | 450 |
| Balance at end of year | 14,956 | (726) | 450 |
| | $ (15,809) | $ (48,104) | $ (45,900) |
| Total other comprehensive income (loss) | $ 32,295 | $ (2,204) | $ (27,404) |
| Net income | 73,276 | 112,866 | 69,821 |
| Comprehensive income | $ 105,571 | $ 110,662 | $ 42,417 |

**Note 3. Noninterest Income and Noninterest Expenses**

The following presents the details for noninterest income and noninterest expenses (in thousands) for the years ended December 31:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Noninterest Income** | | | |
| Service charges on deposit accounts | $ 44,519 | $ 45,041 | $ 42,645 |
| Debit card income, net (1) | 7,182 | 5,437 | 4,111 |
| Customer service fee income | 5,648 | 4,467 | 4,049 |
| Total customer fee income | 57,349 | 54,945 | 50,805 |
| | | | |
| Insurance income | 12,029 | 12,025 | 7,447 |
| Retail investment services, net (2) | 7,902 | 6,533 | 5,922 |
| Trust and investment management income | 6,595 | 6,124 | 4,819 |
| Benefits administration fees | 3,261 | 2,933 | 2,693 |
| Total wealth management income | 29,787 | 27,615 | 20,881 |
| | | | |
| Bank-owned life insurance income | 13,344 | 11,636 | 11,608 |
| Mortgage banking income | 6,053 | 8,155 | 7,434 |
| Merchant processing income, net (3) | 3,263 | 2,307 | 1,874 |
| (Loss) gain on securities | (4,623) | 4,037 | (52,139) |
| (Loss) gain on trading and certain derivative activities | (1,197) | 3,150 | (3,253) |
| Gain on disposition of assets and liabilities | — | 2,498 | — |
| Loss on indirect auto loans | — | (5,129) | — |
| Other | 9,335 | 8,691 | 6,640 |
| Total noninterest income | $ 113,311 | $ 117,905 | $ 43,850 |
| | | | |
| **Noninterest Expenses** | | | |
| Salaries and wages | $ 139,391 | $ 140,331 | $ 128,177 |
| Employee benefits | 37,098 | 35,739 | 34,802 |
| Occupancy | 34,659 | 31,802 | 27,764 |
| Furniture and equipment | 26,081 | 25,216 | 23,301 |
| Professional services | 17,062 | 21,462 | 22,820 |
| Amortization of intangibles | 7,897 | 8,775 | 8,637 |
| Advertising and business development | 7,401 | 9,894 | 8,627 |
| Telecommunications | 5,668 | 5,630 | 5,802 |
| Loss on early extinguishment of debt | 2,029 | 821 | 7,101 |
| Merger-related costs | — | — | 4,009 |
| Other | 43,562 | 46,269 | 45,653 |
| Total noninterest expenses | $ 320,848 | $ 325,939 | $ 316,693 |

(1) In 2007, TSFG began presenting its debit card income net of related expenses. Debit card expense totaled (in thousands) $2,363, $2,832, and $2,437, respectively, for the years ended December 31, 2007, 2006, and 2005. Amounts presented for prior periods have been reclassified to conform to the current presentation.

(2) In 2007, TSFG began presenting its retail investment services income net of certain revenue sharing arrangements with a third party. Such amounts for these arrangements totaled (in thousands) $996, $1,099, and $980, respectively, for the years ended December 31, 2007, 2006, and 2005. Amounts presented for prior periods have been reclassified to conform to the current presentation.

(3) In 2007, TSFG began presenting its merchant income net of direct processing costs. Direct merchant processing costs totaled (in thousands) $14,801, $10,215, and $7,943, respectively, for the years ended December 31, 2007, 2006, and 2005. Amounts presented for prior periods have been reclassified to conform to the current presentation.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Note 4. Business Combinations**

**Pointe Financial Corporation**

On May 6, 2005, TSFG acquired Pointe Financial Corporation ("Pointe"), a bank holding company headquartered in Boca Raton, Florida. Pointe operated through 10 branch offices in Dade, Broward, and Palm Beach counties. In connection with this acquisition, Pointe's banking subsidiary Pointe Bank was merged into Mercantile Bank. TSFG added approximately $312 million in loans and $329 million in deposits as a result of this acquisition.

The aggregate purchase price for Pointe was $97.9 million, which consisted of 2,193,941 shares of TSFG common stock valued at $67.5 million, $24.5 million cash, and outstanding employee and director stock options valued at $5.9 million. TSFG recorded net assets acquired of $26.6 million, a core deposit intangible of $6.7 million, and goodwill of $64.6 million.

The core deposit intangible asset is being amortized over 10 years based on the estimated lives of the associated deposits. The core deposit intangible valuations and amortization periods are based on a historical study of the deposits acquired. The goodwill will not be amortized but will be tested at least annually for impairment in accordance with SFAS 142.

**Lossing Insurance Agency**

On November 1, 2005, TSFG acquired the assets and certain liabilities of Lossing Insurance Agency, Inc. ("Lossing"), an independent insurance agency based in Ocala, Florida. TSFG paid $5.6 million cash (including $321,000 paid in each of 2007 and 2006 under an earn-out provision), recorded net liabilities assumed totaling $905,000, recorded a customer list intangible asset of $2.2 million, and recorded goodwill of $4.4 million. The customer list intangible is being amortized over its estimated useful life of 16 years based on the declining balance method. In addition to the earn-outs paid in 2006 and 2007, TSFG agreed to make annual earn-out payments for each of October 31, 2008 and 2009. These earn-out payments are based on targeted earnings achievement and, if paid, would increase goodwill.

**Bowditch Insurance Corporation**

On June 6, 2005, TSFG acquired Bowditch Insurance Corporation ("Bowditch"), an independent insurance agency based in Jacksonville, Florida. TSFG issued 89,077 shares of TSFG common stock valued at $2.4 million and paid $2.1 million cash (including 1,738 shares issued in 2007 and $41,000 cash paid in 2007 under an earn-out provision), recorded net liabilities assumed totaling $1.1 million, recorded a customer list intangible asset of $2.3 million, and recorded goodwill of $3.3 million. The customer list intangible is being amortized over its estimated useful life of 17 years based on the declining balance method. In addition to the 2007 earn-out, TSFG agreed to make annual earn-out payments, approximately 50% in cash and 50% in shares of common stock valued at the time of issuance for each of May 31, 2008 and 2009. These earn-out payments are based on targeted earnings achievement and, if paid, would increase goodwill.

**Koss Olinger**

On April 4, 2005, TSFG acquired the Koss Olinger group of companies, a wealth management group based in Gainesville, Florida. TSFG issued 56,398 shares of common stock valued at $1.5 million and paid $4.7 million cash, recorded net liabilities assumed of $479,000, recorded a customer list intangible asset of $1.7 million, and recorded goodwill of $5.0 million. The customer list intangible is being amortized over its estimated useful life of 19 years based on the declining balance method. In addition, TSFG agreed to issue earn-out shares valued and payable on May 17, 2010, based on targeted earnings achievement. If issued, the earn-out shares would increase goodwill.

**Amortization of Premiums and Discounts**

Premiums and discounts that resulted from recording the assets and liabilities acquired through bank acquisitions at their respective fair values are being amortized and accreted using methods that approximate a constant effective yield over the life of the assets and liabilities. This net amortization decreased income before income taxes by $579,000, $2.6 million, and $1.6 million for the years ended December 31, 2007, 2006, and 2005, respectively.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

### Note 5. Disposition of Assets and Liabilities

In September 2006, Carolina First Bank completed the sale of its branch office in Mullins, South Carolina. In connection with the sale of this branch, TSFG recorded a gain of $2.5 million and transferred deposits of $27.9 million and loans of $2.6 million to the purchaser.

In March 2005, TSFG sold the former Beacon Manufacturing Company facility in Swannanoa, North Carolina to an independent third party. This facility was acquired as part of its 2003 acquisition of MountainBank Financial Corporation ("MBFC"). MBFC had acquired this facility through a foreclosure proceeding in June 2003. In September 2003, a fire and apparent vandalism resulted in virtually the complete destruction of the facility, as well as a release of fuel oil and other materials. In accordance with the sale contract, TSFG has no future obligations for environmental remediation costs related to this matter. During the first quarter of 2005, in connection with this sale of other real estate owned (with a book value included in other assets of $300,000), TSFG received cash of $200,000, recorded a loan held for investment of $800,000, and recognized a gain on sale of other real estate owned (included in other noninterest income) of $700,000.

### Note 6. Discontinued Operations

As part of its bank acquisition process, TSFG evaluates whether the products and services offered by the acquired institution provide the proper balance of profitability and risk. Based on this assessment of Florida Banks, Inc. ("Florida Banks"), which TSFG acquired in July 2004, TSFG decided in the third quarter 2004 to discontinue the wholesale mortgage operations acquired from Florida Banks, which was substantially completed in the first quarter 2005. For the year ended December 31, 2005, the pre-tax loss related to the wholesale mortgage operations totaled $612,000 and the after-tax loss of $396,000 was recognized as discontinued operations in the consolidated statement of income.

### Note 7. Restrictions on Cash and Due From Banks

TSFG is required to maintain average reserve balances with the Federal Reserve Bank based upon a percentage of deposits. The average amounts of these reserve balances for the years ended December 31, 2007 and 2006 were $87.0 million and $81.7 million, respectively.

At December 31, 2007 and 2006, TSFG had restricted cash totaling $50,000 and $505,000, respectively, collateralizing derivative financial instruments.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Note 8. Securities**

The aggregate amortized cost and estimated fair value of securities available for sale and securities held to maturity (in thousands) at December 31 were as follows:

| | 2007 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| **Securities Available for Sale** | | | | |
| U.S. Treasury | $ 27,081 | $ 511 | $ — | $ 27,592 |
| U.S. Government agencies | 502,659 | 1,142 | 230 | 503,571 |
| Agency mortgage-backed securities | 1,138,352 | 289 | 50,214 | 1,088,427 |
| State and municipals | 302,775 | 919 | 1,108 | 302,586 |
| Other investments | 64,186 | 1,402 | 1,552 | 64,036 |
| | $ 2,035,053 | $ 4,263 | $ 53,104 | $ 1,986,212 |
| **Securities Held to Maturity** | | | | |
| State and municipals | $ 39,451 | $ 209 | $ 118 | $ 39,542 |
| Other investments | 240 | — | — | 240 |
| | $ 39,691 | $ 209 | $ 118 | $ 39,782 |

| | 2006 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| **Securities Available for Sale** | | | | |
| U.S. Treasury | $ 169,095 | $ 57 | $ 2,433 | $ 166,719 |
| U.S. Government agencies | 666,308 | 20 | 13,294 | 653,034 |
| Agency mortgage-backed securities | 1,455,818 | 137 | 55,667 | 1,400,288 |
| State and municipals | 346,164 | 304 | 4,980 | 341,488 |
| Other investments | 181,373 | 3,474 | 2,920 | 181,927 |
| | $ 2,818,758 | $ 3,992 | $ 79,294 | $ 2,743,456 |
| **Securities Held to Maturity** | | | | |
| State and municipals | $ 52,208 | $ 248 | $ 455 | 52,001 |
| Other investments | 100 | — | — | 100 |
| | $ 52,308 | $ 248 | $ 455 | $ 52,101 |

At December 31, 2007, other investments in securities available for sale included the following (recorded at the estimated fair value): corporate bonds of $20.4 million, FHLB stock of $35.3 million, community bank stocks of $5.0 million, and other equity investments of $3.3 million. At December 31, 2006, other investments in securities available for sale included the following (recorded at the estimated fair value): corporate bonds of $113.4 million, FHLB stock of $52.2 million, community bank stocks of $12.4 million, and other equity investments of $3.9 million.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

The amortized cost and estimated fair value of securities available for sale and securities held to maturity (in thousands) at December 31, 2007, by contractual maturity, are shown in the following table. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The estimated fair value of securities was determined using quoted market prices.

| | December 31, 2007 | |
|---|---|---|
| | Amortized Cost | Estimated Fair Value |
| **Securities Available for Sale** | | |
| Due in one year or less | $ 131,587 | $ 127,669 |
| Due after one year through five years | 724,941 | 695,082 |
| Due after five years through ten years | 574,311 | 567,151 |
| Due after ten years | 561,570 | 553,421 |
| No contractual maturity | 42,644 | 42,889 |
| | $ 2,035,053 | $ 1,986,212 |
| **Securities Held to Maturity** | | |
| Due in one year or less | $ 11,624 | $ 11,641 |
| Due after one year through five years | 23,099 | 23,208 |
| Due after five years through ten years | 4,968 | 4,933 |
| Due after ten years | — | — |
| No contractual maturity | — | — |
| | $ 39,691 | $ 39,782 |

Gross realized gains, gross realized losses, and sale proceeds for available for sale securities (in thousands) for the years ended December 31 are summarized as follows. These net gains or losses are shown in noninterest income as gain (loss) on securities.

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Gross realized gains | $ 2,795 | $ 4,722 | $ 6,003 |
| Gross realized losses | (7,418) | (685) | (58,142) |
| Net gain (loss) on securities | $ (4,623) | $ 4,037 | $ (52,139) |
| Sale proceeds | $ 309,110 | $ 40,274 | $ 2,903,526 |

At December 31, 2007 and 2006, TSFG had no investment securities classified as trading. In 2007, 2006 and 2005, TSFG had no change in net unrealized holding gains on trading securities.

Securities with market values of approximately $1.8 billion and $2.3 billion at December 31, 2007 and 2006, respectively, were pledged to secure public deposits and for other purposes. The amortized cost totaled approximately $1.9 billion and $2.3 billion for these same periods.

Carolina First Bank, as a member of the Federal Home Loan Bank ("FHLB") of Atlanta, is required to own capital stock in the FHLB of Atlanta based generally upon its balances of residential mortgage loans, select commercial loans secured by real estate, and FHLB advances. FHLB capital stock, which is included in other investments, is pledged to secure FHLB advances. No ready market exists for this stock, and it has no quoted market value. However, redemption of this stock has historically been at par value.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31 were as follows (in thousands):

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Securities Available for Sale** | | | | | | |
| U.S. Treasury | $ — | $ — | $ — | $ — | $ — | $ — |
| U.S. Government agencies | — | — | 51,775 | 230 | 51,775 | 230 |
| Agency mortgage-backed securities | 67,150 | 512 | 1,003,886 | 49,702 | 1,071,036 | 50,214 |
| State and municipals | 4,641 | 3 | 157,857 | 1,105 | 162,498 | 1,108 |
| Other investments | 7,836 | 1,552 | — | — | 7,836 | 1,552 |
| | $ 79,627 | $ 2,067 | $ 1,213,518 | $ 51,037 | $ 1,293,145 | $ 53,104 |
| **Securities Held to Maturity** | | | | | | |
| State and municipals | $ 813 | $ 1 | $ 15,136 | $ 117 | $ 15,949 | $ 118 |

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| **Securities Available for Sale** | | | | | | |
| U.S. Treasury | $ 3 | $ — | $ 164,629 | $ 2,433 | $ 164,632 | $ 2,433 |
| U.S. Government agencies | 129,597 | 698 | 520,778 | 12,596 | 650,375 | 13,294 |
| Agency mortgage-backed securities | 122,674 | 597 | 1,264,180 | 55,070 | 1,386,854 | 55,667 |
| State and municipals | 44,899 | 194 | 263,643 | 4,786 | 308,542 | 4,980 |
| Other investments | 26,299 | 786 | 78,522 | 2,134 | 104,821 | 2,920 |
| | $ 323,472 | $ 2,275 | $ 2,291,752 | $ 77,019 | $ 2,615,224 | $ 79,294 |
| **Securities Held to Maturity** | | | | | | |
| State and municipals | $ 509 | $ 1 | $ 21,668 | $ 454 | $ 22,177 | $ 455 |

At December 31, 2007, TSFG had 656 individual investments that were in an unrealized loss position. The unrealized losses on investments in U.S. Treasury, U.S. Government agencies, agency mortgage-backed securities, and state and municipals summarized above were attributable to increases in interest rates, rather than deterioration in credit quality. The majority of these securities are government or agency securities and, therefore, pose minimal credit risk. TSFG believes it has the ability and intent to hold these debt securities until a market price recovery or maturity. Therefore, at December 31, 2007, these investments are not considered impaired on an other-than-temporary basis.

In June 2007, TSFG recorded $2.9 million in other-than-temporary impairment on its corporate bond portfolio due to a change in intent to hold the securities until a recovery in value based on a change in investment strategy and related credit risk considerations. In July 2007, TSFG sold approximately $70 million of corporate bonds and recognized an additional loss on sale of approximately $300,000. The remaining $20.4 million are being held until the unrealized loss recovers or until maturity.

At December 31, 2007, TSFG's equity investments with unrealized losses are not considered impaired on an other-than-temporary basis due to the lack of severity and duration of the impairments.

TSFG also invests in limited partnerships, limited liability companies (LLC's) and other privately held companies. These investments are included in other assets. In 2007, 2006, and 2005, TSFG recorded $2.0 million, $126,000 and $1.5 million, respectively, in other-than-temporary impairment on these investments. At December 31, 2007, TSFG's investment in these entities totaled $16.4 million, of which $6.9 million were accounted for under the cost method and $9.5 million were accounted

for under the equity method. At December 31, 2006, TSFG's investment in these entities totaled $20.5 million, of which $11.8 million were accounted for under the cost method and $8.7 million were accounted for under the equity method.

**Note 9. Loans**

The following is a summary of loans held for investment by category (in thousands) at December 31:

| | 2007 | 2006 |
|---|---|---|
| Commercial, financial and agricultural | $ 2,309,294 | $ 2,152,375 |
| Real estate — construction | 1,763,365 | 1,630,366 |
| Real estate — residential mortgages (1-4 family) | 1,390,729 | 1,416,005 |
| Commercial secured by real estate | 3,946,440 | 3,727,316 |
| Consumer | 803,592 | 775,805 |
| Loans held for investment | $ 10,213,420 | $ 9,701,867 |
| Included in the above: | | |
| Nonaccrual loans | $ 81,631 | $ 37,168 |
| Loans past due 90 days still accruing interest | $ 5,349 | $ 3,129 |

The following tables summarize information on impaired loans (in thousands) at and for the years ended December 31:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Impaired loans (year end) | $68,102 | $28,733 | $16,911 |
| Related allowance (year end) | 11,340 | 6,686 | 4,336 |
| Interest income recognized | 59 | — | — |
| Foregone interest | 3,437 | 1,665 | 1,200 |

The average recorded investment in impaired loans for the years ended December 31, 2007, 2006, and 2005 was $40.4 million, $26.3 million, and $25.6 million, respectively. Impaired loans totaling $32.2 million, $16.8 million and $6.6 million at December 31, 2007, 2006 and 2005, respectively, had a specific allowance of zero. At December 31, 2007, 2006 and 2005, impaired loans included $1.7 million, $500,000 and $1.9 million, respectively, in restructured loans.

TSFG directors, directors of subsidiaries of TSFG, executive officers, and associates of such persons were customers of and had transactions with TSFG in the ordinary course of business. Included in such transactions are outstanding loans and commitments, all of which were made under normal credit terms and did not involve more than normal risk of collection. The aggregate dollar amount of these outstanding loans was $35.5 million, $48.9 million, and $39.5 million at December 31, 2007, 2006, and 2005, respectively. During 2007, new loans of $10.7 million were made, and payments totaled $24.1 million. During 2006, new loans of $31.0 million were made, and payments totaled $21.6 million.

Credit risk represents the maximum accounting loss that would be recognized at the reporting date if borrowers failed to perform as contracted and any collateral or security proved to be of no value. Concentrations of credit risk (whether on- or off-balance sheet) arising from financial instruments can exist in relation to individual borrowers or groups of borrowers, certain types of collateral, certain types of industries, certain loan products, or certain regions of the country. Credit risk associated with these concentrations could arise when a significant amount of loans, related by similar characteristics, are simultaneously impacted by changes in economic or other conditions that cause their probability of repayment to be adversely affected. The Company does not have a significant concentration to any individual client. The major concentrations of credit risk for the Company arise by collateral type in relation to loans and credit commitments. The only significant concentration that exists is in loans secured by commercial real estate. At December 31, 2007, the Company had $3.9 billion in commercial real estate loans, representing 38.6% of total loans held for investment. A geographic concentration arises because the Company operates primarily in the Southeastern region of the United States.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

During the second quarter of 2006, TSFG identified and sold $359.6 million of indirect auto loans originally classified as loans held for investment and recorded a $3.5 million loss on the sale. In connection with the sale, TSFG transferred $3.1 million out of the allowance for loan losses. Indirect auto loan production for the months of June and July 2006 was originally classified as held for sale at loan origination based on management's intent to sell these loans. For the year ended December 31, 2006, TSFG recorded a loss on indirect auto loans of $5.1 million, which included lower of cost or market adjustments on the loans held for sale, losses on swaps economically hedging the anticipated monthly sale of the loans, and the $3.5 million loss on sale mentioned above. There were no indirect auto loan sales in 2007 or 2005.

On July 31, 2006, TSFG changed its original intent to sell these loans and decided to retain these loans and transferred them to the held for investment portfolio. This change in intent was based on the expectation of improved profitability margins associated with this portfolio as a result of specific actions taken by management, as well as the challenges associated with selling indirect auto loans for a gain. The previously recorded lower of cost or market adjustments, which totaled $1.2 million, on these loans will be amortized over the remaining life of the loans. For the years ended December 31, 2007 and 2006, interest income included $344,000 and $165,000 of income representing amortization of the lower of cost or market adjustment. In addition, all subsequent originations have been recorded as loans held for investment.

**Note 10. Allowance for Credit Losses**

The allowance for loan losses, reserve for unfunded lending commitments, and allowance for credit losses for each of the years in the three-year period ended December 31, 2007 are presented below (in thousands).

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Allowance for loan losses** | | | |
| Balance at beginning of year | $ 111,663 | $ 107,767 | $ 96,434 |
| Purchase accounting adjustments | — | — | 3,741 |
| Allowance adjustment for loans sold | — | (3,089) | — |
| Provision for loan losses | 67,325 | 33,347 | 39,493 |
| Loans charged off | (59,408) | (36,623) | (39,214) |
| Recoveries of loans previously charged off | 6,847 | 10,261 | 7,313 |
| Balance at end of year | $ 126,427 | $ 111,663 | $ 107,767 |
| **Reserve for unfunded lending commitments** | | | |
| Balance at beginning of year | $ 1,025 | $ 1,583 | $ 484 |
| Provision for (reversal of) unfunded lending commitments | 1,243 | (558) | 1,099 |
| Balance at end of year | $ 2,268 | $ 1,025 | $ 1,583 |
| **Allowance for credit losses** | | | |
| Balance at beginning of year | $ 112,688 | $ 109,350 | $ 96,918 |
| Purchase accounting adjustments | — | — | 3,741 |
| Allowance adjustment for loans sold | — | (3,089) | — |
| Provision for credit losses | 68,568 | 32,789 | 40,592 |
| Loans charged off | (59,408) | (36,623) | (39,214) |
| Recoveries of loans previously charged off | 6,847 | 10,261 | 7,313 |
| Balance at end of year | $ 128,695 | $ 112,688 | $ 109,350 |

**Note 11. Premises and Equipment**

Premises and equipment at December 31 are summarized (in thousands) as follows:

| | 2007 | 2006 |
|---|---|---|
| Land and land improvements | $ 53,360 | $ 51,720 |
| Buildings | 85,156 | 79,669 |
| Furniture, fixtures and equipment | 121,502 | 118,165 |
| Capitalized software | 31,967 | 27,122 |
| Leasehold improvements | 51,576 | 46,056 |
| Construction in progress | 19,287 | 8,343 |
| | 362,848 | 331,075 |
| Less accumulated depreciation and amortization | 128,996 | 111,912 |
| | $ 233,852 | $ 219,163 |

During 2007, TSFG capitalized $505,000 of interest related to construction in progress. Depreciation and amortization of premises and equipment totaled $20.5 million, $19.8 million, and $18.6 million in 2007, 2006, and 2005, respectively. At December 31, 2007, there were no land or buildings pledged as collateral for long-term debt.

**Note 12. Goodwill**

Effective January 1, 2007, TSFG changed its segment methodology from a legal entity structure to a business segment structure along geographic lines (see Note 30). The following summarizes the changes in the carrying amount of goodwill related to each of TSFG's business segments (in thousands) for the years ended December 31, 2007 and 2006:

| | South Carolina Bank | North Carolina Bank | Florida Bank | Other | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2005 | $ 118,938 | $ 87,829 | $ 437,903 | $ 3,237 | $ 647,907 |
| Purchase accounting adjustments | 293 | 71 | 2,221 | — | 2,585 |
| Balance, December 31, 2006 | 119,231 | 87,900 | 440,124 | 3,237 | 650,492 |
| Purchase accounting adjustments | 89 | 61 | 414 | — | 564 |
| Other | (53) | — | — | — | (53) |
| Balance, December 31, 2007 | $ 119,267 | $ 87,961 | $ 440,538 | $ 3,237 | $ 651,003 |

The goodwill for each reporting unit was evaluated for impairment as of June 30, 2007 in accordance with SFAS 142. TSFG will continue to perform this evaluation annually as of June 30th each year. The fair value of each reporting unit was estimated using a cash flow approach based upon the present value of expected future cash flows and a market approach based upon recent purchase transactions and public company market values. These valuations indicated that no impairment charge was required as of June 30, 2007. During fourth quarter 2007, TSFG's common stock price declined such that it traded below book value for much of the quarter. The duration of the decline in stock price prompted TSFG to perform an interim impairment evaluation of a significant portion of the recorded goodwill as of December 31, 2007. This interim evaluation indicated that no impairment charge was required as of December 31, 2007, and there have been no events or circumstances since that date indicating impairment.

**Note 13. Other Intangible Assets**

Other intangible assets, net of accumulated amortization, at December 31 are summarized as follows (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Core deposit intangible | $ 58,895 | $ 58,895 |
| Less accumulated amortization | (37,168) | (31,505) |
| | 21,727 | 27,390 |
| Non-compete agreement intangible | 5,672 | 5,672 |
| Less accumulated amortization | (4,989) | (3,735) |
| | 683 | 1,937 |
| Customer list intangible | 7,797 | 7,797 |
| Less accumulated amortization | (3,028) | (2,048) |
| | 4,769 | 5,749 |
| | $ 27,179 | $ 35,076 |

The following presents the details for amortization expense of intangible assets (in thousands) for the years ended December 31:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Core deposit intangible | $ 5,663 | $ 6,362 | $ 6,680 |
| Non-compete agreement intangible | 1,254 | 1,305 | 1,331 |
| Customer list intangible | 980 | 1,108 | 626 |
| Total amortization expense of intangible assets | $ 7,897 | $ 8,775 | $ 8,637 |

The estimated amortization expense for amortizable intangible assets (in thousands) for the years ended December 31 is as follows:

| | Core Deposit Intangible | Non-Compete Agreement Intangible | Customer List Intangible | Total |
|---|---|---|---|---|
| 2008 | $ 4,684 | $ 471 | $ 847 | $ 6,002 |
| 2009 | 3,830 | 210 | 737 | 4,777 |
| 2010 | 3,396 | 2 | 644 | 4,042 |
| 2011 | 3,007 | — | 565 | 3,572 |
| 2012 | 2,255 | — | 478 | 2,733 |
| Aggregate total for all years thereafter | 4,555 | — | 1,498 | 6,053 |
| | $ 21,727 | $ 683 | $ 4,769 | $ 27,179 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Note 14. Derivative Financial Instruments and Hedging Activities**

The fair value of TSFG's derivative assets and liabilities and their related notional amounts (in thousands) at December 31 are presented below.

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Fair Value | | Notional | Fair Value | | Notional |
| | Asset | Liability | Amount | Asset | Liability | Amount |
| **Cash Flow Hedges** | | | | | | |
| Interest rate swaps associated with borrowing activities | $ — | $ — | $ — | $ 143 | $ — | $ 183,000 |
| Interest rate swaps associated with lending activities | 20,114 | — | 830,000 | 1,979 | 3,408 | 870,000 |
| Interest rate floor associated with lending activities | 4,531 | — | 200,000 | 1,564 | — | 200,000 |
| **Fair Value Hedges** | | | | | | |
| Interest rate swaps associated with brokered CDs | 672 | 8,235 | 988,477 | — | 33,541 | 1,167,585 |
| **Other Derivatives** | | | | | | |
| Forward foreign currency contracts | 5 | 5 | 653 | 36 | 36 | 18,119 |
| Customer swap contracts | 5,065 | 5,065 | 238,224 | 918 | 918 | 155,448 |
| Options, interest rate swaps and other | 5,807 | 7,712 | 161,832 | 5,318 | 5,004 | 123,398 |
| | $ 36,194 | $ 21,017 | $ 2,419,186 | $ 9,958 | $ 42,907 | $ 2,717,550 |

At December 31, 2007, TSFG's fair value hedges include interest rate swaps to convert the payment profile on certain brokered CDs from a fixed rate to a floating rate based on LIBOR and to similarly convert exposure taken on through the issuance of equity-linked and inflation-indexed certificates of deposit.

TSFG's cash flow hedges include the following: interest rate swaps to hedge the forecasted interest income from certain prime-based commercial loans; and an interest rate floor which protects the Company from decreases in the hedged cash flows on certain prime-based interest receipts below the strike rate on the floor. Amounts included in other comprehensive income related to cash flow hedges represent unrealized gains or losses on derivative contracts which will be reported in earnings over time as net cash settlements. TSFG estimates that $9.1 million of net unrealized gains will be reclassified as earnings during 2008. With respect to these cash flow hedges, forecasted transactions are being hedged through 2012. There were no significant cash flow hedging gains or losses, as a result of hedge ineffectiveness, recognized for 2007, 2006, or 2005.

At December 31, 2007 and 2006, certain derivative liabilities were collateralized by approximately $50,000 and $505,000, respectively, in cash. Certain derivative liabilities were also collateralized by securities, which are held by third-party safekeepers. The approximate amortized cost and fair value of these securities at December 31, 2007 were $8.7 million and $8.6 million, respectively. The approximate amortized cost and fair value of these securities at December 31, 2006 were $29.7 million and $28.8 million, respectively.

As part of its mortgage activities, TSFG originates certain residential loans and commits these loans for sale. The commitments to originate residential loans ("rate locks") and the forward sales commitments are freestanding derivative instruments and are generally funded within 90 days. The values of the rate locks and forward sale commitments are estimated based on indicative market prices being bid on similarly structured mortgage backed securities.

In June and July of 2006, TSFG hedged the anticipated monthly sale of indirect auto loans with pay-fixed interest rate swaps. These swaps did not qualify for hedge accounting and were marked to market through earnings with no offsetting adjustment for the hedged item. TSFG terminated these hedges as of July 31, 2006 when it transferred its indirect auto loan production for June and July, originally classified as held for sale, to held for investment. In 2006, the loss on indirect auto loans included realized losses of $150,000 on these swaps.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

In 2007, 2006, and 2005 noninterest income included $1.2 million of net losses, $3.2 million of net gains, and $3.3 million of net losses, respectively, for certain derivative activities. These gains and losses include the following: the change in fair value of derivatives that do not qualify for hedge accounting under SFAS 133 (see Note 1), as well as the net cash settlement from these interest rate swaps; hedge ineffectiveness for fair value hedges, which totaled losses of $481,000, $88,000, and $181,000, respectively, for the years ended December 31, 2007, 2006, and 2005; and other miscellaneous items.

**Note 15. Deposits**

Deposits (in thousands) at December 31 are summarized in the table below.

| | 2007 | 2006 |
|---|---|---|
| Noninterest-bearing demand deposits | $ 1,127,657 | $ 1,280,908 |
| Interest-bearing checking | 1,117,850 | 1,208,125 |
| Money market accounts | 2,188,261 | 2,435,413 |
| Savings accounts | 158,092 | 181,192 |
| Time deposits under $100,000 (1) | 1,442,030 | 1,272,056 |
| Time deposits of $100,000 or more (1) | 1,496,270 | 1,514,615 |
| Customer deposits | 7,530,160 | 7,892,309 |
| Brokered deposits | 2,258,408 | 1,624,431 |
| Total deposits | $ 9,788,568 | $ 9,516,740 |

(1) In 2007, TSFG reclassified certain deposit balances from time deposits under $100,000 to time deposits of $100,000 or more. Amounts presented for prior periods have been reclassified to conform to the current presentation. The reclassification totaled $408.8 million for December 31, 2006.

Maturities of time deposits (including brokered deposits) at December 31, 2007 are as follows (in thousands):

| | |
|---|---|
| 2008 | $3,521,825 |
| 2009 | 291,101 |
| 2010 | 361,082 |
| 2011 | 238,643 |
| 2012 | 91,041 |
| Thereafter | 693,016 |
| | $5,196,708 |

Prepaid broker fees, net of accumulated amortization, totaled $11.5 million and $13.8 million at December 31, 2007 and 2006, respectively, and are included in other assets on the consolidated balance sheet. Amortization of prepaid broker fees totaled $4.6 million, $2.6 million, and $3.4 million in 2007, 2006, and 2005 and is reported in interest expense on deposits in the consolidated statements of income.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Note 16. Income Taxes**

The aggregate amount of income tax expense (benefit) (in thousands) included in the consolidated statements of income and in the consolidated statements of changes in shareholders' equity and comprehensive income (in thousands) for the years ended December 31, 2007, 2006, and 2005 were as follows:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Income before discontinued operations | $ 33,400 | $ 47,682 | $ 25,404 |
| Discontinued operations | — | — | (216) |
| Changes recorded in shareholders' equity | | | |
| Cumulative effect of initial application of SAB 108 | — | (1,858) | — |
| Cumulative effect of initial application of FIN 48 | (488) | — | — |
| Change in unrealized gains on fair value of cash flow hedges | (8,444) | (633) | 242 |
| Change in unrealized losses on available for sale securities | (9,848) | (639) | (16,257) |
| | $ 14,620 | $ 44,552 | $ 9,173 |

Income tax expense (benefit) attributable to income before income taxes and discontinued operations ("income tax expense") in thousands) for the years ended December 31, 2007, 2006, and 2005 consisted of the following:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Current** | | | |
| U.S. Federal | $ 22,937 | $ 42,691 | $ 34,138 |
| State and local | 3,037 | (683) | 3,120 |
| | 25,974 | 42,008 | 37,258 |
| **Deferred** | | | |
| U.S. Federal | 6,879 | 5,266 | (11,105) |
| State and local | 547 | 408 | (749) |
| | 7,426 | 5,674 | (11,854) |
| Total income tax expense | $ 33,400 | $ 47,682 | $ 25,404 |

Income tax expense differed from the amounts computed by applying TSFG's statutory U.S. federal income tax rate of 35% for the years ended December 31, 2007, 2006, and 2005 to pretax income from continuing operations as a result of the following (in thousands):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Income tax expense at federal statutory rate | $ 37,337 | $ 56,192 | $ 33,467 |
| State income tax, net of federal benefit | 2,329 | (179) | 1,541 |
| Increase (decrease) resulting from: | | | |
| Subsidiary stock, recognition of basis difference | 50 | 2,537 | (2,444) |
| Bank-owned life insurance | (4,670) | (4,073) | (4,063) |
| Book compensation cost for ISO stock options | 1,179 | 995 | — |
| Nontaxable municipal interest | (3,817) | (3,635) | (3,433) |
| Income tax credits | (841) | (520) | (170) |
| Dividends received deduction | (24) | (26) | (341) |
| Change in federal and state valuation allowance for deferred income tax assets | (573) | (1,923) | (190) |
| Other, net | 2,430 | (1,686) | 1,037 |
| | $ 33,400 | $ 47,682 | $ 25,404 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

The tax effected sources of temporary differences that give rise to significant portions of deferred income tax assets and deferred income tax liabilities at December 31 are presented below (in thousands):

| | 2007 | 2006 |
|---|---|---|
| **Deferred Income Tax Assets** | | |
| Loan loss allowance deferred for income tax purposes | $ 47,611 | $ 40,689 |
| Unrealized losses on securities available for sale | 18,076 | 27,924 |
| Compensation expense deferred for income tax reporting purposes | 18,394 | 18,677 |
| Federal capital loss carryforward | 2,305 | 1,669 |
| Unrealized losses on fair value of derivatives not qualifying for hedge accounting | 577 | 3,438 |
| State net operating loss carryforwards | 2,880 | 2,968 |
| Excess basis of securities for income tax purposes over financial reporting purposes | 873 | 1,841 |
| Federal net operating loss carryforward | 946 | 1,220 |
| Unrealized losses on cash flow hedges and fair value of derivatives deferred for income tax reporting purposes | — | 391 |
| Excess tax basis over carrying value of assets acquired for financial reporting purposes | 179 | — |
| Miscellaneous accruals and reserves | 5,854 | 5,417 |
| Other | 3,468 | 5,665 |
| | 101,163 | 109,899 |
| Less valuation allowance | 3,682 | 4,255 |
| | 97,481 | 105,644 |
| **Deferred Income Tax Liabilities** | | |
| Excess basis of intangible assets for financial reporting purposes over income tax basis | 17,240 | 19,545 |
| Income tax depreciation in excess of book depreciation | 20,649 | 16,173 |
| Excess basis of prepaid and deferred expenses for financial reporting purposes over income tax basis | 14,306 | 6,638 |
| Unrealized gains on cash flow hedges and fair value of derivatives deferred for income tax reporting purposes | 8,053 | — |
| Excess carrying value of assets acquired for financial reporting purposes over income tax basis | — | 298 |
| Income tax bad debt reserve recapture adjustment | 58 | 101 |
| | 60,306 | 42,755 |
| Net deferred income tax assets | $ 37,175 | $ 62,889 |

Changes in net deferred income tax assets were (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Balance at beginning of year | $ 62,889 | $ 65,413 |
| Purchase accounting adjustments | 4 | 20 |
| Income tax effect from change in unrealized losses on available for sale securities | (9,848) | 639 |
| Income tax effect from change in fair values on cash flow hedges | (8,444) | 633 |
| Income tax benefit from cumulative effect of initial application of SAB 108 | — | 1,858 |
| Deferred income tax (expense) benefit on continuing operations | (7,426) | (5,674) |
| Balance at end of year | $ 37,175 | $ 62,889 |

TSFG had a current tax receivable of $8.3 million and $2.7 million at December 31, 2007 and 2006, respectively.

At December 31, 2007, TSFG has net operating loss carryforwards for state income tax purposes of $62.3 million available to offset future taxable state income, if any, which expires in years 2010 through 2027. TSFG also has capital loss carryforwards for financial reporting purposes of $6.6 million, which are available to reduce future taxable federal capital gains, if any, through 2009.

The valuation allowance for deferred income tax assets as of December 31, 2007 and 2006 was $3.7 million and $4.3 million, respectively. The net change in the valuation allowance relative to state net operating loss carryforwards and net deferred state income tax assets for the years ended December 31, 2007 and 2006 was a decrease of $468,000 and an increase of $1.2 million, respectively. The net change in valuation allowance relative to federal capital loss carryforwards for the years ended December 31, 2007 and 2006 was a decrease of $105,000 and $3.1 million, respectively.

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon TSFG's ability to generate taxable income during the periods in which those temporary differences become deductible and prior to their expiration governed by the income tax code. Management considers the scheduled reversal of deferred income tax liabilities, projected future taxable income, and income tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods, during which the deferred income tax assets are expected to be deductible, management believes it is more likely than not TSFG will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2007. The amount of the deferred income tax assets considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

*Accounting for Uncertainty in Income Taxes*

TSFG adopted FIN 48 effective January 1, 2007. As a result, the Company recognized a $488,000 increase to reserves for uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings. At the beginning of 2007, TSFG had approximately $13.2 million of total gross unrecognized tax benefits.

The following table summarizes the 2007 activity related to unrecognized tax benefits (in thousands):

| | |
|---|---|
| Gross unrecognized tax benefits at January 1, 2007 | $13,218 |
| Increases related to current year tax positions | 2,836 |
| Decreases related to prior year tax positions | (32) |
| Decreases related to expiration of statute of limitations | (21) |
| Decreases related to audits/settlements with taxing authorities | (5,183) |
| Gross unrecognized tax benefits at December 31, 2007 | $10,818 |

Included in the unrecognized tax benefits of $10.8 million at December 31, 2007 is $7.8 million of tax benefits that, if recognized, would favorably affect the effective income tax rate in future periods.

At December 31, 2007, approximately $4.8 million of unrecognized tax benefits are expected to be resolved during the next 12 months through the expiration of the statute of limitations and resolution of outstanding audits with taxing authorities. A portion of the unrecognized tax benefits relate to positions taken in connection with acquisitions where favorable resolution would reduce the amount of goodwill recorded by approximately $1.9 million. Favorable resolution of the remaining amounts would lower the Company's combined federal and state effective tax rate during 2008

TSFG and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through 2003. Tax returns for 2004 forward are open to examination by the Internal Revenue Service. The Company is open to state and local income tax examinations for the tax years 2001 forward. A TSFG subsidiary is currently under examination by the state of North Carolina for tax years 2003 through 2005.

TSFG's continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. The Company had approximately $1.4 million accrued for interest and penalties at December 31, 2007, which includes a current year accrual of approximately $363,000.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Note 17. Short-Term Borrowed Funds**

Short-term borrowings and their related weighted average interest rates at December 31 were (in thousands):

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Amount | Rate | Amount | Rate |
| Federal funds purchased and repurchase agreements | $ 206,216 | 3.70% | $ 920,811 | 5.27% |
| Customer sweep accounts | 648,311 | 3.79 | 500,288 | 4.44 |
| FHLB advances | — | — | 175,000 | 5.32 |
| Treasury, tax and loan note | 752,195 | 4.13 | 139,989 | 5.18 |
| Commercial paper | 30,828 | 5.04 | 32,631 | 5.36 |
| | $ 1,637,550 | 3.96% | $ 1,768,719 | 5.03% |

Repurchase agreements and certain customer sweep accounts represent overnight and short-term borrowings by Carolina First Bank collateralized by securities of the United States government or its agencies, which are held by third-party safekeepers. The approximate cost and fair value of these securities at December 31, 2007 were $579.3 million and $563.0 million, respectively. The approximate cost and fair value of these securities at December 31, 2006 were $633.5 million and $614.4 million, respectively.

The maximum short-term borrowings outstanding at any month end were (in thousands):

| | 2007 | 2006 |
|---|---|---|
| Federal funds purchased and repurchase agreements | $1,048,334 | $1,462,673 |
| Customer sweep accounts | 648,311 | 500,288 |
| FHLB advances | 175,000 | 175,000 |
| Treasury, tax and loan note | 752,195 | 140,821 |
| Commercial paper | 35,704 | 39,532 |
| Aggregate short-term borrowings | 2,070,581 | 1,930,300 |

Average short-term borrowings during 2007, 2006, and 2005, were $1.6 billion, $1.7 billion, and $1.5 billion, respectively. The average interest rates on short-term borrowings during 2007, 2006, and 2005 were 4.88%, 4.90%, and 3.24%, respectively.

Interest expense on short-term borrowings for the years ended December 31 related to the following (in thousands):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Federal funds purchased and repurchase agreements | $ 39,650 | $ 62,023 | $ 37,680 |
| Customer sweep accounts | 22,724 | 15,241 | 8,746 |
| FHLB advances | 4,476 | 4,083 | — |
| Treasury, tax and loan note | 11,208 | 3,366 | 1,841 |
| Commercial paper | 1,790 | 1,798 | 1,090 |
| Line of credit to unaffiliated bank and other | 5 | 14 | 24 |
| | $ 79,853 | $ 86,525 | $ 49,381 |

**Note 18. Unused Lines of Credit**

At December 31, 2007, TSFG had unused short-term lines of credit to purchase federal funds from unrelated banks totaling $1.9 billion (which may be canceled at the lenders' option). These lines of credit are generally available on a one-to-ten day basis for funding short-term liquidity needs. At December 31, 2007, TSFG had $273.1 million of excess collateral to support FHLB advances, subject to adjustments regarding acceptability by the FHLB.

At December 31, 2007, the parent company had three unused short-term lines of credit totaling $35.0 million. At maturity, these lines of credit may be canceled at the lenders' option. One line of credit for $15.0 million matures August 10, 2008 and has a fixed interest rate of one-month LIBOR plus 125 basis points commencing on the draw date. The second line of credit for $10.0 million matures June 30, 2008 and has a variable interest rate of one-month LIBOR plus 200 basis points. The third line

of credit for $10.0 million matures November 15, 2008 and has a variable interest rate of one-month LIBOR plus 170 basis points.

The Federal Reserve Bank provides back-up funding for commercial banks. A collateralized borrowing relationship with the Federal Reserve Bank of Richmond is in place for Carolina First Bank to meet emergency funding needs. At December 31, 2007, TSFG had qualifying collateral to secure advances up to $1.4 billion, of which none was outstanding.

**Note 19. Long-Term Debt**

Long-term debt at December 31 consisted of the following (in thousands, except for descriptions of terms):

| | 2007 | 2006 |
|---|---|---|
| FHLB advances; fixed rates ranging from 3.36% to 6.27% due from 2008 to 2018, notwithstanding certain earlier call dates; collateralized by a blanket lien on qualifying loans secured by first mortgages on one-to-four family residences valued at $453.1 million, commercial loans valued at $35.7 million, and mortgage-backed securities valued at $14.3 million; initial maturity of one year or greater; interest payable quarterly | $ 223,087 | $ 328,113 |
| Repurchase agreements; variable rates ranging from 4.88% to 5.18% due in 2012; collateralized by securities of the United States government or its agencies, which are held by third-party safekeepers, valued at $218.3 million; interest payable quarterly | 200,000 | 521,000 |
| Subordinated Notes; due September 1, 2037; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 1.42%; balance can be prepaid in whole or in part after September 1, 2012 at accrued and unpaid interest plus outstanding principal (1) | 77,320 | — |
| Subordinated Notes; due June 15, 2036; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 1.59%; balance can be prepaid in whole or in part after June 15, 2011 at accrued and unpaid interest plus outstanding principal (1) | 41,238 | 41,238 |
| Subordinated Notes; due July 7, 2036; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 1.56%; balance can be prepaid in whole or in part after July 7, 2011 at accrued and unpaid interest plus outstanding principal (1) | 36,083 | 36,083 |
| Subordinated Notes; due September 15, 2037; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 1.32%; balance can be prepaid in whole or in part after December 15, 2012 at accrued and unpaid interest plus outstanding principal (1) | 30,928 | — |
| Mandatorily redeemable preferred stock of subsidiary; redeemable May 31, 2012; unsecured; dividends payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 3.50% (2) | 30,500 | 38,500 |
| Mandatorily redeemable preferred stock of subsidiary; redeemable January 31, 2031; unsecured; dividends payable quarterly and at maturity at a rate per annum equal to 11.125% (2) | 26,300 | 26,300 |
| Subordinated Notes; due October 30, 2037; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 1.33%; balance can be prepaid in whole or in part after October 30, 2012 at accrued and unpaid interest plus outstanding principal (1) | 18,042 | — |
| Subordinated Notes; due December 17, 2013; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 2.83%; balance can be prepaid on December 17, 2008 at par plus accrued and unpaid interest | 10,000 | 10,000 |
| Subordinated Notes; due June 26, 2033; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 3.10% (not to exceed 11.75% through June 26, 2008); balance can be prepaid in whole or in part after June 26, 2008 at accrued and unpaid interest plus outstanding principal (1) | 3,093 | 3,093 |

| | 2007 | 2006 |
|---|---|---|
| Subordinated Notes; due October 7, 2032; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 3.65% (not to exceed 12.5% through July 7, 2007); balance can be prepaid in whole or in part on or after July 7, 2007 at accrued and unpaid interest plus outstanding principal (1) | — | 25,774 |
| Mandatorily redeemable preferred stock of subsidiary; redeemable January 31, 2011; preferred stock can be redeemed in whole or in part on or after December 8, 2005; unsecured; dividends payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 3.00% (2) | — | 25,000 |
| Subordinated Notes; due November 7, 2032; unsecured; interest payable semi-annually and at maturity at a rate per annum equal to three-month LIBOR plus 3.45% (not to exceed 12.5% through November 7, 2007); balance can be prepaid in whole or in part after November 7, 2007 at accrued and unpaid interest plus outstanding principal (1) | — | 22,681 |
| Subordinated Notes; due June 30, 2032; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 3.65% (not to exceed 12.0% through June 30, 2007); balance can be prepaid in whole or in part after June 30, 2007 at accrued and unpaid interest plus outstanding principal (1) | — | 20,619 |
| Subordinated Notes; due July 30, 2032; unsecured; interest payable semi-annually and at maturity at a rate per annum equal to six-month LIBOR plus 3.625% (not to exceed 12.0% through July 30, 2007); balance can be prepaid in whole or in part after July 30, 2007 at accrued and unpaid interest plus outstanding principal (1) | — | 18,042 |
| Subordinated Notes; due June 30, 2032; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 3.65% (not to exceed 12.0% through June 30, 2007); balance can be prepaid in whole or in part after June 30, 2007 at accrued and unpaid interest plus outstanding principal (1) | — | 4,124 |
| Subordinated Notes; due April 22, 2032; unsecured; interest payable semi-annually and at maturity at a rate per annum equal to six-month LIBOR plus 3.70% (not to exceed 11.0% through April 22, 2007); balance can be prepaid in whole or in part after April 22, 2007 at accrued and unpaid interest plus outstanding principal (1) | — | 4,124 |
| Subordinated Notes; due December 26, 2032; unsecured; interest payable quarterly and at maturity at a rate per annum equal to three-month LIBOR plus 3.25% (not to exceed 11.75% through December 26, 2007); balance can be prepaid in whole or in part after December 26, 2007 at accrued and unpaid interest plus outstanding principal (1) | — | 3,093 |
| Employee stock ownership plan note payable to RBC/Centura Bank; due July 23, 2007; collateralized by shares of TSFG stock; interest at Centura Bank's prime rate less 1.25% with monthly principal payments of $25,000 | — | 200 |
| Other | 786 | 828 |
| | 697,377 | 1,128,812 |
| Purchase accounting premiums, net of amortization | 963 | 1,663 |
| | $ 698,340 | $ 1,130,475 |

(1) The balance can also be prepaid in whole (but not in part) at any time within a specified number of days (as defined in the indenture) following the occurrence of a tax event, an investment company event, or a capital treatment event at a special redemption price (as defined in the indenture).

(2) The balance can be redeemed in whole or in part following the occurrence of a tax or capital event (as defined in the terms of the preferred stock).



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Required annual principal payments for the five years subsequent to December 31, 2007 are as follows (in thousands):

| | |
|---|---|
| 2008 | $ 52,874 |
| 2009 | 130,080 |
| 2010 | 5,087 |
| 2011 | 35,094 |
| 2012 | 231,085 |
| Thereafter | 243,157 |
| | $697,377 |

Debt issuance costs, net of accumulated amortization, totaled $1.9 million and $4.5 million at December 31, 2007 and 2006, respectively, and are included in other assets on the consolidated balance sheet. Amortization of debt issuance costs totaled $466,000, $671,000, and $671,000 in 2007, 2006, and 2005 and is reported in other noninterest expenses on the consolidated statements of income.

During the years ended December 31, 2007, 2006 and 2005, TSFG recognized losses on the early extinguishment of debt totaling $2.0 million, $821,000, and $7.1 million, respectively. Such losses are included in noninterest expenses. The majority of the loss for 2007 reflects the write-off of unamortized debt issuance costs associated with $131.5 million of subordinated notes and mandatorily redeemable preferred stock, with an average spread of 347 basis points over LIBOR, which TSFG called for redemption. The loss for 2006 reflects the write-off of unamortized debt issuance costs associated with $38.1 million of subordinated notes, with interest rates ranging from 8.99% to 9.17%, which TSFG called for redemption. The loss for 2005 reflects the costs to terminate certain structured repurchase agreement borrowings totaling $1.5 billion, with interest rates ranging from 2.12% to 3.74%. The losses were offset by a gain related to prepayment discounts on Federal Home Loan Bank advances totaling $345.0 million with fixed interest rates ranging from 1.84% to 3.57%.

## Note 20. Contingent Liabilities and Commitments

### Legal Proceedings

TSFG is currently subject to various legal proceedings and claims that have arisen in the ordinary course of its business. In the opinion of management based on consultation with external legal counsel, any reasonably foreseeable outcome of such current litigation would not be expected to materially affect TSFG’s consolidated financial position or results of operations.

### Recourse Reserve

As part of its acquisition of Florida Banks, TSFG acquired a recourse reserve associated with loans previously sold from Florida Banks’ wholesale mortgage operation. This recourse requires the repurchase of loans at par plus accrued interest from the buyer, upon the occurrence of certain events. At December 31, 2007, the estimated recourse reserve liability, included in other liabilities, totaled $6.1 million. TSFG will continue to evaluate the reserve level and may make adjustments through earnings as more information becomes known. There can be no guarantee that any liability or cost arising out of this matter will not exceed any established reserves.

### Expanded Corporate Facilities

During 2005, TSFG initiated plans for a “corporate campus” to meet current and future facility needs and serve as the primary headquarters for its banking operations. Through December 31, 2007, TSFG had invested approximately $25 million in the project and had entered into additional contractual commitments of approximately $29 million.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Lease Commitments**

Minimum rental payments under noncancelable operating leases at December 31, 2007 are as follows (in thousands):

| | |
|---|---|
| 2008 | $ 19,094 |
| 2009 | 18,452 |
| 2010 | 15,075 |
| 2011 | 14,142 |
| 2012 | 15,596 |
| Thereafter | 99,286 |
| | $181,645 |

Leases on premises and equipment have options for extensions under substantially the same terms as in the original lease period with certain rate escalations. Lease payments charged to expense totaled $19.2 million, $17.3 million, and $15.0 million in 2007, 2006, and 2005, respectively. The leases typically provide that the lessee pay property taxes, insurance, and maintenance cost.

**Lending Commitments and Guarantees**

In the normal course of business, to meet the financing needs of its customers, TSFG is a party to financial instruments with off-balance-sheet risk. These financial instruments include commitments to extend credit, standby letters of credit, repurchase agreements, and documentary letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

TSFG's exposure to credit loss in the event of non-performance by the other party to the financial instrument is represented by the contractual amount of those instruments. TSFG uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. TSFG evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by TSFG upon extension of credit, is based on management's credit evaluation of the borrower.

Unfunded loan commitments and letters of credit at December 31, 2007 were approximately $2.4 billion and included the following (in thousands):

| | |
|---|---|
| Loan commitments: | |
| Commercial, financial, agricultural, and other | $988,962 |
| Commercial secured by real estate | 698,179 |
| Home equity loans | 530,626 |
| Standby letters of credit | 184,529 |
| Documentary letters of credit | 153 |
| Unused business credit card lines | 32,948 |

The total portfolios of loans serviced or subserviced for non-affiliated parties at December 31, 2007 and 2006 were $179.8 million and $284.7 million, respectively.

TSFG directors, directors of subsidiaries of TSFG, executive officers, and associates of such persons were customers of and had transactions with TSFG in the ordinary course of business. Included in such transactions are loan commitments, all of which were made under normal credit terms and did not involve more than normal risk of collection. At December 31, 2007, the aggregate dollar



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

amount of these unfunded loan commitments to the aforementioned directors, officers and their associates totaled $36.7 million and are included in the unfunded loan commitments presented above.

Standby letters of credit represent an obligation of TSFG to a third party contingent upon the failure of TSFG's customer to perform under the terms of an underlying contract with the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the customer's delivery of merchandise, completion of a construction contract, release of a lien, or repayment of an obligation. Under the terms of a standby letter, drafts will be generally drawn only when the underlying event fails to occur as intended. TSFG has legal recourse to its customers for amounts paid, and these obligations are secured or unsecured, depending on the customers' creditworthiness. Commitments under standby letters of credit are usually for one year or less. TSFG evaluates its obligation to perform as a guarantor and records reserves as deemed necessary and such amount was not significant at December 31, 2007. The maximum potential amount of undiscounted future payments related to standby letters of credit at December 31, 2007 was $184.5 million.

**Note 21. Capital Stock**

In December of 2006, TSFG's Board of Directors authorized a stock repurchase program of up to 4 million shares. This authorization replaced TSFG's existing stock repurchase authorizations. Through August 2007, TSFG had repurchased 3 million shares pursuant to this authorization. In August 2007, the Board of Directors amended and restated the existing stock repurchase authorization to be an additional $100 million, which expires if unused on or before June 30, 2008. In fourth quarter 2007, TSFG repurchased 600,000 shares for $12.0 million, leaving $88.0 million under this authorization.

TSFG has a Dividend Reinvestment Plan, which allows shareholders to invest dividends and optional cash payments in additional shares of common stock. Shareholders of record are automatically eligible to participate in the plan.

**Note 22. Regulatory Capital Requirements**

TSFG and Carolina First Bank are subject to various regulatory capital requirements administered by the Federal 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 TSFG's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, TSFG and Carolina First Bank must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. TSFG's and Carolina First Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require TSFG and Carolina First Bank to maintain minimum amounts and ratios (set forth in the following table) of total and tier 1 capital (as defined in the regulation) to risk-weighted assets (as defined) and to average assets (as defined). Management believes, as of December 31, 2007, that TSFG and Carolina First Bank met all capital adequacy requirements.

As of December 31, 2007, the most recent notification from federal banking agencies categorized TSFG and Carolina First Bank as "well capitalized" under the regulatory framework. To be categorized as "well capitalized," Carolina First Bank must maintain minimum total risk-based capital, tier 1 capital, and tier 1 leverage ratios as set forth in the table. Since December 31, 2007, there have been no events or conditions that management believes have changed Carolina First Bank's categories.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

TSFG's and Carolina First Bank's capital levels at December 31 exceeded the "well capitalized levels," as shown below (dollars in thousands):

| | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| **TSFG** | | | | | | |
| Tier 1 capital | $1,114,915 | $1,123,448 | $469,752 | $460,086 | n/a | n/a |
| Total risk-based capital | 1,278,010 | 1,302,469 | 939,504 | 920,172 | n/a | n/a |
| Tier 1 capital ratio | 9.49% | 9.77% | 4.00% | 4.00% | n/a | n/a |
| Total risk-based capital ratio | 10.88 | 11.32 | 8.00 | 8.00 | n/a | n/a |
| Leverage ratio | 8.42 | 8.34 | 4.00 | 4.00 | n/a | n/a |
| **Carolina First Bank (1)** | | | | | | |
| Tier 1 capital | $1,073,266 | $1,065,904 | $468,696 | $458,587 | $ 703,044 | $ 687,881 |
| Total risk-based capital | 1,262,661 | 1,271,150 | 937,392 | 917,175 | 1,171,740 | 1,146,469 |
| Tier 1 capital ratio | 9.16% | 9.30% | 4.00% | 4.00% | 6.00% | 6.00% |
| Total risk-based capital ratio | 10.78 | 11.09 | 8.00 | 8.00 | 10.00 | 10.00 |
| Leverage ratio | 8.12 | 7.96 | 4.00 | 4.00 | 5.00 | 5.00 |

(1) Effective July 1, 2007, TSFG merged Mercantile Bank with and into Carolina First Bank. Capital ratios for December 31, 2006 have been recalculated on a pro-forma basis to conform to the current presentation. However, Mercantile Bank met all ratio requirements to be considered "well capitalized" at December 31, 2006.

### Note 23. Restriction of Dividends from Subsidiaries

The ability of TSFG to pay cash dividends over the long term is dependent upon receiving cash in the form of dividends from its subsidiaries. South Carolina's banking regulations restrict the amount of dividends that Carolina First Bank can pay. All dividends paid from Carolina First Bank are payable only from the net income of the current year, unless prior regulatory approval is granted. Capital adequacy considerations could further limit the availability of dividends from Carolina First Bank.

The terms for the mandatory redeemable preferred stock of subsidiary included in long-term debt specify certain asset coverage and cash flow tests, which, if triggered, may prohibit the subsidiary from paying dividends to Carolina First Bank, which in turn may limit its ability to pay dividends to TSFG.

### Note 24. Average Share Information

The following is a summary of the basic and diluted average common shares outstanding for the years ended December 31:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Basic** | | | |
| Average common shares outstanding (denominator) | 73,618,338 | 74,940,249 | 73,307,403 |
| **Diluted** | | | |
| Average common shares outstanding | 73,618,338 | 74,940,249 | 73,307,403 |
| Dilutive potential common shares | 467,102 | 602,599 | 1,287,223 |
| Average diluted shares outstanding (denominator) | 74,085,440 | 75,542,848 | 74,594,626 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

The following options were outstanding for the years ended December 31 but were excluded from the calculation of diluted earnings per share because the exercise price was greater than the average market price of the common shares:

| 2007 | | 2006 | | 2005 | |
|---|---|---|---|---|---|
| Number of shares | Range of Exercise Prices | Number of shares | Range of Exercise Prices | Number of shares | Range of Exercise Prices |
| 942,714 | $22.83 to $25.95 | 500,900 | $26.69 to $27.68 | 236,698 | $29.06 to $29.40 |
| 792,367 | $26.55 to $30.72 | 503,429 | $27.70 to $31.26 | 61,419 | $29.93 to $31.26 |
| 268,510 | $31.96 | 362,515 | $31.96 | 420,995 | $31.96 |

**Note 25. Stock Compensation Plans**

TSFG has a Long-Term Incentive Plan (the "LTIP"), a restricted stock plan, and various stock option plans. These plans provide for grants of restricted stock units ("RSUs"), restricted stock, options to purchase TSFG's $1 par value common stock, or other share-based awards. Service awards are expensed over the vesting period (typically three or five years following the grant date). For performance-based RSUs and restricted stock, TSFG estimates the degree to which performance conditions will be met to determine the number of shares which will vest and the related compensation expense prior to the vesting date. Compensation expense is adjusted in the period such estimates change. Income tax benefits related to stock compensation in excess of grant date fair value are recognized as an increase to surplus upon vesting and delivery of the stock. The compensation cost that was charged against income for these plans and the total income tax benefit recognized in the income statement for share-based compensation arrangements were as follows (in thousands):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Compensation cost charged against income | $7,469 | $6,418 | $1,720 |
| Total income tax benefit recognized in income statement | 1,432 | 1,252 | 602 |

*Restricted Stock and Other Share-Based Awards*

TSFG's LTIP provides for incentive compensation in the form of stock options, restricted stock, RSUs, performance units (which may be stock based), stock appreciation rights and other stock-based forms of director compensation. These grants may be made to directors, officers, employees, prospective employees, and consultants of TSFG. At December 31, 2007, authorized shares under the LTIP totaled 2.5 million shares (subject to further limitation of 1.7 million shares for restricted stock), of which approximately 780,000 shares were available to be granted. TSFG also has a Restricted Stock Plan for awards to certain key employees. At December 31, 2007, authorized shares under the Restricted Stock Plan totaled 875,000 shares, of which approximately 134,000 shares were available to be granted.

Shares of restricted stock granted to employees under both the LTIP and the Restricted Stock Plan are subject to restrictions as to continuous employment for a specified time period following the date of grant. During this period, the holder is entitled to full voting rights and dividends.

In the second quarter 2007, TSFG's Board of Directors approved new LTIP awards for the period 2007 — 2009. A total of 466,377 RSUs, with a per share fair value of $23.40 have been reserved for potential issuance for the 2007 — 2009 period, which includes both service and performance-based awards. Of these units, the service award component (96,873 RSUs) will be expensed ratably over the three-year vesting period, assuming continued employment of the LTIP participant. The remaining RSUs are performance-based awards and will vest based on achieving, during 2009, certain earnings per share targets relative to a broad regional bank peer group, and return on equity targets. Achieving target performance (100%) on both of the performance goals will result in the issuance of 184,752 shares, although a maximum of 369,504 shares may be issued if more stringent performance hurdles are met. The compensation expense related to the performance-based RSUs will be recognized ratably over the period from the date of award through December 31, 2009, based on management's assessment of the probability that the performance targets will be met.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Based on its assessment at December 31, 2007, management determined that it is not probable that the performance targets will be met for the 2007 — 2009 period or for the 2006 — 2008 period awards granted in 2006. Consequently, TSFG recognized no expense related to the performance targets in 2007 or 2006. If the performance targets are not reached, the corresponding RSUs will be forfeited.

The following is a summary of the status of TSFG's nonvested shares of restricted stock and RSUs as of December 31, 2007 and changes during the year ended December 31, 2007.

| | LTIP | | | | Restricted Stock Plan | |
|---|---|---|---|---|---|---|
| | RSUs | Weighted Average Grant-Date Fair Value | Restricted Shares | Weighted Average Grant-Date Fair Value | Restricted Shares | Weighted Average Grant-Date Fair Value |
| Nonvested at January 1, 2007 | 743,335(1) | $ 26.08 | 41,809 | $ 30.54 | 75,521 | $ 28.04 |
| Granted | 569,453(1) | 23.26 | — | — | 40,900 | 21.41 |
| Vested | (92,952) | 26.85 | (18,360) | 30.54 | (40,117) | 28.21 |
| Cancelled | (71,286) | 26.05 | (1,820) | 30.54 | (1,713) | 28.00 |
| Nonvested at December 31, 2007 | 1,148,550(1) | $ 25.16 | 21,629 | $ 30.54 | 74,591 | $ 24.32 |

(1) Assumes maximum performance targets are met for performance-based awards.

As of December 31, 2007, there was $22.3 million of total unrecognized compensation cost related to nonvested shares of restricted stock and RSUs, assuming maximum performance targets are met for performance-based awards. At such date, the weighted-average period over which the service component of this unrecognized expense is expected to be recognized was 4.7 years. The total fair value of shares and RSUs vested during the years ended December 31, 2007 and 2006 was $2.6 million and $1.7 million, respectively.

In 2005, under the LTIP, TSFG issued cash-settled stand alone stock appreciation rights, which are accounted for as liability-classified awards pursuant to SFAS 123R. The strike price of each stock appreciation right equals the fair market value of TSFG's common stock on the date of grant. Stock appreciation rights issued to employees under this plan are exercisable on a cumulative basis for 20% of the shares on each of the first five anniversaries of the grant, and have a maximum contractual term of ten years. The following is a summary of the stock appreciation rights activity under the LTIP for the year ended December 31, 2007.

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value ($000) |
|---|---|---|---|---|
| Outstanding, January 1, 2007 | 225,960 | $ 29.40 | | |
| Granted | — | — | | |
| Cancelled | (52,285) | 29.40 | | |
| Exercised | — | — | | |
| Outstanding, December 31, 2007 | 173,675 | $ 29.40 | 7.9 | $ — |
| Exercisable, December 31, 2007 | 70,760 | $ 29.40 | 7.7 | $ — |

Unrecognized stock-based compensation expense related to stock appreciation rights totaled $13,000 at December 31, 2007. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 3.0 years.

*Stock Option Plans*

TSFG has a Stock Option Plan, a Directors' Stock Option Plan, a Fortune 50 Stock Option Plan, and various option plans assumed in connection with acquisitions (collectively referred to as "stock-based option plans"). At December 31, 2007, authorized

shares under the Stock Option Plan totaled 4.7 million shares, of which approximately 81,000 were available to be granted. The exercise price of each option either equals or exceeds the fair market value of TSFG's Common Stock on the date of grant. Options issued to employees under the Stock Option Plan are typically exercisable on a cumulative basis for 20% of the shares on each of the first five anniversaries of the grant, and have a maximum contractual term of ten years. Under the Directors' Stock Option Plan, TSFG may grant options to its non-employee directors and advisory board members. At December 31, 2007, authorized shares under the Directors' Stock Option Plan totaled 650,000 shares, of which approximately 109,000 were available to be granted. The exercise price of each director's option equals the fair market value of TSFG's common stock on the date of grant. Options issued to directors under the Directors' Stock Option Plan vest immediately on the grant date, and have a maximum contractual term of ten years.

The fair value of TSFG's stock options granted is estimated at the date of grant using the Black-Scholes option-pricing model. This model requires the input of highly subjective assumptions, changes to which can materially affect the fair value estimate. Additionally, there may be other factors that would otherwise have a significant effect on the value of employee stock options granted but are not considered by the model. Accordingly, while management believes that the Black-Scholes option-pricing model provides a reasonable estimate of fair value, the model does not necessarily provide the best single measure of fair value for TSFG's employee stock options. Assumptions include, but are not limited to, TSFG's expected price volatility over the term of the awards, which is based on historical volatility of TSFG's common stock. The following is a summary of TSFG's weighted-average assumptions used to estimate the weighted-average per share fair value of options granted on the date of grant using the Black-Scholes option-pricing model:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Expected life (in years) | 6.01 | 6.07 | 6.71 |
| Expected volatility | 23.45% | 26.50% | 30.40% |
| Risk-free interest rate | 3.93 | 4.57 | 4.30 |
| Expected dividend yield | 4.32 | 2.61 | 2.20 |
| Weighted-average fair value of options granted during the period | $ 2.95 | $ 6.70 | $ 8.79 |

The following is a summary of the activity under the stock-based option plans for the year ended December 31, 2007.

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value ($000) |
|---|---|---|---|---|
| Outstanding, January 1, 2007 | 4,533,736 | $ 22.74 | | |
| Granted | 600,930 | 17.12 | | |
| Cancelled | (598,414) | 27.39 | | |
| Exercised | (505,889) | 17.43 | | |
| Outstanding, December 31, 2007 | 4,030,363 | $ 21.88 | 5.9 | $ 2,622 |
| Exercisable, December 31, 2007 | 2,538,773 | $ 21.09 | 4.2 | $ 2,622 |

The total intrinsic value of options exercised during the years ended December 31, 2007 and 2006 was $3.6 million and $1.7 million, respectively. Unrecognized stock-based compensation expense related to stock options totaled $8.2 million at December 31, 2007. At such date, the weighted-average period over which this unrecognized expense is expected to be recognized was 3.5 years.

Cash received from options exercised under all share-based payment arrangements for the years ended December 31, 2007 and 2006 was $8.1 million and $7.0 million, respectively. The actual tax benefit realized for the tax deductions from option exercise of the share-based payment arrangements totaled $1.1 million and $1.6 million, respectively, for the years ended December 31, 2007 and 2006. TSFG has a policy of issuing new shares to satisfy stock option exercises.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Note 26. Employee Benefits**

TSFG maintains the Carolina First Salary Reduction Plan and Trust ("401(k) Plan") for all eligible employees. Upon ongoing approval of the Board of Directors, TSFG matches employee contributions equal to six percent of compensation subject to certain adjustments and limitations. Contributions of $5.5 million, $5.5 million, and $4.7 million were charged to operations in 2007, 2006, and 2005, respectively.

Effective December 1, 2007, TSFG merged its Employee Stock Ownership Plan ("ESOP") into its 401(k) Plan. Prior to December 1, 2007, annual contributions to the ESOP consisted of amounts necessary to service its debt (paid off during 2007) and other amounts at the discretion of, and determined by, the Board of Directors. For the years ended December 31, 2007, 2006, and 2005, contributions of $209,000, $363,000, and $402,000, respectively, were charged to operations. There were no discretionary contributions made during 2007.

TSFG maintains Supplementary Executive Retirement Plans ("SERPs") for certain officers. These plans provide salary continuation benefits after the participant reaches normal retirement age (usually age 65) or early retirement (age 55 and 7 years of service) and continue for 15 years. The SERPs also provide limited benefits in the event of early termination or disability while employed by TSFG and full benefits to the officer's beneficiaries in the event of the officer's death. In the event of a change of control of TSFG as defined in the SERPs, the officers become 100% vested in the total benefit. TSFG has purchased life insurance policies on these officers in order to fund the payments required by the SERPs. For the years ended December 31, 2007, 2006 and 2005, costs of $4.3 million, $3.7 million, and $5.1 million, respectively, were charged to expense related to these SERPs.

The SERP liability is accrued over the period until normal retirement date. The accrual is determined based on the present value of the estimated annual benefit payments at normal retirement, and by calculating a level principal amount required for the accrual to reach the present value of the estimated annual benefit payments at normal retirement. A discount rate is used to determine the present value of future benefit obligations. The discount rate for each plan is determined using the Moodys Aaa corporate bond rate published in the Federal Register as of the prior year end. In determining the estimated future annual benefit obligations, an estimated rate of compensation growth of 5% per year is used. Compensation, for purposes of determining the annual benefit levels as defined in the plans, is the average of the highest three years annual base salary plus bonus. The benefit level, as a percentage of compensation, generally ranges between 15% and 60%, as specified in each SERP agreement.

If the Executive retires prior to normal retirement, or there is a change in the anticipated retirement date, and the Executive is eligible for the early retirement benefit under the SERP plan, the accrual is adjusted to reflect the calculated amount pursuant to provisions of the early retirement benefit.

TSFG maintains an Executive Deferred Compensation Plan for certain officers. This plan allows the participant to defer up to 80% of base annual salary and 100% of annual bonus compensation on a pre-tax basis. TSFG provides a match of 10% of the employee contribution. The deferral elections are irrevocable and cannot be changed during the plan year. TSFG's match becomes fully vested after five years. Payments from the plan will automatically begin upon the employee's retirement, termination of employment, or death during employment. However, participants may choose to receive payments prior to these events, such as an in-service distribution, an elective early withdrawal, or upon a change in control. Deferred compensation expense, which is associated with TSFG's matching contributions, totaled $103,000, $144,000, and $140,000 in 2007, 2006, and 2005, respectively.

Beginning on January 1, 2003, under TSFG's Executive Deferred Compensation Plan for certain officers, TSFG common stock was added as an investment option for deferred compensation. The common stock purchased by TSFG for this deferred compensation plan is maintained in a rabbi trust (the "Trust"), on behalf of the participants. The assets of the Trust are subject to the claims of general creditors of TSFG. Dividends payable on the common shares held by the Trust will be reinvested in additional shares of common stock of TSFG on behalf of the participants. The deferred compensation obligation in the Trust is classified as a component of shareholders' equity, and the common stock held by the Trust is classified as a reduction of shareholders' equity. The obligations of TSFG under this investment option of the deferred compensation plan, and the shares held by the Trust, have no net effect on outstanding shares. Subsequent changes in the fair value of the common stock are not reflected in earnings or shareholders' equity.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Note 27. Merger-Related and Direct Acquisition Costs**

In connection with its acquisitions in 2005, TSFG recorded pre-tax merger-related costs, included in expense, and direct acquisition costs, included in goodwill. The merger-related and direct acquisition costs were recorded as incurred. The following summarizes these charges (in thousands) for the year ended December 31, 2005:

| | 2005 |
|---|---|
| **Merger-Related Costs** | |
| Compensation-related expenses | $ 833 |
| System conversion costs | 906 |
| Travel | 491 |
| Advertising | 729 |
| Other | 1,050 |
| | $ 4,009 |
| | |
| **Direct Acquisition Costs** | |
| Investment banking and professional fees | $ 2,808 |
| Contract and lease terminations | 1,078 |
| Severance | 312 |
| | $ 4,198 |

Severance charges are associated with the involuntary termination of former acquiree employees who held positions deemed redundant within the combined organization. These positions were primarily in centralized corporate support and data processing areas. The contract termination costs are primarily comprised of payments required to be made to certain executives pursuant to their employment contracts. The lease termination costs were for buyouts on leased facilities.

**Note 28. Related Party Transactions**

During the years ended December 31, 2007, 2006 and 2005, lease payments aggregating approximately $45,000, $37,000, and $27,000, respectively, were made to affiliates of directors or companies in which certain directors have an interest. These lease payments were made in the ordinary course of business and were on terms comparable to those that would have been obtained between unrelated parties.

At December 31, 2007 and 2006, TSFG had loans to TSFG directors, directors of its subsidiaries, executive officers, and associates of such persons totaling $35.5 million and $48.9 million, respectively. All of these loans were made under normal credit terms and did not involve more than normal risk of collection. At December 31, 2007, the aggregate dollar amount of these unfunded loan commitments to the aforementioned directors, officers and their associates totaled $36.7 million. See Notes 9 and 20 for further details.

**Note 29. Fair Value of Financial Instruments**

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" ("SFAS 107"), requires disclosure of fair value information, whether or not recognized in the statement of financial position, when it is practical to estimate the fair value. SFAS 107 defines a financial instrument as cash, evidence of an ownership interest in an entity or contractual obligations, which require the exchange of cash, or other financial instruments. Certain items are specifically excluded from the disclosure requirements, including TSFG's common stock, premises and equipment, accrued interest receivable and payable, and other assets and liabilities.

Fair value approximates book value for cash and due from banks and interest-bearing bank balances due to the short-term nature of the instrument. Investment securities are valued using quoted market prices. Fair value for loans is based on the discounted present value of the estimated future cash flows. Discount rates used in these computations approximate the rates currently offered for similar loans of comparable terms and credit quality. Loan commitments and letters of credit, which are



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

off-balance-sheet financial instruments, are short-term and typically based on current market rates; therefore, the fair values of these items are not included in the following table.

Fair value for demand deposit accounts and interest-bearing accounts with no fixed maturity date is equal to the carrying value. Certificate of deposit accounts are estimated by discounting cash flows from expected maturities using current interest rates on similar instruments. Callable brokered deposits are valued in a similar manner except the cash flow stream may be shorter than the term to maturity if the call option is exercised. Fair value approximates book value for federal funds purchased due to the short-term nature of the borrowing. Fair value for other short-term borrowings and long-term debt is based on discounted cash flows using current market rates for similar instruments.

TSFG has used management's best estimate of fair value based on the above assumptions. Thus, the fair values presented may not be the amounts, which could be realized, in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses, which would be incurred in an actual sale or settlement, are not taken into consideration in the fair values presented. The estimated fair values of TSFG's financial instruments (in thousands) at December 31 were as follows:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| **Financial Assets** | | | | |
| Cash and due from banks | $ 290,974 | $ 290,974 | $ 326,567 | $ 326,567 |
| Interest-bearing bank balances | 5,551 | 5,551 | 31,264 | 31,264 |
| Securities available for sale | 1,986,212 | 1,986,212 | 2,743,456 | 2,743,456 |
| Securities held to maturity | 39,691 | 39,782 | 52,308 | 52,101 |
| Net loans | 10,104,860 | 10,246,356 | 9,618,760 | 9,639,809 |
| Derivative assets | 36,194 | 36,194 | 9,958 | 9,958 |
| **Financial Liabilities** | | | | |
| Deposits | 9,788,568 | 9,833,057 | 9,516,740 | 9,557,941 |
| Short-term borrowings | 1,637,550 | 1,637,598 | 1,768,719 | 1,768,389 |
| Long-term debt | 698,340 | 699,224 | 1,130,475 | 1,135,445 |
| Derivative liabilities | 21,017 | 21,017 | 42,907 | 42,907 |

**Note 30. Business Segments**

South Carolina Bank, North Carolina Bank, and Florida Bank are TSFG's primary reportable segments for management financial reporting. Effective January 1, 2007, TSFG changed its segment methodology from a legal entity structure (i.e., Carolina First Bank and Mercantile Bank) to a business segment structure along geographic lines to maintain consistency with the way management internally reviews financial information and allocates resources. Results for prior periods have been restated for comparability. Each geographic bank segment consists of commercial and consumer lending and full service branches in its geographic region with its own management team. The branches provide a full range of traditional banking products as well as treasury services, merchant services, wealth management and mortgage banking services. The "Other" column includes the investment securities portfolio, indirect lending, treasury, parent company activities, bank-owned life insurance, net intercompany eliminations, various nonbank subsidiaries, equity investments, and certain other activities not currently allocated to the aforementioned segments.

The results for these segments are based on TSFG's management reporting process, which assigns balance sheet and income statement items to each segment. Unlike financial reporting, there is no authoritative guidance for management reporting equivalent to generally accepted accounting principles. The Company uses an internal funding methodology to assign funding costs to assets and earning credits to liabilities with an offset in "Other." The management reporting process measures the performance of the defined segments based on TSFG's management structure and is not necessarily comparable with similar information for other financial services companies or representative of results that would be achieved if the segments operated as



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

stand-alone entities. If the management structure and/or allocation process change, allocations, transfers and assignments may change. Segment information (in thousands) is shown in the table below.

| | South Carolina Bank | North Carolina Bank | Florida Bank | Other | Total |
|---|---|---|---|---|---|
| **Year Ended December 31, 2007** | | | | | |
| Net interest income before inter-segment income (expense) | $ 169,271 | $ 83,989 | $ 167,260 | $ (37,739) | $ 382,781 |
| Inter-segment interest income (expense) | 3,946 | (26,540) | (12,605) | 35,199 | — |
| Net interest income | 173,217 | 57,449 | 154,655 | (2,540) | 382,781 |
| Provision for credit losses — net charge-offs (1) | 9,433 | 24,727 | 11,970 | 5,615 | 51,745 |
| Noninterest income | 49,606 | 10,995 | 38,932 | 13,778 | 113,311 |
| Noninterest expenses — direct (2) | 63,981 | 21,675 | 65,477 | 3,536 | 154,669 |
| Segment contribution | $ 149,409 | $ 22,042 | $ 116,140 | $ 2,087 | 289,678 |
| Provision for credit losses in excess of net charge-offs (1) | | | | | 16,823 |
| Noninterest expenses — unallocated (3) | | | | | 166,179 |
| Income before income taxes | | | | | 106,676 |
| Income tax expense | | | | | 33,400 |
| Net income | | | | | $ 73,276 |
| **December 31, 2007** | | | | | |
| Total assets | $ 4,106,563 | $ 1,851,969 | $ 4,202,474 | $ 3,716,578 | $ 13,877,584 |
| Total loans held for investment | 3,861,524 | 1,726,407 | 3,641,253 | 984,236 | 10,213,420 |
| Total deposits | 3,490,633 | 1,128,376 | 2,856,678 | 2,312,881 | 9,788,568 |
| **Year Ended December 31, 2006** | | | | | |
| Net interest income before inter-segment income (expense) | $ 187,876 | $ 84,791 | $ 171,666 | $ (42,962) | $ 401,371 |
| Inter-segment interest income (expense) | (1,892) | (24,243) | (7,337) | 33,472 | — |
| Net interest income | 185,984 | 60,548 | 164,329 | (9,490) | 401,371 |
| Provision for credit losses — net charge-offs (1) | 12,450 | 6,049 | 3,983 | 4,143 | 26,625 |
| Noninterest income | 49,489 | 10,484 | 36,102 | 21,830 | 117,905 |
| Noninterest expenses — direct (2) | 63,012 | 21,126 | 67,215 | 4,596 | 155,949 |
| Segment contribution | $ 160,011 | $ 43,857 | $ 129,233 | $ 3,601 | 336,702 |
| Provision for credit losses in excess of net charge-offs (1) | | | | | 6,164 |
| Noninterest expenses — unallocated (3) | | | | | 169,990 |
| Income before income taxes | | | | | 160,548 |
| Income tax expense | | | | | 47,682 |
| Net income | | | | | $ 112,866 |
| **December 31, 2006** | | | | | |
| Total assets | $ 4,751,457 | $ 1,735,919 | $ 3,949,910 | $ 3,773,230 | $ 14,210,516 |
| Total loans held for investment | 3,741,842 | 1,614,216 | 3,391,429 | 954,380 | 9,701,867 |
| Total deposits | 3,674,328 | 1,102,249 | 3,051,991 | 1,688,172 | 9,516,740 |

(1) The provision for credit losses included in each segment represents the actual net charge-offs for the period and/or any provision specifically allocated to that segment for reporting purposes. Provision in excess of actual net charge-offs and specific allocation is not allocated to any of the segments, and is thus presented as a reconciling item. TSFG is refining its methodology for allocating provision to its segments and thus the presentation of the provision allocation may change in future periods.

(2) Noninterest expenses — direct include the direct costs of the segment's operations such as facilities, personnel, and other operating expenses.

(3) Noninterest expenses — unallocated are managed on a centralized basis and thus are not included in any segment column. This line item includes expenses not directly attributable to the segments, such as information services, operations, human resources, accounting, finance, treasury, and corporate incentive plans. TSFG is refining its methodology for allocating these expenses to its segments and thus the presentation of noninterest expenses may change in future periods.

| | South Carolina Bank | North Carolina Bank | Florida Bank | Other | Total |
|---|---|---|---|---|---|
| **Year Ended December 31, 2005** | | | | | |
| Net interest income before inter-segment income (expense) | $ 176,456 | $ 63,531 | $ 147,104 | $ 21,965 | $ 409,056 |
| Inter-segment interest income (expense) | 7,177 | (12,603) | 13,212 | (7,786) | — |
| Net interest income | 183,633 | 50,928 | 160,316 | 14,179 | 409,056 |
| Provision for credit losses — net charge-offs (1) | 17,831 | 3,543 | 2,761 | 4,886 | 29,021 |
| Noninterest income | 47,460 | 9,057 | 27,181 | (39,848) | 43,850 |
| Noninterest expenses — direct (2) | 66,052 | 19,764 | 59,064 | 4,105 | 148,985 |
| Segment contribution | $ 147,210 | $ 36,678 | $ 125,672 | $ (34,660) | 274,900 |
| Provision for credit losses in excess of net charge-offs (1) | | | | | 11,571 |
| Noninterest expenses — unallocated (3) | | | | | 167,708 |
| Income before income taxes and discontinued operations | | | | | 95,621 |
| Income tax expense | | | | | 25,404 |
| Discontinued operations, net of income tax | | | | | (396) |
| Net income | | | | | $ 69,821 |

(1) The provision for credit losses included in each segment represents the actual net charge-offs for the period and/or any provision specifically allocated to that segment for reporting purposes. Provision in excess of actual net charge-offs and specific allocation is not allocated to any of the segments, and is thus presented as a reconciling item. TSFG is refining its methodology for allocating provision to its segments and thus the presentation of the provision allocation may change in future periods.

(2) Noninterest expenses — direct include the direct costs of the segment's operations such as facilities, personnel, and other operating expenses.

(3) Noninterest expenses — unallocated are managed on a centralized basis and thus are not included in any segment column. This line item includes expenses not directly attributable to the segments, such as information services, operations, human resources, accounting, finance, treasury, and corporate incentive plans. TSFG is refining its methodology for allocating these expenses to its segments and thus the presentation of noninterest expenses may change in future periods.

**Note 31. Parent Company Financial Information**

The following is condensed financial information (dollars in thousands) of The South Financial Group (Parent Company only):

**Condensed Balance Sheets**

| | December 31, | |
|---|---|---|
| | 2007 | 2006 |
| **Assets** | | |
| Cash and due from banks | $ 29,968 | $ 44,986 |
| Investment in subsidiaries: | | |
| Bank subsidiaries | 1,731,844 | 1,697,533 |
| Nonbank subsidiaries | 4,779 | 5,042 |
| Total investment in subsidiaries | 1,736,623 | 1,702,575 |
| Receivable from subsidiaries | 749 | 664 |
| Other investments | 7,346 | 15,340 |
| Other assets | 35,934 | 42,022 |
| | $ 1,810,620 | $ 1,805,587 |
| **Liabilities and Shareholders' Equity** | | |
| Accrued expenses and other liabilities | $ 15,344 | $ 31,421 |
| Payables to subsidiaries | 7,436 | 432 |
| Borrowed funds | 30,828 | 32,831 |
| Subordinated debt | 206,704 | 178,871 |
| Shareholders' equity | 1,550,308 | 1,562,032 |
| | $ 1,810,620 | $ 1,805,587 |

**Condensed Statements of Income**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| **Income** | | | |
| Equity in undistributed net income of subsidiaries | $ 203 | $ 127,977 | $ 48,292 |
| Dividend income from subsidiaries | 75,886 | — | 31,189 |
| (Loss) gain on equity investments | (68) | 459 | 3,239 |
| Interest income from subsidiaries | 356 | 516 | 336 |
| Sundry | 6,261 | 6,603 | 11,774 |
| | 82,638 | 135,555 | 94,830 |
| **Expenses** | | | |
| Interest on borrowed funds | 17,074 | 17,174 | 10,950 |
| Loss on early extinguishment of debt | 1,772 | 821 | — |
| Sundry | (8,205) | 11,094 | 19,342 |
| | 10,641 | 29,089 | 30,292 |
| Income before taxes | 71,997 | 106,466 | 64,538 |
| Income tax benefit | (1,279) | (6,400) | (5,283) |
| Net income | $ 73,276 | $ 112,866 | $ 69,821 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

## Condensed Statements of Cash Flows

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2007 | 2006 | 2005 |
| **Operating Activities** | | | |
| Net income | $ 73,276 | $ 112,866 | $ 69,821 |
| Adjustments to reconcile net income to net cash (used for) provided by operations | | | |
| Equity in undistributed net income of subsidiaries | (203) | (127,977) | (48,292) |
| Loss (gain) on disposition of equity investments | 68 | (459) | (3,239) |
| Loss on early extinguishment of debt | 1,772 | 821 | — |
| Decrease (increase) in other assets | 3,326 | 1,692 | (8,036) |
| (Decrease) increase in other liabilities | (16,279) | 3,606 | 7,024 |
| Net cash provided by (used for) operating activities | 61,960 | (9,451) | 17,278 |
| **Investing Activities** | | | |
| Distribution from subsidiaries | 12 | 334 | 2,048 |
| Loans to subsidiaries, net | 14,591 | 3,896 | 3,628 |
| Purchase of premises and equipment | — | (10,894) | (3,354) |
| Sale of premises and equipment | — | 10,645 | 8,605 |
| Proceeds from disposition of equity investments | 8,235 | 910 | 9,269 |
| Purchase of equity investments | (1,178) | (3,541) | (3,845) |
| Net cash provided by investing activities | 21,660 | 1,350 | 16,351 |
| **Financing Activities** | | | |
| (Decrease) increase in borrowings | (2,003) | (602) | 3,228 |
| Issuance of subordinated debt | 126,290 | 77,321 | — |
| Payment of subordinated debt | (98,457) | (44,145) | — |
| Cash dividends paid | (53,493) | (51,097) | (46,750) |
| Repurchase of common stock | (83,291) | — | — |
| Other, net | 12,316 | 13,858 | 15,855 |
| Net cash used for financing activities | (98,638) | (4,665) | (27,667) |
| Net change in cash and cash equivalents | (15,018) | (12,766) | 5,962 |
| Cash and cash equivalents at beginning of year | 44,986 | 57,752 | 51,790 |
| Cash and cash equivalents at end of year | $ 29,968 | $ 44,986 | $ 57,752 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Note 32. Quarterly Financial Data (Unaudited)**

The following provides quarterly financial data for 2007 and 2006 (dollars in thousands, except per share data).

**2007 Quarterly Financial Data**

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31 | September 30 | June 30 | March 31 |
| Interest income | $ 216,150 | $ 223,739 | $ 221,825 | $ 218,642 |
| Interest expense | 121,202 | 126,965 | 125,304 | 124,104 |
| Net interest income | 94,948 | 96,774 | 96,521 | 94,538 |
| Provision for credit losses | 31,926 | 10,504 | 17,125 | 9,013 |
| Noninterest income | 28,741 | 29,917 | 27,683 | 26,970 |
| Noninterest expenses | 80,481 | 78,739 | 80,151 | 81,477 |
| Income before income taxes | 11,282 | 37,448 | 26,928 | 31,018 |
| Income tax expense | 2,293 | 11,609 | 8,998 | 10,500 |
| Net income | $ 8,989 | $ 25,839 | $ 17,930 | $ 20,518 |
| Net income per common share, basic | $ 0.12 | $ 0.35 | $ 0.24 | $ 0.27 |
| Net income per common share, diluted | $ 0.12 | $ 0.35 | $ 0.24 | $ 0.27 |

**2006 Quarterly Financial Data**

| | Three Months Ended | | | |
|---|---|---|---|---|
| | December 31 | September 30 | June 30 | March 31 |
| Interest income | $ 220,530 | $ 218,591 | $ 215,712 | $ 205,367 |
| Interest expense | 123,876 | 119,908 | 112,590 | 102,455 |
| Net interest income | 96,654 | 98,683 | 103,122 | 102,912 |
| Provision for credit losses | 8,838 | 6,553 | 7,487 | 9,911 |
| Noninterest income | 29,233 | 34,119 | 28,315 | 26,238 |
| Noninterest expenses | 89,998 | 79,835 | 79,354 | 76,752 |
| Income before income taxes | 27,051 | 46,414 | 44,596 | 42,487 |
| Income tax expense | 3,500 | 14,249 | 15,253 | 14,680 |
| Net income | $ 23,551 | $ 32,165 | $ 29,343 | $ 27,807 |
| Net income per common share, basic | $ 0.31 | $ 0.43 | $ 0.39 | $ 0.37 |
| Net income per common share, diluted | $ 0.31 | $ 0.43 | $ 0.39 | $ 0.37 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Item 9.** ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

There have been no changes in or disagreements with accountants on accounting and financial disclosure.

**Item 9A.** ***Controls and Procedures***

TSFG maintains disclosure controls and procedures and internal control over financial reporting as required under Rule 13a-15 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to TSFG's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

*Disclosure Controls and Procedures*

(a) At December 31, 2007, TSFG's management, under the supervision and with the participation of TSFG's Chief Executive Officer and Chief Financial Officer, evaluated its disclosure controls and procedures as currently in effect. Based on this evaluation, TSFG's management concluded that as of December 31, 2007, TSFG's disclosure controls and procedures were effective (1) to provide reasonable assurance that information required to be disclosed by TSFG in the reports filed or submitted by it under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) to provide reasonable assurance that information required to be disclosed by TSFG in such reports was accumulated and communicated to TSFG's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

*Internal Control over Financial Reporting*

(b) (1) Statement of management's responsibility for maintaining adequate internal control over financial reporting:
See Management's Report on Internal Control Over Financial Reporting included in Item 8 of this Annual Report on Form 10-K.

(2) Statement identifying the framework utilized by management to assess internal control over financial reporting:
See Management's Report on Internal Control Over Financial Reporting included in Item 8 of this Annual Report on Form 10-K.

(3) Management's assessment of the effectiveness of internal control over financial reporting:
See Management's Report on Internal Control Over Financial Reporting included in Item 8 of this Annual Report on Form 10-K.

(4) Statement that the independent registered public accounting firm has issued an attestation report on internal control over financial reporting:
See Management's Report on Internal Control Over Financial Reporting included in Item 8 of this Annual Report on Form 10-K.

(c) Attestation report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, on the effectiveness of TSFG's internal control over financial reporting:
See "Report of Independent Registered Public Accounting Firm" included in Item 8 of this Annual Report on Form 10-K.

(d) Changes in internal control over financial reporting:
TSFG continually assesses the adequacy of its internal control over financial reporting and strives to enhance its controls in response to internal control assessments and internal and external audit and regulatory

recommendations. There were no changes in TSFG's internal control over financial reporting identified in connection with is assessment during the quarter ended December 31, 2007 or through the date of this Annual Report on Form 10-K have materially affected, or are reasonably likely to materially affect, TSFG's internal control over financial reporting.

**Item 9B.** ***Other Information***

On February 25, 2008, TSFG, Carolina First Bank and each of H. Lynn Harton, Maurice J. Spagnoletti, Kendall L. Spencer and James R. Gordon (who will be "Named Executive Officers" in TSFG's 2008 Proxy Statement) entered into amended and restated Noncompetition, Employment and Severance Agreements. The agreements are substantially the same as the existing agreements (all of which have been filed with the SEC previously), except that provisions ensuring compliance with Section 409A of the Internal Revenue Code, and provisions providing for a "gross-up" payment for Section 280G excise tax liability have been added. Also, noncompete provisions have been amended to provide that those covenants are applicable in all instances of termination, and the scope of the noncompete provisions have been tailored to each individual officer in an effort to ensure enforceability. These agreements are included with this Form 10-K as Exhibits 10.6, 10.7, 10.8 and 10.20.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

## PART III

### Item 10. *Directors, Executive Officers and Corporate Governance*

See Executive Compensation Plan Data in the Registrants' Proxy Statement relating to the 2008 Annual Meeting of Shareholders filed with the Securities and Exchange Commission, which information is incorporated herein by reference.

See Election of Directors, Business Experience of Directors and Executive Officers, and Section 16(a) Beneficial Ownership Reporting Compliance in the Registrant's Proxy Statement relating to the 2008 Annual Meeting of Shareholders filed with the Securities and Exchange Commission, which information is incorporated herein by reference.

See Executive Officers of the Registrant included in Item 1 of this Annual Report on Form 10-K for a listing of executive officers.

TSFG has adopted a Code of Ethics that is specifically applicable to senior management and financial officers, including its principal executive officer, its principal financial officer, its principal accounting officer and controllers. This Code of Ethics can be viewed on TSFG's website, www.thesouthgroup.com, under the Investor Relations / Corporate Governance tab. TSFG's Code of Conduct, applicable to all employees, may also be viewed on TSFG's website under the Investor Relations / Corporate Governance tab.

### Item 11. *Executive Compensation*

See Director Compensation and Executive Compensation in TSFG's Proxy Statement relating to the 2008 Annual Meeting of Shareholders filed with the Securities and Exchange Commission, which information is incorporated herein by reference. However, the information provided in the Proxy Statement under the heading "Compensation Committee Report" shall not be deemed to be "soliciting material" or to be "filed" with the Securities and Exchange Commission, subject to Regulation 14A or 14C, other than as provided in Item 402 of Regulation S-K, or subject to liabilities of Section 18 of the Securities Exchange Act of 1934.

### Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

See Security Ownership of Certain Beneficial Owners and Management in TSFG's Proxy Statement relating to the 2008 Annual Meeting of Shareholders filed with the Securities and Exchange Commission, which information is incorporated herein by reference.

### Item 13. *Certain Relationships and Related Transactions, and Director Independence*

See Certain Relationships and Related Transactions in TSFG's Proxy Statement relating to the 2008 Annual Meeting of Shareholders filed with the Securities and Exchange Commission, which information is incorporated herein by reference.

### Item 14. *Principal Accountant Fees and Services*

See Audit Fees, Other Audit Committee Matters, and Ratification of Independent Registered Public Accounting Firm for 2008 in TSFG's Proxy Statement relating to the 2008 Annual Meeting of Shareholders filed with the Securities and Exchange Commission, which information is incorporated herein by reference.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

## PART IV

**Item 15.** ***Exhibits and Financial Statement Schedules***

(a)(1)Financial Statements filed as part of this report:

The following items are included in Item 8 hereof:

Management's Report on Internal Control over Financial Reporting
Report of PricewaterhouseCoopers LLP, an Independent Registered Public Accounting Firm
Report of KPMG LLP, an Independent Registered Public Accounting Firm
Consolidated Balance Sheets—December 31, 2007 and 2006
Consolidated Statements of Income—Years ended December 31, 2007, 2006 and 2005
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income—Years ended December 31, 2007, 2006 and 2005
Consolidated Statements of Cash Flows—Years ended December 31, 2007, 2006 and 2005
Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

All schedules to the Consolidated Financial Statements required by Article 9 of Regulation S-X and all other schedules to the financial statements of TSFG required by Article 5 of Regulation S-X are not required under the related instructions or are inapplicable and, therefore, have been omitted, or the required information is contained in the Consolidated Financial Statements or the notes thereto, which are included in Item 8 hereof.

(a)(3) Listing of Exhibits

| Exhibit No. | Description of Exhibit | Location |
|---|---|---|
| 3.1 | Articles of Incorporation | Incorporated by reference to Exhibits 3.1 and 3.2 of TSFG's Quarterly Report on Form 10-Q for the three months ended March 31, 2004 |
| 3.2 | Bylaws of TSFG | Incorporated by reference to Exhibit 3.1 of TSFG's Current Report on Form 8-K dated August 17, 2005, Commission File No. 0-15083 and to Exhibit 3.1 of TSFG's Current Report on Form 8-K dated February 20, 2007 |
| 4.1 | Specimen TSFG Common Stock certificate | Incorporated by Reference to Exhibit 4.1 of TSFG's Registration Statement on Form S-1, Commission File No. 33-7470 |
| 4.2 | Articles of Incorporation, as amended | Included as Exhibit 3.1 |
| 4.3 | Bylaws | Included as Exhibit 3.2 |
| 4.4 | Amended and Restated Common Stock Dividend Reinvestment Plan | Incorporated by reference to the Prospectus in TSFG's Registration Statement on Form S-3, Commission File No. 333-137578 |
| 10.1* | TSFG Amended and Restated Restricted Stock Agreement Plan and Form of Restricted Stock Award Agreement | Incorporated by reference to Exhibit 10.1 of TSFG's Annual Report on Form 10-K for the year ended December 31, 2006 and Exhibit 10.4 to TSFG's Current Report on Form 8-K dated August 14, 2007 |
| 10.2* | TSFG Third Amended and Restated Stock Option Plan | Incorporated by reference to Exhibit 10.1 of TSFG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

| Exhibit No. | Description of Exhibit | Location |
|---|---|---|
| 10.3* | TSFG Salary Reduction Plan | Incorporated by reference to Exhibit 28.1 of TSFG's Registration Statement on Form S-8, Commission File No. 33-25424 |
| 10.4* | Amended and Restated Employment Agreement dated September 3, 2006 between TSFG and Mack I. Whittle, Jr. | Incorporated by reference to Exhibit 99.1 of TSFG's Current Report on Form 8-K dated September 3, 2006 |
| 10.5* | Noncompetition, Severance and Employment Agreement by and between TSFG and Timothy K. Schools | Incorporated by reference to Exhibit 10-5 of TSFG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 |
| 10.6* | Noncompetition, Severance and Employment Agreement dated February 25, 2008 by and between TSFG and James R. Gordon | Included herewith |
| 10.7* | Noncompetition, Severance and Employment Agreement dated February 25, 2008 by and between TSFG and Maurice J. Spagnoletti | Included herewith |
| 10.8* | Noncompetition, Severance and Employment Agreement dated February 25, 2008 by and between TSFG and Kendall L. Spencer | Included herewith |
| 10.9* | TSFG Management Performance Incentive Plan (MPIP) (the short term bonus plan) | Incorporated by reference to Exhibit 10.2 of TSFG's Current Report on Form 8-K dated August 14, 2007 |
| 10.10* | Long Term and Short Term Incentive Compensation Plan Targets | Incorporated by reference to TSFG's Current Report on Form 8-K dated March 20, 2007 |
| 10.11* | Amended and Restated TSFG Employee Stock Purchase Plan | Incorporated by reference to Exhibit 10.1 of TSFG's Quarterly Report on Form 10-Q for the quarter ended June 30, 2000, Commission File No. 15083 |
| 10.12* | TSFG Directors Stock Option Plan | Incorporated by reference to Exhibit 99.1 from TSFG's Registration Statement on Form S-8, Commission File No. 33-82668/82670 |
| 10.13* | TSFG Amended and Restated Fortune 50 Plan | Incorporated by reference to the Prospectus in TSFG's Registration Statement on Form S-8, Commission File No. 333-31948 |
| 10.14* | Supplemental Executive Retirement Agreement between TSFG and Mack I. Whittle, Jr. | Incorporated by reference to Exhibit 10.25 of TSFG's Annual Report on Form 10-K for the year ended December 31, 2003 |
| 10.15* | Amended TSFG Long Term Incentive Plan | Incorporated by reference to Exhibit 10.1 of TSFG's Current Report on Form 8-K dated August 14, 2007 |
| 10.16* | TSFG Executive Deferred Compensation Plan | Incorporated by reference to Exhibit 10.3 of TSFG's Current Report on Form 8-K dated August 14, 2007 |
| 10.17* | Form of Grant for TSFG 2006-2008 Long-Term Incentive Plan — Restricted Stock Unit Award Agreement | Incorporated by reference to Exhibit 10.18 of TSFG's Annual Report on Form 10-K for the year ended December 31, 2006 |
| 10.18* | Form of Grant for TSFG 2007-2009 Long-Term Incentive Plan — Restricted Stock Unit Award Agreement | Incorporated by reference to Exhibit 10.1 of TSFG's Current Report on Form 8-K dated August 14, 2007 |
| 10.19* | Noncompetition, Severance and Employment Agreement dated September 6, 2007 by and between TSFG and Michael W. Sperry | Included herewith |
| 10.20* | | Included herewith |

Noncompetition, Severance and Employment Agreement dated February 25, 2008 by and between TSFG and H. Lynn Harton



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

| Exhibit No. | Description of Exhibit | Location |
|---|---|---|
| 10.21* | Supplemental Executive Retirement Agreement between TSFG and Timothy K. Schools | Incorporated by reference to Exhibit 10.11 of TSFG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 |
| 10.22* | Supplemental Executive Retirement Agreement between TSFG and James R. Gordon | Incorporated by reference to Exhibit 99.2 of TSFG's Current Report on Form 8-K dated March 20, 2007 |
| 10.23* | Supplemental Executive Retirement Agreement between TSFG and Michael. W. Sperry | Incorporated by reference to Exhibit 10.13 of TSFG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 and Exhibit 10.2 of TSFG's Current Report on Form 8-K dated December 16, 2005 |
| 10.24* | Supplemental Executive Retirement Agreement between TSFG and H. Lynn Harton | Included herewith |
| 10.25* | Supplemental Executive Retirement Agreement between TSFG and Maurice J. Spagnoletti | Incorporated by reference to Exhibit 10.5 of TSFG's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 |
| 10.26* | Supplemental Executive Retirement Agreement between TSFG and Kendall L. Spencer | Incorporated by reference to Exhibit 10.12 of TSFG's Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 |
| 10.27* | First Amendment to Supplemental Executive Retirement Agreement between TSFG and Michael W. Sperry | Included herewith |
| 11.1 | Statement of Computation of Earnings Per Share | Filed herewith as Note 24 of the Notes to Consolidated Financial Statements |
| 21.1 | Subsidiaries of TSFG | Filed herewith |
| 22.1 | Proxy Statement for the 2008 Annual Meeting of Shareholders | Future filing incorporated by reference pursuant to General Instruction G(3) |
| 23.1 | Consent of PricewaterhouseCoopers LLP | Filed herewith |
| 23.2 | Consent of KPMG LLP | Filed herewith |
| 23.3 | Opinion of PricewaterhouseCoopers LLP, an Independent Registered Public Accounting Firm | Included herewith |
| 23.4 | Opinion of KPMG LLP, an Independent Registered Public Accounting Firm | Included herewith |
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14a/15(d)-14(a) of Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Filed herewith |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14a/15(d)-14(a) of Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 | Filed herewith |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002 | Filed herewith |
| 32.2 | Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002 | Filed herewith |

* This is a management contract or compensatory plan.

Copies of exhibits are available upon written request to the Corporate Secretary of The South Financial Group, Inc.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

| Type | Date Filed | Reporting Purpose |
| --- | --- | --- |

(c) See Item 15(a)(3).



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

## SIGNATURES

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

THE SOUTH FINANCIAL GROUP, INC.

| Name | Title | Date |
|---|---|---|
| */s/ Mack I. Whittle, Jr.*<br>Mack I. Whittle, Jr. | President and Chief Executive Officer | February 28, 2008 |
| */s/ James R. Gordon*<br>James R. Gordon | Executive Vice President and Chief Financial Officer<br>(Principal Accounting and Financial Officer) | February 28, 2008 |

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on the date indicated:

| Name | Title | Date |
|---|---|---|
| */s/ Mack I. Whittle, Jr.*<br>Mack I. Whittle, Jr. | Chairman and Director | February 28, 2008 |
| */s/ William P. Brant*<br>William P. Brant | Director | February 28, 2008 |
| */s/ J. W. Davis*<br>J. W. Davis | Director | February 28, 2008 |
| */s/ C. Claymon Grimes, Jr.*<br>C. Claymon Grimes, Jr. | Director | February 28, 2008 |
| */s/ M. Dexter Hagy*<br>M. Dexter Hagy | Director | February 28, 2008 |
| */s/ Michael R. Hogan*<br>Michael R. Hogan | Director | February 28, 2008 |
| */s/ William S. Hummers III*<br>William S. Hummers III | Director | February 28, 2008 |
| */s/ Challis M. Lowe*<br>Challis M. Lowe | Director | February 28, 2008 |
| Darla D. Moore | Director | February 28, 2008 |
| */s/ Jon W. Pritchett*<br>Jon W. Pritchett | Director | February 28, 2008 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

| Name | Title | Date |
| --- | --- | --- |
| */s/ H. Earle Russell, Jr.*<br>H. Earle Russell, Jr. | Director | February 28, 2008 |
| */s/Charles B. Schooler*<br>Charles B. Schooler | Director | February 28, 2008 |
| */s/ Edward J. Sebastian*<br>Edward J. Sebastian | Director | February 28, 2008 |
| */s/John C. B. Smith, Jr.*<br>John C. B. Smith, Jr. | Director | February 28, 2008 |
| */s/ William R. Timmons III*<br>William R. Timmons III | Director | February 28, 2008 |
| Samuel H. Vickers | Director | February 28, 2008 |
| */s/ David C. Wakefield III*<br>David C. Wakefield III | Director | February 28, 2008 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

## INDEX TO EXHIBITS

| Exhibit No. | Description |
|---|---|
| 10.6 | Noncompetition, Severance and Employment Agreement dated February 25, 2008 by and between TSFG and James R. Gordon |
| 10.7 | Noncompetition, Severance and Employment Agreement dated February 25, 2008 by and between TSFG and Maurice J. Spagnoletti |
| 10.8 | Noncompetition, Severance and Employment Agreement dated February 25, 2008 by and between TSFG and Kendall L. Spencer |
| 10.19 | Noncompetition, Severance and Employment Agreement dated September 6, 2007 by and between TSFG and Michael W. Sperry |
| 10.20 | Noncompetition, Severance and Employment Agreement dated February 25, 2008 by and between TSFG and H. Lynn Harton |
| 10.24 | Supplemental Executive Retirement Agreement between TSFG and H. Lynn Harton |
| 10.27 | First Amendment to Supplemental Executive Retirement Agreement between TSFG and Michael W. Sperry |
| 21.1 | Subsidiaries of TSFG |
| 23.1 | Consent of PricewaterhouseCoopers LLP |
| 23.2 | Consent of KPMG LLP |
| 31.1 | Certification of Principal Executive Officer pursuant to Rule 13a-14a/15(d)-14(a) of Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 31.2 | Certification of Principal Financial Officer pursuant to Rule 13a-14a/15(d)-14(a) of Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes Oxley Act of 2002 |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002 |
| 32.2 | Certification of Principal Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes Oxley Act of 2002 |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Exhibit 10.6

STRICTLY CONFIDENTIAL

**NOTICE: THIS CONTRACT IS SUBJECT TO ARBITRATION PURSUANT TO THE SOUTH CAROLINA UNIFORM ARBITRATION ACT**

# AMENDED AND RESTATED NONCOMPETITION, SEVERANCE AND EMPLOYMENT AGREEMENT Between CAROLINA FIRST BANK and JAMES R. GORDON

This Noncompetition, Severance and Employment Agreement (this "Agreement") is made and entered into as of February 25, 2008 by and between James R. Gordon, an individual ("Executive"), and Carolina First Bank, a South Carolina corporation headquartered in Greenville, South Carolina (the "Company") and wholly owned subsidiary of The South Financial Group, Inc. ("TSFG").

## RECITALS

The Company's Board of Directors (the "Board") believes that Executive will be instrumental in the future success of the Company.

The Company and its subsidiaries desire to employ Executive as Chief Financial Officer of the Company and in such other capacities as Executive is currently employed as of the date hereof.

The terms hereof are consistent with the executive compensation objectives of the Company as established by the Board.

This Agreement amends and restates the original agreement between the Executive and TSFG dated March 20, 2007.

## AGREEMENT

**NOW, THEREFORE**, in consideration of the premises and the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Employment. Subject to the terms and conditions hereof, the Company hereby employs Executive and Executive hereby accepts such employment as the Chief Financial Officer of the Company and TSFG having such duties and responsibilities as are set forth in Section 3 below.

2. Definitions. For purposes of this Agreement, the following terms shall have the meanings specified below.

"Agreement" shall have the meaning set forth in the preamble.

"Annual Base Salary" shall have the meaning set forth in Section 6.1.

"Annual Bonus Amount" shall mean the average of the annual cash bonuses earned by Executive under any written short-term (i.e. one year) plan (regardless of whether a particular bonus has yet been paid or whether any portion thereof was deferred) as a result of employment by the Company and its affiliates over the three year period immediately preceding the date of termination. In calculating the Annual Bonus Amount: (1) if one of the year's bonuses in the calculation period was based on a period of less than 12 full months, then such annual bonus amount shall be annualized; (2) if Executive was employed for less than three years and had not yet earned a bonus in year two and/or year three (as applicable) because Executive was not employed at December 31 of that year, then the Annual Bonus Amount shall be calculated based solely on the years in which Executive was employed at the end of the year; (3) if Executive shall not have been employed long enough to earn a cash bonus, then the Annual Bonus Amount will be deemed to be target. In the event of a Change in Control prior to December 31, 2008, for purposes of calculating the 2007

cash bonus, the Company would use the higher of the actual bonus award or the target bonus amount for 2007.

"Board" shall mean the Board of Directors of TSFG.

"Cause" shall mean:

(i) In the absence of a Change in Control: (a) fraud; (b) embezzlement; (c) conviction of the Executive of any felony; (d) a material breach of, or the wilful failure or refusal by the Executive to perform and discharge the Executive's duties, responsibilities and obligations under this Agreement; (e) any act of moral turpitude or wilful misconduct by the Executive intended to result in personal enrichment of the Executive at the expense of the Company, or any of its affiliates or which has a material adverse impact on the business or reputation of the Company or any of its affiliates (such determination to be made by the Board in its reasonable judgment); (f) intentional material damage to the property or business of the Company; (g) gross negligence; or (h) the ineligibility of the Executive to perform Executive's duties because of a ruling, directive or other action by any agency of the United States or any state of the United States having regulatory authority over the Company.

(ii) After a Change in Control: (a) material criminal fraud, (b) gross negligence, (c) material dereliction of duties, (d) intentional material damage to the property or business of the Company, or (e) the commission of a material felony, in each case, as determined in the reasonable discretion of the Board, but only if (1) the Executive has been provided with written notice of any assertion that there is a basis for termination for cause which notice shall specify in reasonable detail specific facts regarding any such assertion, (2) such written notice is provided to the Executive a reasonable time before the Board meets to consider any possible termination for cause, (3) at or prior to the meeting of the Board to consider the matters described in the written notice, an opportunity is provided to the Executive and Executive's counsel to be heard before the Board with respect to the matters described in the written notice, (4) any resolution or other Board action held with respect to any deliberation regarding or decision to terminate the Executive for cause is duly adopted by a vote of a majority of the entire Board of the Company at a meeting of the Board called and held and (5) the Executive is promptly provided with a copy of the resolution or other corporate action taken with respect to such termination. No act or failure to act by the Executive shall be considered wilful unless done or omitted to be done by Executive not in good faith and without reasonable belief that Executive's action or omission was in the best interests of the Company. The unwillingness of the Executive to accept any or all of a change in the nature or scope of Executive's position, authorities or duties, a reduction in Executive's total compensation or benefits, a relocation that he deems unreasonable in light of Executive's personal circumstances, or other action by or upon request of the Company in respect of Executive's position, authority, or responsibility that he reasonably deems to be contrary to this Agreement, may not be considered by the Board to be a failure to perform or misconduct by the Executive.

"Change in Control" shall mean:

(i) when any Person or Persons acting as "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act and within the meaning of Section 409A of the Code and applicable regulations thereunder) acquires directly or indirectly, securities of TSFG representing an aggregate of more than 50% of the combined voting power of TSFG's then outstanding voting securities other than an acquisition by:

(A) any employee plan established by TSFG;

(B) TSFG or any of its affiliates (as defined in Rule 12b-2 promulgated under the Exchange Act);

(C) an underwriter temporarily holding securities pursuant to an offering of such securities;

(D) a corporation owned, directly or indirectly, by stockholders of TSFG in substantially the same proportions as their ownership of TSFG; or

(E) except as provided in clause (iii) below, merger or consolidation of TSFG with any other corporation which is duly approved by the stockholders of TSFG; or



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

(ii) when a majority of the board of directors of TSFG is replaced during any 12-month period and such new appointments are not approved by a majority of the members of the current board prior to the date of appointment or election; or

(iii) The consummation of a merger, sale of substantially all assets, consolidation or similar transaction between TSFG and any other corporation other than (A) such a transaction that would result in the voting securities of TSFG outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of any company, at least a majority of the combined voting power of the voting securities of TSFG or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (B) such a transaction effected to implement a recapitalization of TSFG (or similar transaction) in which no Person is or becomes the beneficial owner (as defined in clause (i) above), directly or indirectly, of securities of TSFG (not including in the securities beneficially owned by such Person any securities acquired directly from TSFG) representing a majority of the combined voting power of TSFG's then outstanding voting securities; or (C) a plan of complete liquidation of TSFG.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor statute, rule or regulation of similar effect.

"Company" shall have the meaning set forth in the preamble.

"Compensation" shall mean the sum of (i) Executive's Annual Base Salary (as defined in Section 6.1), and (ii) Executive's Annual Bonus Amount.

"Competitor" shall have the meaning set forth in Section 9.

"Confidential Information" shall mean all business and other information relating to the business of the Company and its affiliates, including without limitation, technical or nontechnical data, programs, methods, techniques, processes, financial data, financial plans, product plans, and lists of actual or potential customers, which (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other Persons, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality. Such information and compilations of information shall be contractually subject to protection under this Agreement whether or not such information constitutes a trade secret and is separately protectable at law or in equity as a trade secret. Confidential Information shall not include any of the foregoing that does not constitute a trade secret under applicable law two years after any expiration or termination of this Agreement.

"Disability" or "Disabled" shall mean any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months which results in (i) Executive being unable to engage in any substantial gainful activity or (ii) Executive receiving income replacement benefits for a period of not less than 3 months under an accident and health plan (including disability benefits) covering employees of the Company. In addition, Executive will be deemed disabled if determined to be totally disabled by the Social Security Administration, or if determined to be disabled in accordance with a disability insurance program provided the definition of disability applied under such disability insurance program complies with the requirements of the preceding sentence.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Executive" shall have the meaning set forth in the preamble.

"Noncompete Period" shall have the meaning set forth in Section 9.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

“Involuntary Termination” shall mean the termination of Executive’s employment by the Executive following a Change in Control which, in the sole judgment of the Executive, is due to (i) a change of the Executive’s responsibilities, position (including status as Executive Vice President, Corporate Human Resources Director of the Company, its successor or ultimate parent entity, office, title, reporting relationships or working conditions), authority or duties (including changes resulting from the assignment to the Executive of any duties inconsistent with Executive’s positions, duties or responsibilities as in effect immediately prior to the Change in Control); or (ii) a change in the terms or status (including the rolling three year termination date) of this Agreement; or (iii) a reduction in the Executive’s compensation or benefits; or (iv) a forced relocation of the Executive outside the Greenville metropolitan area; or (v) a significant increase in the Executive’s travel requirements (collectively “Status Changes”); provided, however, Executive must elect to terminate Executive’s employment within two (2) years of the Status Change on which Executive bases Executive’s employment termination.

“Other Benefits” means (i) any unpaid base salary through the date of termination and (ii) amounts that are vested benefits or that Executive is otherwise entitled to receive under any plan, policy, practice or program of or any other contract or agreement with the Company or its affiliates (other than this Agreement) at or subsequent to the date of termination in accordance with the terms of such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement. Notwithstanding the foregoing, “Other Benefits” shall not include any severance pay or benefits under any severance plan, program or policy of the Company and its affiliates. Without limiting the generality of the foregoing, the Executive’s resignation under this Agreement for any reason, shall in no way affect the Executive’s ability to terminate employment by reason of the Executive’s “retirement” under any compensation and benefits plans, programs or arrangements of the Company or its affiliates, including without limitation any retirement or pension plans or arrangements or to be eligible to receive benefits under any compensation or benefit plans, programs or arrangements of the Company or its affiliates, including without limitation any retirement or pension plan or arrangement of the Company or its affiliates or substitute plans adopted by the Company or its successors, and any termination which otherwise qualifies as Involuntary Termination shall be treated as such even if it is also a “retirement” for purposes of any such plan.

“Person” shall mean any individual, corporation, bank, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or other entity.

“Vesting Benefits” shall mean the following: (i) all rights of Executive pursuant to equity compensation grants including stock options granted by the Company shall vest and shall be released from all conditions and restrictions, except for restrictions on transfer pursuant to the Securities Act of 1933, as amended; (ii) subject to applicable legal limits to the contrary, including limits applicable to incentive stock options under the Code, Executive shall have the lesser of (a) three years from the date of such termination or (b) until the end of the scheduled term of any such stock option to exercise any outstanding stock options; (iii) Executive shall be entitled to any benefits to which Executive is entitled under the Supplemental Executive Retirement Agreement in accordance with the terms thereof; and (iv) for three years after Executive’s date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, (the “Benefit Continuation Period”), the Company shall continue health care and life insurance benefits to the Executive and/or the Executive’s family at least equal to those that would have been provided to them in accordance with the plans, programs, practices and policies providing health care and life insurance benefits and at the benefit level as if the Executive’s employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliates and their families; *provided*, *however*, that, the health care benefits provided during the Benefit Continuation Period shall be provided in such a manner that such benefits (and the costs and premiums thereof) are excluded from the Executive’s income for federal income tax purposes and, if the Company reasonably determines that providing continued coverage under one or more of its health care benefit plans contemplated herein could be taxable to the Executive, the Company shall provide such benefits at the level required hereby through the purchase of individual insurance coverage; *provided, however*, that if the Executive becomes re-employed with another employer and is eligible to receive



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

health care and life insurance benefits under another employer-provided plan, the health care and life benefits provided hereunder shall be secondary to those provided under such other plan during such applicable period of eligibility.

"Voluntary Termination" shall mean the termination by Executive of Executive's employment following a Change in Control which is not the result of any of clauses (i) through (v) set forth in the definition of Involuntary Termination above.

3. Duties. During the Term hereof, Executive shall have such duties and authority as are commensurate with Executive's position as set forth in Section 1, including, without limitation, any such duties and authority as may be specified in the Company's Bylaws. Executive agrees that during the Term hereof, he will devote Executive's full time, attention and energies to the diligent performance of Executive's duties. Executive shall not, without the prior written consent of the Company, at any time during the Term hereof (i) accept employment with, or render services of a business, professional or commercial nature to, any Person other than the Company, (ii) engage in any venture or activity which the Company may in good faith consider to be competitive with or adverse to the business of the Company or of any affiliate of the Company, whether alone, as a partner, or as an officer, director, employee or shareholder or otherwise, except that the ownership of not more than 5% of the stock or other equity interest of any publicly traded corporation or other entity shall not be deemed a violation of this Section, or (iii) engage in any venture or activity which the Board may in good faith consider to interfere with Executive's performance of Executive's duties hereunder.

4. Term. Unless earlier terminated as provided herein, Executive's employment hereunder shall be for a rolling term of three years commencing on the date hereof (the "Term"). This Agreement shall be deemed to extend each day for an additional day automatically without any action on behalf of either party hereto; provided, however, that either party may, by written notice to the other, cause this Agreement to cease to extend automatically and upon such notice, the "Term" of this Agreement shall be the three years following the date of such notice, and this Agreement shall terminate upon the expiration of such Term.

5. Termination. This Agreement may be terminated as follows:

5.1 The Company. The Company shall have the right to terminate Executive's employment hereunder at any time during the Term hereof (i) for Cause, (ii) if the Executive becomes Disabled, (iii) upon the Executive's death, or (iv) without Cause.

5.1.1 If the Company terminates Executive's employment under this Agreement pursuant to clauses (i) of Section 5.1, the Company's obligations hereunder shall cease as of the date of termination; provided, however, if Executive is terminated for Cause after a Change in Control, then such termination shall be treated as a Voluntary Termination as contemplated in and subject to the terms of Section 5.2.3 below without the application of Section 5.2.4 below.

5.1.2 If the Company terminates Executive's employment under this Agreement pursuant to clauses (ii) or (iii) of Section 5.1, the Company's obligations hereunder shall cease as of the date of termination except that Executive or Executive's estate will be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum a pro-rata portion of the targeted Annual Incentive Bonus under Section 6.2 for the portion of the year actually worked by Executive prior to Executive's Disability or death.

5.1.3 If the Company terminates Executive pursuant to clause (iv) of Section 5.1 and there has been a Change in Control, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to three times Executive's Compensation. If the Company terminates Executive pursuant to clause (iv) of Section 5.1 and in the absence of a Change in Control, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to the product of (a) the Compensation and (b) the number of years and portions thereof remaining in the Term.

5.1.4 In the event of such termination pursuant to clause (iv) of Section 5.1, the Executive shall be entitled to the Vesting Benefits.

5.2 By Executive. Executive shall have the right to terminate Executive's employment



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

hereunder if (i) the Company materially breaches this Agreement and such breach is not cured within 30 days after written notice of such breach is given by Executive to the Company; (ii) there is a Voluntary Termination; or (iii) there is an Involuntary Termination.

5.2.1 If Executive terminates Executive's employment other than pursuant to clauses (i), (ii) or (iii) of Section 5.2, the Company's obligations under this Agreement shall cease as of the date of such termination.

5.2.2 If Executive terminates Executive's employment hereunder pursuant to clause (i) of Section 5.2 and there has been a Change in Control, or pursuant to clause (iii) of Section 5.2, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to three times Executive's Compensation. If the Executive terminates Executive's employment pursuant to clause (i) of Section 5.2 and in the absence of a Change in Control, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to one times Executive's Compensation.

5.2.3 If Executive terminates Executive's employment pursuant to clause (ii) of Section 5.2, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to one times Executive's Compensation.

5.2.4 In addition, in the event of such termination pursuant to any of clauses (i) through (iii) of this Section 5.2, the Executive shall be entitled to the Vesting Benefits.

6. Compensation. In consideration of Executive's services and covenants hereunder, Company shall pay to Executive the compensation and benefits described below (which compensation shall be paid in accordance with the normal compensation practices of the Company,provided that Executive's salary pursuant to Section 6.1 shall be payable not less frequently than monthly):

6.1Annual Salary. During the Term hereof, the Company shall pay to Executive a base salary established by the Company which for the first year of the Term shall be $315,000 (the "Annual Base Salary"). Executive's salary will be reviewed at the beginning of each of its fiscal years and, in the sole discretion of the Company, may be increased for such year (but not decreased). All references herein to Annual Base Salary shall refer to Executive's base salary as so increased.

6.2Annual Incentive Bonus. During Executive's employment, the Executive shall participate in the Management Incentive Compensation Plan or any successor thereto on terms equal to similarly situated officers. The Annual Incentive Award under the Management Performance Incentive Plan for 2007 will be the greater of $100,000 or an award determined by the CEO based on Company and individual performance.

6.3Long Term Incentive Plan. During Executive's employment, the Executive shall participate in the Long Term Incentive Plan or any successor thereto on terms equal to similarly situated officers.

6.4Supplemental Executive Benefit Plan. During Executive's employment, Executive shall be entitled to participate in a Supplemental Executive Retirement Agreement.

6.5Equity Compensation Awards. During Executive's employment, the Company may grant Executive equity compensation awards based on the Company's common stock as determined by the Company.

6.6Miscellaneous Benefits. During Executive's employment, Executive shall be entitled to participate in any other employee benefit plan, programs, policies or other arrangements generally provided by the Company to its comparable ranking executives for so long as the Company provides such benefits. The Company also agrees to provide Executive, during the Term hereof, with a $1.0 million term life insurance policy. During the Term, Executive shall also be entitled to participate in all other benefits accorded general Company employees.

7. Excess Parachute Payments.

7.1 Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any Payment would be subject to the Excise Tax, then Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that, after payment by Executive of all taxes (and any interest or penalties imposed with respect to such



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Code, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 7.1, if it shall be determined that Executive is entitled to the Gross-Up Payment, but that the Parachute Value of all Payments does not exceed 110% of the Safe Harbor Amount, then no Gross-Up Payment shall be made to Executive and the amounts payable under this Agreement shall be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing the cash severance payments. For purposes of reducing the Payments to the Safe Harbor Amount, only the cash severance payments payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amount of cash severance payments payable under this Agreement would not result in a reduction of the Parachute Value of all Payments to the Safe Harbor Amount, no amounts payable under the Agreement shall be reduced pursuant to this Section 7.1. The Company's obligation to make Gross-Up Payments under this Section 7 shall not be conditioned upon Executive's termination of employment.

7.2 Subject to the provisions of Section 7.3, all determinations required to be made under this Section 7, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Pricewaterhouse Coopers, or such other nationally recognized certified public accounting firm as may be designated by Executive (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the "Underpayment"), consistent with the calculations required to be made hereunder. In the event the Company exhausts its remedies pursuant to Section 7.3 and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

7.3 The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, Executive shall:

1. give the Company any information reasonably requested by the Company relating to such claim,
2. take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
3. cooperate with the Company in good faith in order effectively to contest such claim; and
4. permit the Company to participate in any proceedings relating to such claim;

*provided*, *however*, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold Executive



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7.3, the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of Executive and direct Executive to sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided*, *however*, that, if the Company pays such claim and directs Executive to sue for a refund, the Company shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and *provided*, *further*, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

7.4 If, after the receipt by Executive of a Gross-Up Payment or payment by the Company of an amount on Executive's behalf pursuant to Section 7.3, Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 7.3, if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Company of an amount on Executive's behalf pursuant to Section 7.3, a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount of such payment shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

7.5 Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to Executive within five days of the receipt of the Accounting Firm's determination; provided that, the Gross-Up Payment shall in all events be paid no later than the end of Executive's taxable year next following Executive's taxable year in which the Excise Tax (and any income or other related taxes or interest or penalties thereon) on a Payment are remitted to the Internal Revenue Service or any other applicable taxing authority or, in the case of amounts relating to a claim described in Section 7.3 that does not result in the remittance of any federal, state, local and foreign income, excise, social security and other taxes, the calendar year in which the claim is finally settled or otherwise resolved. Notwithstanding any other provision of this Section 7, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of Executive, all or any portion of any Gross-Up Payment, and Executive hereby consents to such withholding.

7.6 Definitions. The following terms shall have the following meanings for purposes of this Section 7.

"Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

"Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

A "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable pursuant to this Agreement or otherwise.

The "Safe Harbor Amount" means 2.99 times Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

8. Confidentiality. Executive shall hold in a fiduciary capacity for the benefit of the Company all Confidential Information relating to the Company or any of its affiliates, and their respective businesses, which shall have been obtained by Executive during Executive's employment by the Company or any of its affiliates. After termination of Executive's employment with the Company for any reason, Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. Upon the termination or expiration of Executive's employment hereunder, Executive agrees to deliver promptly to the Company all Company files, customer lists, management reports, memoranda, research, Company forms, financial data and reports and other documents supplied to or created by Executive in connection with Executive's employment hereunder (including all copies of the foregoing) in Executive's possession or control and all of the Company's equipment and other materials in Executive's possession or control.

9. Noncompetition and Nonsolicitation Agreement.

9.1 During the term hereof and for the two year period following the date of termination of employment for any reason (the "Noncompete Period"), Executive shall not directly or indirectly enter into an employment relationship or a consulting arrangement (or other economically beneficial arrangement) with any other bank, thrift, or other lending institution, including such entities "in organization", headquartered in any county in which the Company has material banking operations (a "Competitor") and which would both (1) involve Executive engaging in the same or substantially similar activities as those he provided to the Company at the time of his termination and (2) after a Change in Control, which would also involve Executive having significant customer oversight over any customers (if any) overseen at the time of the Change in Control. The obligations contained in this Section 9 shall not prohibit Executive from being an owner of not more than 5% of the outstanding stock of any class of a corporation which is publicly traded, so long as Executive has no active participation in the business of such corporation.

9.2 During the Noncompete Period, Executive shall not directly or indirectly, either as an independent contractor, employee, consultant, agent, partner, joint venturer or otherwise through another person or entity, including but not limited to a Competitor, (i) solicit, induce or attempt to induce (or aid any person or entity in doing so) any employee of Company to leave the employ of Company or in any way interfere with the relationship between Company and any employee thereof or (ii) hire or engage any person who was an employee of Company or any subsidiary at any time during the six month period preceding Executive's hiring or engagement of such employee.

9.3 If, at the time of enforcement of this Section 9, a court shall hold that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances shall be substituted for the stated duration, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law and that such revised restrictions may be enforced against Executive.

9.4 In the event of the breach or a threatened breach by Executive of any of the provisions of this Section 9, Company, in addition and supplementary to other rights and remedies existing in its favor, may apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof (without posting a bond or other security). In addition, in the event of an alleged breach or violation by Executive of this Section 9, the Noncompete Period shall be tolled until such breach or violation has been duly cured.

9.5 The Noncompete Period shall be extended commensurately for any period of time during which the covenants set forth in this Section 9 are contested. Executive agrees that the restrictions contained in this Section 9 are reasonable.

10. Assignment.

10.1 This Agreement is personal to Executive, and, without the prior written consent of the Company, shall not be assignable by Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

10.2 This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. Except as provided in Section 10.3, without the prior written consent of Executive this Agreement shall not be assignable by the Company.

10.3 The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. "Company" means the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

11. Notices. All notices, requests, demands, and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given if delivered or seven days after mailing if mailed, first class, certified mail postage prepaid:

To the Company: Carolina First Bank, c/o TSFG
104 South Main Street
Greenville, South Carolina 29601
Attn: Mary A. Jeffrey

To Executive: At the most recent address for Executive on file at the Company.

Any party may change the address to which notices, requests, demands, and other communications shall be delivered or mailed by giving notice thereof to the other party in the same manner provided herein.

12. Provisions Severable/Savings Clause. If any provision or covenant, or any part thereof, of this Agreement should be held by any court to be invalid, illegal or unenforceable, either in whole or in part, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of the remaining provisions or covenants, or any part thereof, of this Agreement, all of which shall remain in full force and effect. With respect to any provision or covenant of Section 8 or 9 finally determined by a court of competent jurisdiction to be unenforceable, Executive, the Company and its affiliates hereby agree that such court shall have jurisdiction to reform such provision or covenant so that it is enforceable to the maximum extent permitted by law, and the parties agree to abide by such court's determination. If any of the provisions or covenants of Section 8 or 9 are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the rights of the Company or its affiliates, as applicable, to enforce any such provision or covenant in any other jurisdiction.

13. Remedies.

13.1 Executive acknowledges that if he breaches or threatens to breach Executive's covenants and agreements in this Agreement, such actions may cause irreparable harm and damage to the Company which could not be compensated in damages. Accordingly, if Executive breaches or threatens to breach this Agreement, the Company shall be entitled to injunctive relief, in addition to any other rights or remedies of the Company.

13.2 All claims, disputes and other matters in question between Executive and the Company arising out of or related to the interpretation of this Agreement or the breach of this Agreement, except as specifically governed by the foregoing provisions where there may be irreparable harm and damage to the Company which could not be compensated in damages, shall be decided by arbitration in accordance with the rules of the American Arbitration Association. This agreement to arbitrate shall be specifically enforceable under applicable law in any court having jurisdiction. The award rendered by the arbitrator shall be final and judgment may be entered upon it in accordance with the applicable law of any court having jurisdiction thereof.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

14. No Mitigation. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not Executive obtains other employment.

15. Waiver. Failure of either party to insist, in one or more instances, on performance by the other in strict accordance with the terms and conditions of this Agreement shall not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless such waiver is contained in a writing signed by the party making the waiver.

16. Amendments and Modifications. This Agreement may be amended or modified only by a writing signed by other parties hereto.

17. Governing Law. The validity and effect of this agreement shall be governed by and construed and enforced in accordance with the laws of the State of South Carolina without regard to principles of conflicts of laws.

18. Withholding. The Company may withhold from any amounts payable under this Agreement such United States federal, state or local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

19. Compliance With Section 409A. Within the time period permitted by the applicable Treasury Regulations, the Company may, in consultation with the Executive, modify the Agreement, in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, in order to cause the provisions of the Agreement to comply with the requirements of Section 409A of the Code, so as to avoid the imposition of taxes and penalties on the Executive pursuant to Section 409A of the Code. Notwithstanding any provision of this Agreement to the contrary, in the event that the Executive is a "specified employee" within the meaning of Section 409A of the Code (as determined in accordance with the methodology established by the Company as in effect on the date of termination), amounts that would otherwise be payable under Section 5 during the six-month period immediately following the date of termination shall instead be paid, with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code, or provided on the first business day after the date that is six months following the Executive's "separation from service" within the meaning of Section 409A of the Code. The Company and the Executive shall take all steps necessary (including with regard to any post-termination services by the Executive) to ensure that any termination described in this Agreement constitutes a "separation from service" within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place shall be the "date of termination".

20. Enforceability of Confidentiality, Noncompetition and Nonsolicitation Provisions. The provisions of Sections 8 and 9, including all subparts thereof, shall be enforceable regardless of the reason for termination of Executive's employment and without regard to whether the employment is terminated by Executive or the Company. Executive expressly agrees that should Executive terminate the employment relationship on the grounds of a breach by the Company, as provided at Section 5.2(i) or an Involuntary Termination, as provided at Section 5.2(ii), such breach or Involuntary Termination shall not have any affect upon the enforceability of the provisions of Sections 8 and 9, including all subparts thereof, and Executive may not assert any such breach or Involuntary Termination as a defense to an action to enforce the provisions of Sections 8 and 9, including all subparts thereof. The existence of any claim or cause of action of Executive against the Company, whether predicated in this Agreement or otherwise, shall not constitute a defense to the enforcement of Sections 8 or 9 by the Company.

21. Remedies after a Change in Control. The terms of this Section 14 will apply in the absence of a Change in Control.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

21.1 The Executive acknowledges that if he breaches or threatens to breach Executive's covenants and agreements in this Agreement, such actions may cause irreparable harm and damage to the Company which could not be compensated in damages. Accordingly, if Executive breaches or threatens to breach this Agreement, the Company shall be entitled to injunctive relief, in addition to any other rights or remedies of the Company.

21.2 All claims, disputes and other matters in question between the Executive and the Company arising out of or related to the interpretation of this Agreement or the breach of this Agreement, except as specifically governed by the foregoing provisions where there may be irreparable harm and damage to the Company which could not be compensated in damages, shall be decided by arbitration in accordance with the rules of the American Arbitration Association. This agreement to arbitrate shall be specifically enforceable under applicable law in any court having jurisdiction. The award rendered by the arbitrator shall be final and judgment may be entered upon it in accordance with the applicable law of any court having jurisdiction thereof.

21.3 In the event that the Executive is reasonably required to engage legal counsel to enforce Executive's rights hereunder against the Company, Executive shall be entitled to receive from the Company Executive's reasonable attorneys' fees and costs. In order to comply with Section 409A of the Code, in no event shall the payments by the Company under this Section 21.3 be made (i) with respect to expenses incurred following the 20$^{th}$ anniversary of the date on which the dispute arose and (ii) later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, *provided*, that the Executive shall have submitted an invoice for such fees and expenses at least 10 days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the day and year first above written.

**EXECUTIVE**

**/s/ James R. Gordon**
**JAMES R. GORDON**

**CAROLINA FIRST BANK**

By: /s/ Mary A. Jeffrey
**Mary A. Jeffrey, Executive Vice President**

**THE SOUTH FINANCIAL GROUP, INC.**

By: /s/ Mary A. Jeffrey
**Mary A. Jeffrey, Executive Vice President**



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Exhibit 10.7

STRICTLY CONFIDENTIAL

**NOTICE: THIS CONTRACT IS SUBJECT TO ARBITRATION PURSUANT TO THE SOUTH CAROLINA UNIFORM ARBITRATION ACT**

**NONCOMPETITION,
SEVERANCE AND EMPLOYMENT AGREEMENT
Between
CAROLINA FIRST BANK and MAURICE J. SPAGNOLETTI**

This Amended and Restated Noncompetition, Severance and Employment Agreement (this "Agreement") is made and entered into as of this February 25, 2008, by and between Maurice J. Spagnoletti, an individual (the "Executive"), and Carolina First Bank, a South Carolina corporation headquartered in Greenville, South Carolina (the "Company") and wholly owned subsidiary of The South Financial Group, Inc. ("TSFG").

## RECITALS

The Company's Board of Directors (the "Board") believes that the Executive has been instrumental in the success of the Company.

The Company desires to continue to employ the Executive as Carolina First Bank — South Carolina.

The terms hereof are consistent with the executive compensation objectives of the Company as established by the Board.

The Executive is willing to accept the employment contemplated herein under the terms and conditions set forth herein.

This Agreement amends and restates the original agreement between the Executive and the Company dated May 8, 2006.

## AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Employment. Subject to the terms and conditions hereof, the Company hereby employs the Executive and Executive hereby accepts such employment as the President Carolina First Bank — South Carolina having such duties and responsibilities as are set forth in Section 3 below.

2. Definitions. For purposes of this Agreement, the following terms shall have the meanings specified below.

"Agreement" shall have the meaning set forth in the preamble.

"Annual Base Salary" shall have the meaning set forth in Section 6.1.

"Annual Bonus Amount" shall mean the average of the annual cash bonuses earned by Executive under any written short-term (i.e. one year) plan (regardless of whether a particular bonus has yet been paid or whether any portion thereof was deferred) as a result of employment by the Company and its affiliates over the three year period immediately preceding the date of termination. In calculating the Annual Bonus Amount: (i) if one of the year's bonuses in the calculation period was based on a period of less than 12 full months, then such annual bonus amount shall be annualized; (ii) if Executive was employed for less than three years and had not yet earned a bonus in year two and/or year three (as applicable) because Executive was not employed at December 31 of that year, then the Annual Bonus Amount shall be calculated based solely on the years in which Executive was employed at the end of the year; (iii) if Executive shall not have been employed long enough to earn a cash bonus, then the Annual Bonus Amount will be deemed to be the Executive's target bonus amount.

"Board" shall mean the Board of Directors of TSFG.

"Cause" shall mean:

(i) In the absence of a Change in Control: (a) fraud; (b) embezzlement; (c) conviction of the Executive of any felony; (d) a material breach of, or the wilful failure or refusal by the Executive to perform and discharge the Executive's duties, responsibilities and obligations under this Agreement; (e) any act of moral turpitude or wilful misconduct by the Executive intended to result in personal enrichment of the Executive at the expense of the Company, or any of its affiliates or which has a material adverse impact on the business or reputation of the Company or any of its affiliates (such determination to be made by the Board in its reasonable judgment); (f) intentional material damage to the property or business of the Company; (g) gross negligence; or (h) the ineligibility of the Executive to perform Executive's duties because of a ruling, directive or other action by any agency of the United States or any state of the United States having regulatory authority over the Company.

(ii) After a Change in Control: (a) material criminal fraud, (b) gross negligence, (c) material dereliction of duties, (d) intentional material damage to the property or business of the Company, or (e) the commission of a material felony, in each case, as determined in the reasonable discretion of the Board, but only if (1) the Executive has been provided with written notice of any assertion that there is a basis for termination for cause which notice shall specify in reasonable detail specific facts regarding any such assertion, (2) such written notice is provided to the Executive a reasonable time before the Board meets to consider any possible termination for cause, (3) at or prior to the meeting of the Board to consider the matters described in the written notice, an opportunity is provided to the Executive and Executive's counsel to be heard before the Board with respect to the matters described in the written notice, (4) any resolution or other Board action held with respect to any deliberation regarding or decision to terminate the Executive for cause is duly adopted by a vote of a majority of the entire Board of the Company at a meeting of the Board called and held and (5) the Executive is promptly provided with a copy of the resolution or other corporate action taken with respect to such termination. No act or failure to act by the Executive shall be considered wilful unless done or omitted to be done by Executive not in good faith and without reasonable belief that Executive's action or omission was in the best interests of the Company. The unwillingness of the Executive to accept any or all of a change in the nature or scope of Executive's position, authorities or duties, a reduction in Executive's total compensation or benefits, a relocation that he deems unreasonable in light of Executive's personal circumstances, or other action by or upon request of the Company in respect of Executive's position, authority, or responsibility that he reasonably deems to be contrary to this Agreement, may not be considered by the Board to be a failure to perform or misconduct by the Executive.

"Change in Control" shall mean:

(i) when any Person or Persons acting as "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act and within the meaning of Section 409A of the Code and applicable regulations thereunder) acquires directly or indirectly, securities of TSFG representing an aggregate of more than 50% of the combined voting power of TSFG's then outstanding voting securities other than an acquisition by:

(A) any employee plan established by TSFG;

(B) TSFG or any of its affiliates (as defined in Rule 12b-2 promulgated under the Exchange Act);

(C) an underwriter temporarily holding securities pursuant to an offering of such securities;

(D) a corporation owned, directly or indirectly, by stockholders of TSFG in substantially the same proportions as their ownership of TSFG; or

(E) except as provided in clause (iii) below, merger or consolidation of TSFG with any other corporation which is duly approved by the stockholders of TSFG; or

(ii) when a majority of the board of directors of TSFG is replaced during any 12-month period and such new appointments are not approved by a majority of the members of the current board prior to the date of appointment or election; or



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

(iii) The consummation of a merger, sale of substantially all assets, consolidation or similar transaction between TSFG and any other corporation other than (A) such a transaction that would result in the voting securities of TSFG outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of any company, at least a majority of the combined voting power of the voting securities of TSFG or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (B) such a transaction effected to implement a recapitalization of TSFG (or similar transaction) in which no Person is or becomes the beneficial owner (as defined in clause (i) above), directly or indirectly, of securities of TSFG (not including in the securities beneficially owned by such Person any securities acquired directly from TSFG) representing a majority of the combined voting power of TSFG's then outstanding voting securities; or (C) a plan of complete liquidation of TSFG.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor statute, rule or regulation of similar effect.

"Company" shall have the meaning set forth in the preamble.

"Compensation" shall mean the sum of (i) Executive's Annual Base Salary (as defined in Section 6.1), and (ii) Executive's Annual Bonus Amount.

"Competitor" shall have the meaning set forth in Section 9.

"Confidential Information" shall mean all business and other information relating to the business of the Company and its affiliates, including without limitation, technical or nontechnical data, programs, methods, techniques, processes, financial data, financial plans, product plans, and lists of actual or potential customers, which (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other Persons, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality. Such information and compilations of information shall be contractually subject to protection under this Agreement whether or not such information constitutes a trade secret and is separately protectable at law or in equity as a trade secret. Confidential Information shall not include any of the foregoing that does not constitute a trade secret under applicable law two years after any expiration or termination of this Agreement.

"Disability" or "Disabled" shall mean any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months which results in (i) Executive being unable to engage in any substantial gainful activity or (ii) Executive receiving income replacement benefits for a period of not less than 3 months under an accident and health plan (including disability benefits) covering employees of the Company. In addition, Executive will be deemed disabled if determined to be totally disabled by the Social Security Administration, or if determined to be disabled in accordance with a disability insurance program provided the definition of disability applied under such disability insurance program complies with the requirements of the preceding sentence.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Executive" shall have the meaning set forth in the preamble.

"Noncompete Period" shall have the meaning set forth in Section 9.

"Involuntary Termination" shall mean the termination of Executive's employment by the Executive following a Change in Control which, in the sole judgment of the Executive, is due to (i) a change of the Executive's responsibilities, position (including status as President Carolina First Bank — South Carolina, its



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

successor or ultimate parent entity, office, title, reporting relationships or working conditions), authority or duties (including changes resulting from the assignment to the Executive of any duties inconsistent with Executive's positions, duties or responsibilities as in effect immediately prior to the Change in Control); or (ii) a change in the terms or status (including the rolling three year termination date) of this Agreement; or (iii) a reduction in the Executive's compensation or benefits; or (iv) a forced relocation of the Executive outside the Greenville metropolitan area; or (v) a significant increase in the Executive's travel requirements (collectively "Status Changes"); provided, however, Executive must elect to terminate Executive's employment within two (2) years of the Status Change on which Executive bases Executive's employment termination.

"Other Benefits" means (i) any unpaid base salary through the date of termination and (ii) amounts that are vested benefits or that Executive is otherwise entitled to receive under any plan, policy, practice or program of or any other contract or agreement with the Company or its affiliates (other than this Agreement) at or subsequent to the date of termination in accordance with the terms of such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement. Notwithstanding the foregoing, "Other Benefits" shall not include any severance pay or benefits under any severance plan, program or policy of the Company and its affiliates. Without limiting the generality of the foregoing, the Executive's resignation under this Agreement for any reason, shall in no way affect the Executive's ability to terminate employment by reason of the Executive's "retirement" under any compensation and benefits plans, programs or arrangements of the Company or its affiliates, including without limitation any retirement or pension plans or arrangements or to be eligible to receive benefits under any compensation or benefit plans, programs or arrangements of the Company or its affiliates, including without limitation any retirement or pension plan or arrangement of the Company or its affiliates or substitute plans adopted by the Company or its successors, and any termination which otherwise qualifies as Involuntary Termination shall be treated as such even if it is also a "retirement" for purposes of any such plan.

"Person" shall mean any individual, corporation, bank, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or other entity.

"Vesting Benefits" shall mean the following: (i) all rights of Executive pursuant to equity compensation grants including stock options granted by the Company shall vest and shall be released from all conditions and restrictions, except for restrictions on transfer pursuant to the Securities Act of 1933, as amended; (ii) subject to applicable legal limits to the contrary, including limits applicable to incentive stock options under the Code, Executive shall have the lesser of (a) three years from the date of such termination or (b) until the end of the scheduled term of any such stock option to exercise any outstanding stock options; (iii) Executive shall be entitled to any benefits to which Executive is entitled under the Supplemental Executive Retirement Agreement in accordance with the terms thereof; and (iv) for three years after Executive's date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, (the "Benefit Continuation Period"), the Company shall continue health care and life insurance benefits to the Executive and/or the Executive's family at least equal to those that would have been provided to them in accordance with the plans, programs, practices and policies providing health care and life insurance benefits and at the benefit level as if the Executive's employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliates and their families; *provided*, *however*, that, the health care benefits provided during the Benefit Continuation Period shall be provided in such a manner that such benefits (and the costs and premiums thereof) are excluded from the Executive's income for federal income tax purposes and, if the Company reasonably determines that providing continued coverage under one or more of its health care benefit plans contemplated herein could be taxable to the Executive, the Company shall provide such benefits at the level required hereby through the purchase of individual insurance coverage; *provided, however*, that if the Executive becomes re-employed with another employer and is eligible to receive health care and life insurance benefits under another employer-provided plan, the health care and life benefits provided hereunder shall be secondary to those provided under such other plan during such applicable period of eligibility.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

3. Duties. During the Term hereof, Executive shall have such duties and authority as are commensurate with Executive's position as set forth in Section 1, including, without limitation, any such duties and authority as may be specified in the Company's Bylaws. Executive agrees that during the Term hereof, he will devote Executive's full time, attention and energies to the diligent performance of Executive's duties. Executive shall not, without the prior written consent of the Company, at any time during the Term hereof (i) accept employment with, or render services of a business, professional or commercial nature to, any Person other than the Company, (ii) engage in any venture or activity which the Company may in good faith consider to be competitive with or adverse to the business of the Company or of any affiliate of the Company, whether alone, as a partner, or as an officer, director, employee or shareholder or otherwise, except that the ownership of not more than 5% of the stock or other equity interest of any publicly traded corporation or other entity shall not be deemed a violation of this Section, or (iii) engage in any venture or activity which the Board may in good faith consider to interfere with Executive's performance of Executive's duties hereunder.

4. Term. Unless earlier terminated as provided herein, Executive's employment hereunder shall be for a rolling term of three years commencing on the date hereof (the "Term"). This Agreement shall be deemed to extend each day for an additional day automatically without any action on behalf of either party hereto; provided, however, that either party may, by written notice to the other, cause this Agreement to cease to extend automatically and upon such notice, the "Term" of this Agreement shall be the three years following the date of such notice, and this Agreement shall terminate upon the expiration of such Term.

5. Termination. This Agreement may be terminated as follows:

5.1The Company. The Company may terminate Executive's employment hereunder at any time during the Term hereof, whether prior to or after a Change in Control (i) for Cause, (ii) if Executive becomes Disabled, (iii) upon Executive's death, (iv) without Cause, or (v) if the Company, in its sole discretion, elects not to create the position of Chief Banking Officer before May 22, 2008, or if Executive is not selected to be the Chief Banking Officer when that position is created and first filled, provided the Company terminates Executive's employment within ninety (90) days of May 22, 2008, or of another person's appointment to that position.

5.1.1 If the Company terminates Executive's employment under this Agreement pursuant to clause (i) of Section 5.1, the Company's obligations hereunder shall cease as of the date of termination.

5.1.2 If the Company terminates Executive's employment under this Agreement pursuant to clauses (ii) or (iii) of Section 5.1, the Company's obligations hereunder shall cease as of the date of termination except that Executive or Executive's estate will be entitled to receive (1) the Other Benefits and (2) an amount equal to the product of (x) Executive's target annual cash bonus for the year in which the date of termination or death occurs and (y) a fraction, the numerator of which is the number of days in the current fiscal year through the date of termination or death and the denominator of which is 365.

5.1.3 (a) If the Company terminates Executive's employment pursuant to clause (iv) of Section 5.1 prior to a Change in Control, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum in cash as severance upon such termination, a multiple of Executive's Compensation equal to the number of years (including any partial years) remaining under the Term of this Agreement.

(b) If the Company terminates Executive's employment pursuant to clause (iv) of Section 5.1 after a Change in Control, Executive shall be entitled to receive (1) the Other Benefits, (2) the Vesting Benefits and (3) immediately in a lump sum in cash as severance upon such termination, a multiple of Executive's Compensation equal to the number of years (including any partial years) remaining under the Term of this Agreement.

5.1.4 If the Company terminates Executive's employment under this Agreement pursuant to clause (v) of Section 5.1, Executive shall be entitled to receive immediately in a lump sum in cash as severance an amount equal to one times the Executive's Compensation. Provided, however, Executive will be paid his reasonable moving expenses to a destination within the Continental United States.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

5.2By Executive. Executive shall have the right to terminate Executive's employment during the Term (i) if the Company materially breaches this Agreement and such breach is not cured within 30 days after written notice of such breach is given by Executive to the Company, (ii) if there is an Involuntary Termination, (iii) for any other reason than clauses (i), (ii) or (iv), or (iv) if the Company, in its sole discretion, elects not to create the position of Chief Banking Officer before May 22, 2008, or if Executive is not selected to be the Chief Banking Officer when that position is created and first filled, provided the Executive terminates his employment within ninety (90) days of May 22, 2008, or of another person's appointment to that position.

5.2.1 (a) If Executive terminates Executive's employment pursuant to clause (iii) of Section 5.2 prior to a Change in Control, the Company's obligations under this Agreement shall cease as of the date of such termination.

(b) If Executive terminates Executive's employment pursuant to clause (iii) of Section 5.2, after a Change in Control, the Executive shall be entitled to receive (i) the Other Benefits and (ii) immediately in a lump sum in cash as severance upon such termination, one times Executive's Compensation.

5.2.2 (a) If Executive terminates Executive's employment hereunder pursuant to clause (i) of Section 5.2 during the two (2) year period following a Change in Control, or pursuant to clause (ii) of Section 5.2, Executive shall be entitled to receive (1) the Other Benefits, (2) the Vesting Benefits and (3) immediately in a lump sum in cash as severance upon such termination, the greater of two times Executive's Compensation or a multiple of Executive's Compensation equal to the number of years (including any partial years) remaining under the Term of this Agreement.

(b) If Executive terminates Executive's employment pursuant to clause (i) of Section 5.2 other than under the circumstances described in the immediately preceding clause (a), Executive shall be entitled to receive (1) the Other Benefits, (2) the Vesting Benefits, and (3) immediately in a lump sum as severance upon such termination, a multiple of Executive's Compensation equal to the number of years (including any partial years) remaining under the Term of this Agreement.

5.2.3 If Executive terminates Executive's employment under this Agreement pursuant to clause (iv) of Section 5.2, Executive shall be entitled to receive immediately in a lump sum in cash as severance an amount equal to one times the Executive's Compensation. Provided, however, Executive will be paid his reasonable moving expenses to a destination within the Continental United States.

6Compensation. In consideration of Executive's services and covenants hereunder, Company shall pay to Executive the compensation and benefits described below (which compensation shall be paid in accordance with the normal compensation practices of the Company,provided that Executive's salary pursuant to Section 6.1 shall be payable not less frequently than monthly):

6.1Annual Base Salary. During the Term hereof, the Company shall pay to Executive a base salary established by the Company which for the first year of the Term shall be $350,000.00 (the "Annual Base Salary"). Executive's salary will be reviewed at the beginning of each of its fiscal years and, in the sole discretion of the Company, may be increased for such year (but not decreased). All references herein to Annual Base Salary shall refer to Executive's base salary as so increased.

6.2Annual Incentive Bonus. During Executive's employment, the Executive shall participate in the Management Performance Incentive Plan or any successor thereto on terms equal to similarly situated officers. For Plan Year 2006, the Company guarantees that Executive will receive a minimum payout equal to the 50% target of $175,000, plus an additional $25,000, for a total of no less than $200,000.

6.3Long Term Incentive Plan. During Executive's employment, the Executive shall participate in the Long Term Incentive Plan or any successor thereto on terms equal to similarly situated officers.

6.4Supplemental Executive Benefit Plan. During Executive's employment, Executive shall be entitled to participate in a Supplemental Executive Retirement Agreement.

6.5Equity Compensation Awards. During Executive's employment, the Company may grant Executive equity compensation awards based on the Company's common stock as determined by the Company.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

6.6Miscellaneous Benefits. During Executive's employment, Executive shall be entitled to participate in any other employee benefit plan, programs, policies or other arrangements generally provided by the Company to its comparable ranking executives for so long as the Company provides such benefits. The Company agrees to provide Executive, during the Term hereof, with a $1.0 million term life insurance policy. The Company agrees to provide Executive a taxable car allowance of no less than $1,600 per month. The Company agrees to reimburse Executive for monthly dues, including initiation fees to both an appropriate club membership and a social club membership. During the Term, Executive shall also be entitled to participate in all other benefits accorded general Company employees.

6.7Signing Bonus. On or before Friday, June 30, 2006, Executive shall receive a one-time signing bonus in the gross amount of seventy-five thousand dollars ($75,000), less applicable federal and state tax withholding and any other applicable deductions.

6.8Relocation. The Company will pay for the movement of household goods from Executive's primary residence to the Greenville, South Carolina area, provided the move is through Smith Dray Line Moving & Storage and coordinated through OneSource Relocation Company, and provided further that the relocation benefits available are those set forth in the Company's offer letter to Executive dated April 17, 2006.

7. Excess Parachute Payments.

7.1 Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any Payment would be subject to the Excise Tax, then Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that, after payment by Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Code, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 7.1, if it shall be determined that Executive is entitled to the Gross-Up Payment, but that the Parachute Value of all Payments does not exceed 110% of the Safe Harbor Amount, then no Gross-Up Payment shall be made to Executive and the amounts payable under this Agreement shall be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing the cash severance payments. For purposes of reducing the Payments to the Safe Harbor Amount, only the cash severance payments payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amount of cash severance payments payable under this Agreement would not result in a reduction of the Parachute Value of all Payments to the Safe Harbor Amount, no amounts payable under the Agreement shall be reduced pursuant to this Section 7.1. The Company's obligation to make Gross-Up Payments under this Section 7 shall not be conditioned upon Executive's termination of employment.

7.2 Subject to the provisions of Section 7.3, all determinations required to be made under this Section 7, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Pricewaterhouse Coopers, or such other nationally recognized certified public accounting firm as may be designated by Executive (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the "Underpayment"), consistent with the calculations required to be made hereunder. In the event the Company exhausts its remedies pursuant to Section 7.3 and Executive



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

7.3 The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, Executive shall:

1. give the Company any information reasonably requested by the Company relating to such claim,
2. take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
3. cooperate with the Company in good faith in order effectively to contest such claim; and
4. permit the Company to participate in any proceedings relating to such claim;

*provided*, *however*, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7.3, the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of Executive and direct Executive to sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided*, *however*, that, if the Company pays such claim and directs Executive to sue for a refund, the Company shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and *provided*, *further*, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

7.4 If, after the receipt by Executive of a Gross-Up Payment or payment by the Company of an amount on Executive's behalf pursuant to Section 7.3, Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 7.3, if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Company of an amount on Executive's behalf pursuant to Section 7.3, a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount of such payment shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

7.5 Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to Executive within five days of the receipt of the Accounting Firm's determination; provided that, the Gross-Up Payment shall in all events be paid no later than the end of Executive's taxable year next



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

following Executive's taxable year in which the Excise Tax (and any income or other related taxes or interest or penalties thereon) on a Payment are remitted to the Internal Revenue Service or any other applicable taxing authority or, in the case of amounts relating to a claim described in Section 7.3 that does not result in the remittance of any federal, state, local and foreign income, excise, social security and other taxes, the calendar year in which the claim is finally settled or otherwise resolved. Notwithstanding any other provision of this Section 7, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of Executive, all or any portion of any Gross-Up Payment, and Executive hereby consents to such withholding.

7.6 Definitions. The following terms shall have the following meanings for purposes of this Section 7.

"Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

"Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

A "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable pursuant to this Agreement or otherwise.

The "Safe Harbor Amount" means 2.99 times Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code.

8. Confidentiality. Executive shall hold in a fiduciary capacity for the benefit of the Company all Confidential Information relating to the Company or any of its affiliates, and their respective businesses, which shall have been obtained by Executive during Executive's employment by the Company or any of its affiliates. After termination of Executive's employment with the Company for any reason, Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. Upon the termination or expiration of Executive's employment hereunder, Executive agrees to deliver promptly to the Company all Company files, customer lists, management reports, memoranda, research, Company forms, financial data and reports and other documents supplied to or created by Executive in connection with Executive's employment hereunder (including all copies of the foregoing) in Executive's possession or control and all of the Company's equipment and other materials in Executive's possession or control.

9. Noncompetition and Nonsolicitation Agreement.

9.1 During the term hereof and for the two year period following the date of termination of employment for any reason (the "Noncompete Period"), Executive shall not directly or indirectly enter into an employment relationship or a consulting arrangement (or other economically beneficial arrangement) with any other bank, thrift or lending institution, including such entities "in organization" (a "Competitor") which would involve Executive working in, consulting with respect to, overseeing or otherwise servicing any market area or customers over which Executive had responsibility at the time of his termination or during the two years immediately prior to such termination. The obligations contained in this Section 9 shall not prohibit Executive from being an owner of not more than 5% of the outstanding stock of any class of a corporation which is publicly traded, so long as Executive has no active participation in the business of such corporation.

9.2 During the Noncompete Period, Executive shall not directly or indirectly, either as an independent contractor, employee, consultant, agent, partner, joint venturer or otherwise through another person or entity, including but not limited to a Competitor, (i) solicit, induce or attempt to induce (or aid any person or entity in doing so) any employee of Company to leave the employ of Company or in any way interfere with the relationship between Company and any employee thereof or (ii) hire or engage any person who was an employee of Company or any subsidiary at any time during the six month period preceding Executive's hiring or engagement of such employee.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

9.3 If, at the time of enforcement of this Section 9, a court shall hold that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances shall be substituted for the stated duration, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law and that such revised restrictions may be enforced against Executive.

9.4 In the event of the breach or a threatened breach by Executive of any of the provisions of this Section 9, Company, in addition and supplementary to other rights and remedies existing in its favor, may apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof (without posting a bond or other security). In addition, in the event of an alleged breach or violation by Executive of this Section 9, the Noncompete Period shall be tolled until such breach or violation has been duly cured.

9.5 The Noncompete Period shall be extended commensurately for any period of time during which the covenants set forth in this Section 9 are contested. Executive agrees that the restrictions contained in this Section 9 are reasonable.

10. Assignment.

10.1 This Agreement is personal to Executive, and, without the prior written consent of the Company, shall not be assignable by Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.

10.2 This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. Except as provided in Section 10.3, without the prior written consent of Executive this Agreement shall not be assignable by the Company.

10.3 The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. "Company" means the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

11. Notices. All notices, requests, demands, and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given if delivered or seven days after mailing if mailed, first class, certified mail postage prepaid:

To the Company: Carolina First Bank, c/o TSFG
104 South Main Street
Greenville, South Carolina 29601
Attn: Mary A. Jeffrey

To Executive: At the most recent address for Executive on file at the Company.

Any party may change the address to which notices, requests, demands, and other communications shall be delivered or mailed by giving notice thereof to the other party in the same manner provided herein.

12. Provisions Severable/Savings Clause. If any provision or covenant, or any part thereof, of this Agreement should be held by any court to be invalid, illegal or unenforceable, either in whole or in part, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of the remaining provisions or covenants, or any part thereof, of this Agreement, all of which shall remain in full force and effect. With respect to any provision or covenant of Section 8 or 9 finally determined by a court of competent jurisdiction to be unenforceable, Executive, the Company and its affiliates hereby agree that such court shall have jurisdiction to reform such provision or covenant so that it is enforceable to the maximum extent permitted by law, and the parties agree to abide by such court's determination. If any of the provisions or covenants of Section 8 or 9 are determined to be wholly or partially unenforceable in any



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

jurisdiction, such determination shall not be a bar to or in any way diminish the rights of the Company or its affiliates, as applicable, to enforce any such provision or covenant in any other jurisdiction.

13. Remedies.

13.1 Executive acknowledges that if he breaches or threatens to breach Executive's covenants and agreements in this Agreement, such actions may cause irreparable harm and damage to the Company which could not be compensated in damages. Accordingly, if Executive breaches or threatens to breach this Agreement, the Company shall be entitled to injunctive relief, in addition to any other rights or remedies of the Company.

13.2 All claims, disputes and other matters in question between Executive and the Company arising out of or related to the interpretation of this Agreement or the breach of this Agreement, except as specifically governed by the foregoing provisions where there may be irreparable harm and damage to the Company which could not be compensated in damages, shall be decided by arbitration in accordance with the rules of the American Arbitration Association. This agreement to arbitrate shall be specifically enforceable under applicable law in any court having jurisdiction. The award rendered by the arbitrator shall be final and judgment may be entered upon it in accordance with the applicable law of any court having jurisdiction thereof.

14. No Mitigation. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not Executive obtains other employment.

15. Waiver. Failure of either party to insist, in one or more instances, on performance by the other in strict accordance with the terms and conditions of this Agreement shall not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless such waiver is contained in a writing signed by the party making the waiver.

16. Amendments and Modifications. This Agreement may be amended or modified only by a writing signed by other parties hereto.

17. Governing Law. The validity and effect of this agreement shall be governed by and construed and enforced in accordance with the laws of the State of South Carolina without regard to principles of conflicts of laws.

18. Withholding. The Company may withhold from any amounts payable under this Agreement such United States federal, state or local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

19. Compliance With Section 409A. Within the time period permitted by the applicable Treasury Regulations, the Company may, in consultation with the Executive, modify the Agreement, in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, in order to cause the provisions of the Agreement to comply with the requirements of Section 409A of the Code, so as to avoid the imposition of taxes and penalties on the Executive pursuant to Section 409A of the Code. Notwithstanding any provision of this Agreement to the contrary, in the event that the Executive is a "specified employee" within the meaning of Section 409A of the Code (as determined in accordance with the methodology established by the Company as in effect on the date of termination), amounts that would otherwise be payable under Section 5 during the six-month period immediately following the date of termination shall instead be paid, with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code, or provided on the first business day after the date that is six months following the Executive's "separation from service" within the meaning of Section 409A of the Code. The Company and the Executive shall take all steps necessary (including with regard to any post-termination services by the Executive) to ensure that any termination described in this Agreement constitutes a



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

"separation from service" within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place shall be the "date of termination".

20. Enforceability of Confidentiality, Noncompetition and Nonsolicitation Provisions. The provisions of Sections 8 and 9, including all subparts thereof, shall be enforceable regardless of the reason for termination of Executive's employment and without regard to whether the employment is terminated by Executive or the Company. Executive expressly agrees that should Executive terminate the employment relationship on the grounds of a breach by the Company, as provided at Section 5.2(i) or an Involuntary Termination, as provided at Section 5.2(ii), such breach or Involuntary Termination shall not have any affect upon the enforceability of the provisions of Sections 8 and 9, including all subparts thereof, and Executive may not assert any such breach or Involuntary Termination as a defense to an action to enforce the provisions of Sections 8 and 9, including all subparts thereof. The existence of any claim or cause of action of Executive against the Company, whether predicated in this Agreement or otherwise, shall not constitute a defense to the enforcement of Sections 8 or 9 by the Company.

21. Remedies after a Change in Control. The terms of this Section 14 will apply in the absence of a Change in Control.

21.1 The Executive acknowledges that if he breaches or threatens to breach Executive's covenants and agreements in this Agreement, such actions may cause irreparable harm and damage to the Company which could not be compensated in damages. Accordingly, if Executive breaches or threatens to breach this Agreement, the Company shall be entitled to injunctive relief, in addition to any other rights or remedies of the Company.

21.2 All claims, disputes and other matters in question between the Executive and the Company arising out of or related to the interpretation of this Agreement or the breach of this Agreement, except as specifically governed by the foregoing provisions where there may be irreparable harm and damage to the Company which could not be compensated in damages, shall be decided by arbitration in accordance with the rules of the American Arbitration Association. This agreement to arbitrate shall be specifically enforceable under applicable law in any court having jurisdiction. The award rendered by the arbitrator shall be final and judgment may be entered upon it in accordance with the applicable law of any court having jurisdiction thereof.

21.3 In the event that the Executive is reasonably required to engage legal counsel to enforce Executive's rights hereunder against the Company, Executive shall be entitled to receive from the Company Executive's reasonable attorneys' fees and costs. In order to comply with Section 409A of the Code, in no event shall the payments by the Company under this Section 21.3 be made (i) with respect to expenses incurred following the $20^{th}$ anniversary of the date on which the dispute arose and (ii) later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, *provided*, that the Executive shall have submitted an invoice for such fees and expenses at least 10 days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the day and year first above written.

**EXECUTIVE**

**/s/ Maurice J. Spagnoletti**
Maurice J. Spagnoletti

**CAROLINA FIRST BANK**

By: /s/ Mary A. Jeffrey



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Exhibit 10.8

STRICTLY CONFIDENTIAL

**NOTICE: THIS CONTRACT IS SUBJECT TO ARBITRATION PURSUANT TO THE SOUTH CAROLINA UNIFORM ARBITRATION ACT**

**AMENDED AND RESTATED NONCOMPETITION, SEVERANCE AND EMPLOYMENT AGREEMENT**
**Between**
**CAROLINA BANK and KENDALL L. SPENCER**

This Amended and Restated Noncompetition, Severance and Employment Agreement (this "Agreement") is made and entered into as of February 25, 2008 by and between Kendall L. Spencer, an individual ("Executive"), and Carolina First Bank, a South Carolina corporation headquartered in Greenville, South Carolina (the "Company") and wholly owned subsidiary of The South Financial Group, Inc. ("TSFG").

## RECITALS

The Company's Board of Directors (the "Board") believes that the Executive has been instrumental in the success of the Company.

The Company desires to continue to employ the Executive as an Executive Vice President of the Company and in such other capacities as the Executive is currently employed as of the date hereof.

The terms hereof are consistent with the executive compensation objectives of the Company as established by the Board.

The Executive is willing to accept the employment contemplated herein under the terms and conditions set forth herein.

On July 1, 2007, Mercantile Bank was merged into Carolina First Bank. This Agreement amends and restates the original agreement between the Executive and Mercantile Bank dated January 22, 2007.

## AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Employment. Subject to the terms and conditions hereof, the Company hereby employs Executive and Executive hereby accepts such employment as the Executive Vice President of the Company having such duties and responsibilities as are set forth in Section 3 below.

2. Definitions. For purposes of this Agreement, the following terms shall have the meanings specified below.

"Agreement" shall have the meaning set forth in the preamble.

"Annual Base Salary" shall have the meaning set forth in Section 6.1.

"Annual Bonus Amount" shall mean the average of the annual cash bonuses earned by Executive under any written short-term (i.e. one year) plan (regardless of whether a particular bonus has yet been paid or whether any portion thereof was deferred) as a result of employment by the Company and its affiliates over the three year period immediately preceding the date of termination. In calculating the Annual Bonus Amount: (i) if one of the year's bonuses in the calculation period was based on a period of less than 12 full months, then such annual bonus amount shall be annualized; (ii) if Executive was employed for less than three years and had not yet earned a bonus in year two and/or year three (as applicable) because Executive

was not employed at December 31 of that year, then the Annual Bonus Amount shall be calculated based solely on the years in which Executive was employed at the end of the year; (iii) if Executive shall not have been employed long enough to earn a cash bonus, then the Annual Bonus Amount will be deemed to be the Executive's target bonus amount.

"Board" shall mean the Board of Directors of TSFG.

"Cause" shall mean:

(i) In the absence of a Change in Control: (a) fraud; (b) embezzlement; (c) conviction of the Executive of any felony; (d) a material breach of, or the wilful failure or refusal by the Executive to perform and discharge the Executive's duties, responsibilities and obligations under this Agreement; (e) any act of moral turpitude or wilful misconduct by the Executive intended to result in personal enrichment of the Executive at the expense of the Company, or any of its affiliates or which has a material adverse impact on the business or reputation of the Company or any of its affiliates (such determination to be made by the Board in its reasonable judgment); (f) intentional material damage to the property or business of the Company; (g) gross negligence; or (h) the ineligibility of the Executive to perform Executive's duties because of a ruling, directive or other action by any agency of the United States or any state of the United States having regulatory authority over the Company.

(ii) After a Change in Control: (a) material criminal fraud, (b) gross negligence, (c) material dereliction of duties, (d) intentional material damage to the property or business of the Company, or (e) the commission of a material felony, in each case, as determined in the reasonable discretion of the Board, but only if (1) the Executive has been provided with written notice of any assertion that there is a basis for termination for cause which notice shall specify in reasonable detail specific facts regarding any such assertion, (2) such written notice is provided to the Executive a reasonable time before the Board meets to consider any possible termination for cause, (3) at or prior to the meeting of the Board to consider the matters described in the written notice, an opportunity is provided to the Executive and Executive's counsel to be heard before the Board with respect to the matters described in the written notice, (4) any resolution or other Board action held with respect to any deliberation regarding or decision to terminate the Executive for cause is duly adopted by a vote of a majority of the entire Board of the Company at a meeting of the Board called and held and (5) the Executive is promptly provided with a copy of the resolution or other corporate action taken with respect to such termination. No act or failure to act by the Executive shall be considered wilful unless done or omitted to be done by Executive not in good faith and without reasonable belief that Executive's action or omission was in the best interests of the Company. The unwillingness of the Executive to accept any or all of a change in the nature or scope of Executive's position, authorities or duties, a reduction in Executive's total compensation or benefits, a relocation that he deems unreasonable in light of Executive's personal circumstances, or other action by or upon request of the Company in respect of Executive's position, authority, or responsibility that he reasonably deems to be contrary to this Agreement, may not be considered by the Board to be a failure to perform or misconduct by the Executive.

"Change in Control" shall mean:

(i) when any Person or Persons acting as "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act and within the meaning of Section 409A of the Code and applicable regulations thereunder) acquires directly or indirectly, securities of TSFG representing an aggregate of more than 50% of the combined voting power of TSFG's then outstanding voting securities other than an acquisition by:

(A) any employee plan established by TSFG;

(B) TSFG or any of its affiliates (as defined in Rule 12b-2 promulgated under the Exchange Act);

(C) an underwriter temporarily holding securities pursuant to an offering of such securities;

(D) a corporation owned, directly or indirectly, by stockholders of TSFG in substantially the same proportions as their ownership of TSFG; or

(E) except as provided in clause (iii) below, merger or consolidation of TSFG with any other corporation which is duly approved by the stockholders of TSFG; or



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

(ii) when a majority of the board of directors of TSFG is replaced during any 12-month period and such new appointments are not approved by a majority of the members of the current board prior to the date of appointment or election; or

(iii) The consummation of a merger, sale of substantially all assets, consolidation or similar transaction between TSFG and any other corporation other than (A) such a transaction that would result in the voting securities of TSFG outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of any company, at least a majority of the combined voting power of the voting securities of TSFG or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (B) such a transaction effected to implement a recapitalization of TSFG (or similar transaction) in which no Person is or becomes the beneficial owner (as defined in clause (i) above), directly or indirectly, of securities of TSFG (not including in the securities beneficially owned by such Person any securities acquired directly from TSFG) representing a majority of the combined voting power of TSFG's then outstanding voting securities; or (C) a plan of complete liquidation of TSFG.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor statute, rule or regulation of similar effect.

"Company" shall have the meaning set forth in the preamble.

"Compensation" shall mean the sum of (i) Executive's Annual Base Salary (as defined in Section 6.1), and (ii) Executive's Annual Bonus Amount.

"Competitor" shall have the meaning set forth in Section 9.

"Confidential Information" shall mean all business and other information relating to the business of the Company and its affiliates, including without limitation, technical or nontechnical data, programs, methods, techniques, processes, financial data, financial plans, product plans, and lists of actual or potential customers, which (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other Persons, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality. Such information and compilations of information shall be contractually subject to protection under this Agreement whether or not such information constitutes a trade secret and is separately protectable at law or in equity as a trade secret. Confidential Information shall not include any of the foregoing that does not constitute a trade secret under applicable law two years after any expiration or termination of this Agreement.

"Disability" or "Disabled" shall mean any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months which results in (i) Executive being unable to engage in any substantial gainful activity or (ii) Executive receiving income replacement benefits for a period of not less than 3 months under an accident and health plan (including disability benefits) covering employees of the Company. In addition, Executive will be deemed disabled if determined to be totally disabled by the Social Security Administration, or if determined to be disabled in accordance with a disability insurance program provided the definition of disability applied under such disability insurance program complies with the requirements of the preceding sentence.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Executive" shall have the meaning set forth in the preamble.

"Noncompete Period" shall have the meaning set forth in Section 9.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

“Involuntary Termination” shall mean the termination of Executive’s employment by the Executive following a Change in Control which, in the sole judgment of the Executive, is due to (i) a change of the Executive’s responsibilities, position (including status as Executive Vice President of the Company in charge of Florida banking operations, its successor or ultimate parent entity, office, title, reporting relationships or working conditions), authority or duties (including changes resulting from the assignment to the Executive of any duties inconsistent with Executive’s positions, duties or responsibilities as in effect immediately prior to the Change in Control); or (ii) a change in the terms or status (including the rolling three year termination date) of this Agreement; or (iii) a reduction in the Executive’s compensation or benefits; or (iv) a forced relocation of the Executive outside the Greenville metropolitan area; or (v) a significant increase in the Executive’s travel requirements (collectively “Status Changes”); provided, however, Executive must elect to terminate Executive’s employment within two (2) years of the Status Change on which Executive bases Executive’s employment termination.

“Other Benefits” means (i) any unpaid base salary through the date of termination and (ii) amounts that are vested benefits or that Executive is otherwise entitled to receive under any plan, policy, practice or program of or any other contract or agreement with the Company or its affiliates (other than this Agreement) at or subsequent to the date of termination in accordance with the terms of such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement. Notwithstanding the foregoing, “Other Benefits” shall not include any severance pay or benefits under any severance plan, program or policy of the Company and its affiliates. Without limiting the generality of the foregoing, the Executive’s resignation under this Agreement for any reason, shall in no way affect the Executive’s ability to terminate employment by reason of the Executive’s “retirement” under any compensation and benefits plans, programs or arrangements of the Company or its affiliates, including without limitation any retirement or pension plans or arrangements or to be eligible to receive benefits under any compensation or benefit plans, programs or arrangements of the Company or its affiliates, including without limitation any retirement or pension plan or arrangement of the Company or its affiliates or substitute plans adopted by the Company or its successors, and any termination which otherwise qualifies as Involuntary Termination shall be treated as such even if it is also a “retirement” for purposes of any such plan.

“Person” shall mean any individual, corporation, bank, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or other entity.

“Vesting Benefits” shall mean the following: (i) all rights of Executive pursuant to equity compensation grants including stock options granted by the Company shall vest and shall be released from all conditions and restrictions, except for restrictions on transfer pursuant to the Securities Act of 1933, as amended; (ii) subject to applicable legal limits to the contrary, including limits applicable to incentive stock options under the Code, Executive shall have the lesser of (a) three years from the date of such termination or (b) until the end of the scheduled term of any such stock option to exercise any outstanding stock options; (iii) Executive shall be entitled to any benefits to which Executive is entitled under the Supplemental Executive Retirement Agreement in accordance with the terms thereof; and (iv) for three years after Executive’s date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, (the “Benefit Continuation Period”), the Company shall continue health care and life insurance benefits to the Executive and/or the Executive’s family at least equal to those that would have been provided to them in accordance with the plans, programs, practices and policies providing health care and life insurance benefits and at the benefit level as if the Executive’s employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliates and their families; *provided*, *however*, that, the health care benefits provided during the Benefit Continuation Period shall be provided in such a manner that such benefits (and the costs and premiums thereof) are excluded from the Executive’s income for federal income tax purposes and, if the Company reasonably determines that providing continued coverage under one or more of its health care benefit plans contemplated herein could be taxable to the Executive, the Company shall provide such benefits at the level required hereby through the purchase of individual insurance coverage; *provided, however*, that if the Executive becomes re-employed with another employer and is eligible to receive



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

health care and life insurance benefits under another employer-provided plan, the health care and life benefits provided hereunder shall be secondary to those provided under such other plan during such applicable period of eligibility.

"Voluntary Termination" shall mean the termination by Executive of Executive's employment following a Change in Control which is not the result of any of clauses (i) through (v) set forth in the definition of Involuntary Termination above.

3. Duties. During the Term hereof, Executive shall have such duties and authority as are commensurate with Executive's position as set forth in Section 1, including, without limitation, any such duties and authority as may be specified in the Company's Bylaws. Executive agrees that during the Term hereof, he will devote Executive's full time, attention and energies to the diligent performance of Executive's duties. Executive shall not, without the prior written consent of the Company, at any time during the Term hereof (i) accept employment with, or render services of a business, professional or commercial nature to, any Person other than the Company, (ii) engage in any venture or activity which the Company may in good faith consider to be competitive with or adverse to the business of the Company or of any affiliate of the Company, whether alone, as a partner, or as an officer, director, employee or shareholder or otherwise, except that the ownership of not more than 5% of the stock or other equity interest of any publicly traded corporation or other entity shall not be deemed a violation of this Section, or (iii) engage in any venture or activity which the Board may in good faith consider to interfere with Executive's performance of Executive's duties hereunder.

4. Term. Unless earlier terminated as provided herein, Executive's employment hereunder shall be for a rolling term of three years commencing on the date hereof (the "Term"). This Agreement shall be deemed to extend each day for an additional day automatically without any action on behalf of either party hereto; provided, however, that either party may, by written notice to the other, cause this Agreement to cease to extend automatically and upon such notice, the "Term" of this Agreement shall be the three years following the date of such notice, and this Agreement shall terminate upon the expiration of such Term.

5. Termination. This Agreement may be terminated as follows:

5.1 The Company. The Company shall have the right to terminate Executive's employment hereunder at any time during the Term hereof (i) for Cause, (ii) if the Executive becomes Disabled, (iii) upon the Executive's death, or (iv) without Cause.

5.1.1 If the Company terminates Executive's employment under this Agreement pursuant to clauses (i) of Section 5.1, the Company's obligations hereunder shall cease as of the date of termination; provided, however, if Executive is terminated for Cause after a Change in Control, then such termination shall be treated as a Voluntary Termination as contemplated in and subject to the terms of Section 5.2.3 below without the application of Section 5.2.4 below.

5.1.2 If the Company terminates Executive's employment under this Agreement pursuant to clauses (ii) or (iii) of Section 5.1, the Company's obligations hereunder shall cease as of the date of termination except that Executive or Executive's estate will be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum a pro-rata portion of the targeted Annual Incentive Bonus under Section 6.2 for the portion of the year actually worked by Executive prior to Executive's Disability or death.

5.1.3 If the Company terminates Executive pursuant to clause (iv) of Section 5.1 and there has been a Change in Control, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to three times Executive's Compensation. If the Company terminates Executive pursuant to clause (iv) of Section 5.1 and in the absence of a Change in Control, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to the product of (a) the Compensation and (b) the number of years and portions thereof remaining in the Term.

5.1.4 In the event of such termination pursuant to clause (iv) of Section 5.1, the Executive shall be entitled to the Vesting Benefits.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

5.2 By Executive. Executive shall have the right to terminate Executive's employment hereunder if (i) the Company materially breaches this Agreement and such breach is not cured within 30 days after written notice of such breach is given by Executive to the Company; (ii) there is a Voluntary Termination; or (iii) there is an Involuntary Termination.

5.2.1 If Executive terminates Executive's employment other than pursuant to clauses (i), (ii) or (iii) of Section 5.2, the Company's obligations under this Agreement shall cease as of the date of such termination.

5.2.2 If Executive terminates Executive's employment hereunder pursuant to clause (i) of Section 5.2 and there has been a Change in Control, or pursuant to clause (iii) of Section 5.2, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to three times Executive's Compensation. If the Executive terminates Executive's employment pursuant to clause (i) of Section 5.2 and in the absence of a Change in Control, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to one times Executive's Compensation.

5.2.3 If Executive terminates Executive's employment pursuant to clause (ii) of Section 5.2, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to one times Executive's Compensation.

5.2.4 In addition, in the event of such termination pursuant to any of clauses (i) through (iii) of this Section 5.2, the Executive shall be entitled to the Vesting Benefits.

6. Compensation. In consideration of Executive's services and covenants hereunder, Company shall pay to Executive the compensation and benefits described below (which compensation shall be paid in accordance with the normal compensation practices of the Company, provided that Executive's salary pursuant to Section 6.1 shall be payable not less frequently than monthly):

6.1 Annual Salary. During the Term hereof, the Company shall pay to Executive a base salary established by the Company (the "Annual Base Salary"). Executive's salary will be reviewed at the beginning of each of its fiscal years and, in the sole discretion of the Company, may be increased for such year (but not decreased). All references herein to Annual Base Salary shall refer to Executive's base salary as so increased.

6.2 Annual Incentive Bonus. During Executive's employment, the Executive shall participate in the Management Incentive Compensation Plan or any successor thereto on terms equal to similarly situated officers.

6.3 Long Term Incentive Plan. During Executive's employment, the Executive shall participate in the Long Term Incentive Plan or any successor thereto on terms equal to similarly situated officers.

6.4 Supplemental Executive Benefit Plan. During Executive's employment, Executive shall be entitled to participate in a Supplemental Executive Retirement Agreement.

6.5 Equity Compensation Awards. During Executive's employment, the Company may grant Executive equity compensation awards based on the Company's common stock as determined by the Company.

6.6 Miscellaneous Benefits. During Executive's employment, Executive shall be entitled to participate in any other employee benefit plan, programs, policies or other arrangements generally provided by the Company to its comparable ranking executives for so long as the Company provides such benefits. The Company also agrees to provide Executive, during the Term hereof, with a $1 million term life insurance policy. During the Term, Executive shall also be entitled to participate in all other benefits accorded general Company employees.

7. Excess Parachute Payments.

7.1 Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any Payment would be subject to the Excise Tax, then Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that, after payment by Executive of all taxes (and any interest or penalties imposed with respect to such taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Code, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 7.1, if it shall be determined that Executive is entitled to the Gross-Up Payment, but that the Parachute Value of all Payments does not exceed 110% of the Safe Harbor Amount, then no Gross-Up Payment shall be made to Executive and the amounts payable under this Agreement shall be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing the cash severance payments. For purposes of reducing the Payments to the Safe Harbor Amount, only the cash severance payments payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amount of cash severance payments payable under this Agreement would not result in a reduction of the Parachute Value of all Payments to the Safe Harbor Amount, no amounts payable under the Agreement shall be reduced pursuant to this Section 7.1. The Company's obligation to make Gross-Up Payments under this Section 7 shall not be conditioned upon Executive's termination of employment.

7.2 Subject to the provisions of Section 7.3, all determinations required to be made under this Section 7, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Pricewaterhouse Coopers, or such other nationally recognized certified public accounting firm as may be designated by Executive (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the "Underpayment"), consistent with the calculations required to be made hereunder. In the event the Company exhausts its remedies pursuant to Section 7.3 and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

7.3 The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, Executive shall:

1. give the Company any information reasonably requested by the Company relating to such claim,
2. take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
3. cooperate with the Company in good faith in order effectively to contest such claim; and
4. permit the Company to participate in any proceedings relating to such claim;

*provided*, *however*, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties) imposed as



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7.3, the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of Executive and direct Executive to sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided*, *however*, that, if the Company pays such claim and directs Executive to sue for a refund, the Company shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and *provided*, *further*, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

7.4 If, after the receipt by Executive of a Gross-Up Payment or payment by the Company of an amount on Executive's behalf pursuant to Section 7.3, Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 7.3, if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Company of an amount on Executive's behalf pursuant to Section 7.3, a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount of such payment shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

7.5 Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to Executive within five days of the receipt of the Accounting Firm's determination; provided that, the Gross-Up Payment shall in all events be paid no later than the end of Executive's taxable year next following Executive's taxable year in which the Excise Tax (and any income or other related taxes or interest or penalties thereon) on a Payment are remitted to the Internal Revenue Service or any other applicable taxing authority or, in the case of amounts relating to a claim described in Section 7.3 that does not result in the remittance of any federal, state, local and foreign income, excise, social security and other taxes, the calendar year in which the claim is finally settled or otherwise resolved. Notwithstanding any other provision of this Section 7, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of Executive, all or any portion of any Gross-Up Payment, and Executive hereby consents to such withholding.

7.6 Definitions. The following terms shall have the following meanings for purposes of this Section 7.

"Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

"Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

A "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable pursuant to this Agreement or otherwise.

The "Safe Harbor Amount" means 2.99 times Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

8. Confidentiality. Executive shall hold in a fiduciary capacity for the benefit of the Company all Confidential Information relating to the Company or any of its affiliates, and their respective businesses, which shall have been obtained by Executive during Executive's employment by the Company or any of its affiliates. After termination of Executive's employment with the Company for any reason, Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. Upon the termination or expiration of Executive's employment hereunder, Executive agrees to deliver promptly to the Company all Company files, customer lists, management reports, memoranda, research, Company forms, financial data and reports and other documents supplied to or created by Executive in connection with Executive's employment hereunder (including all copies of the foregoing) in Executive's possession or control and all of the Company's equipment and other materials in Executive's possession or control.

9. Noncompetition and Nonsolicitation Agreement.

9.1 During the term hereof and for the two year period following the date of termination of employment for any reason (the "Noncompete Period"), Executive shall not directly or indirectly enter into an employment relationship or a consulting arrangement (or other economically beneficial arrangement) with any other bank, thrift or lending institution, including such entities "in organization" (a "Competitor") which would involve Executive working in, consulting with respect to, overseeing or otherwise servicing any market area or customers over which Executive had responsibility at the time of his termination or during the two years immediately prior to such termination. The obligations contained in this Section 9 shall not prohibit Executive from being an owner of not more than 5% of the outstanding stock of any class of a corporation which is publicly traded, so long as Executive has no active participation in the business of such corporation.

9.2 During the Noncompete Period, Executive shall not directly or indirectly, either as an independent contractor, employee, consultant, agent, partner, joint venturer or otherwise through another person or entity, including but not limited to a Competitor, (i) solicit, induce or attempt to induce (or aid any person or entity in doing so) any employee of Company to leave the employ of Company or in any way interfere with the relationship between Company and any employee thereof or (ii) hire or engage any person who was an employee of Company or any subsidiary at any time during the six month period preceding Executive's hiring or engagement of such employee.

9.3 If, at the time of enforcement of this Section 9, a court shall hold that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances shall be substituted for the stated duration, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law and that such revised restrictions may be enforced against Executive.

9.4 In the event of the breach or a threatened breach by Executive of any of the provisions of this Section 9, Company, in addition and supplementary to other rights and remedies existing in its favor, may apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof (without posting a bond or other security). In addition, in the event of an alleged breach or violation by Executive of this Section 9, the Noncompete Period shall be tolled until such breach or violation has been duly cured.

9.5 The Noncompete Period shall be extended commensurately for any period of time during which the covenants set forth in this Section 9 are contested. Executive agrees that the restrictions contained in this Section 9 are reasonable.

10. Assignment.

10.1 This Agreement is personal to Executive, and, without the prior written consent of the Company, shall not be assignable by Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

10.2 This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. Except as provided in Section 10.3, without the prior written consent of Executive this Agreement shall not be assignable by the Company.

10.3 The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. "Company" means the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

11. Notices. All notices, requests, demands, and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given if delivered or seven days after mailing if mailed, first class, certified mail postage prepaid:

To the Company: Carolina First Bank, c/o TSFG<br>104 South Main Street<br>Greenville, South Carolina 29601<br>Attn: Mary A. Jeffrey

To Executive: At the most recent address for Executive on file at the Company.

Any party may change the address to which notices, requests, demands, and other communications shall be delivered or mailed by giving notice thereof to the other party in the same manner provided herein.

12. Provisions Severable/Savings Clause. If any provision or covenant, or any part thereof, of this Agreement should be held by any court to be invalid, illegal or unenforceable, either in whole or in part, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of the remaining provisions or covenants, or any part thereof, of this Agreement, all of which shall remain in full force and effect. With respect to any provision or covenant of Section 8 or 9 finally determined by a court of competent jurisdiction to be unenforceable, Executive, the Company and its affiliates hereby agree that such court shall have jurisdiction to reform such provision or covenant so that it is enforceable to the maximum extent permitted by law, and the parties agree to abide by such court's determination. If any of the provisions or covenants of Section 8 or 9 are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the rights of the Company or its affiliates, as applicable, to enforce any such provision or covenant in any other jurisdiction.

13. Remedies.

13.1 Executive acknowledges that if he breaches or threatens to breach Executive's covenants and agreements in this Agreement, such actions may cause irreparable harm and damage to the Company which could not be compensated in damages. Accordingly, if Executive breaches or threatens to breach this Agreement, the Company shall be entitled to injunctive relief, in addition to any other rights or remedies of the Company.

13.2 All claims, disputes and other matters in question between Executive and the Company arising out of or related to the interpretation of this Agreement or the breach of this Agreement, except as specifically governed by the foregoing provisions where there may be irreparable harm and damage to the Company which could not be compensated in damages, shall be decided by arbitration in accordance with the rules of the American Arbitration Association. This agreement to arbitrate shall be specifically enforceable under applicable law in any court having jurisdiction. The award rendered by the arbitrator shall be final and judgment may be entered upon it in accordance with the applicable law of any court having jurisdiction thereof.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

14. No Mitigation. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not Executive obtains other employment.

15. Waiver. Failure of either party to insist, in one or more instances, on performance by the other in strict accordance with the terms and conditions of this Agreement shall not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless such waiver is contained in a writing signed by the party making the waiver.

16. Amendments and Modifications. This Agreement may be amended or modified only by a writing signed by other parties hereto.

17. Governing Law. The validity and effect of this agreement shall be governed by and construed and enforced in accordance with the laws of the State of South Carolina without regard to principles of conflicts of laws.

18. Withholding. The Company may withhold from any amounts payable under this Agreement such United States federal, state or local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

19. Compliance With Section 409A. Within the time period permitted by the applicable Treasury Regulations, the Company may, in consultation with the Executive, modify the Agreement, in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, in order to cause the provisions of the Agreement to comply with the requirements of Section 409A of the Code, so as to avoid the imposition of taxes and penalties on the Executive pursuant to Section 409A of the Code. Notwithstanding any provision of this Agreement to the contrary, in the event that the Executive is a “specified employee” within the meaning of Section 409A of the Code (as determined in accordance with the methodology established by the Company as in effect on the date of termination), amounts that would otherwise be payable under Section 5 during the six-month period immediately following the date of termination shall instead be paid, with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code, or provided on the first business day after the date that is six months following the Executive’s “separation from service” within the meaning of Section 409A of the Code. The Company and the Executive shall take all steps necessary (including with regard to any post-termination services by the Executive) to ensure that any termination described in this Agreement constitutes a “separation from service” within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place shall be the “date of termination”.

20. Enforceability of Confidentiality, Noncompetition and Nonsolicitation Provisions. The provisions of Sections 8 and 9, including all subparts thereof, shall be enforceable regardless of the reason for termination of Executive’s employment and without regard to whether the employment is terminated by Executive or the Company. Executive expressly agrees that should Executive terminate the employment relationship on the grounds of a breach by the Company, as provided at Section 5.2(i) or an Involuntary Termination, as provided at Section 5.2(ii), such breach or Involuntary Termination shall not have any affect upon the enforceability of the provisions of Sections 8 and 9, including all subparts thereof, and Executive may not assert any such breach or Involuntary Termination as a defense to an action to enforce the provisions of Sections 8 and 9, including all subparts thereof. The existence of any claim or cause of action of Executive against the Company, whether predicated in this Agreement or otherwise, shall not constitute a defense to the enforcement of Sections 8 or 9 by the Company.

21. Remedies after a Change in Control. The terms of this Section 14 will apply in the absence of a Change in Control.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

21.1 The Executive acknowledges that if he breaches or threatens to breach Executive's covenants and agreements in this Agreement, such actions may cause irreparable harm and damage to the Company which could not be compensated in damages. Accordingly, if Executive breaches or threatens to breach this Agreement, the Company shall be entitled to injunctive relief, in addition to any other rights or remedies of the Company.

21.2 All claims, disputes and other matters in question between the Executive and the Company arising out of or related to the interpretation of this Agreement or the breach of this Agreement, except as specifically governed by the foregoing provisions where there may be irreparable harm and damage to the Company which could not be compensated in damages, shall be decided by arbitration in accordance with the rules of the American Arbitration Association. This agreement to arbitrate shall be specifically enforceable under applicable law in any court having jurisdiction. The award rendered by the arbitrator shall be final and judgment may be entered upon it in accordance with the applicable law of any court having jurisdiction thereof.

21.3 In the event that the Executive is reasonably required to engage legal counsel to enforce Executive's rights hereunder against the Company, Executive shall be entitled to receive from the Company Executive's reasonable attorneys' fees and costs. In order to comply with Section 409A of the Code, in no event shall the payments by the Company under this Section 21.3 be made (i) with respect to expenses incurred following the 20th anniversary of the date on which the dispute arose and (ii) later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, *provided*, that the Executive shall have submitted an invoice for such fees and expenses at least 10 days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the day and year first above written.

**EXECUTIVE**

**/s/ Kendall L. Spencer**
Kendall L. Spencer

**CAROLINA FIRST BANK**

By: /s/ Mary A. Jeffrey



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**<u>NOTICE: THIS CONTRACT IS SUBJECT TO ARBITRATION PURSUANT TO THE SOUTH CAROLINA UNIFORM ARBITRATION ACT</u>**

# NONCOMPETITION, SEVERANCE AND EMPLOYMENT AGREEMENT
# Between
# CAROLINA FIRST BANK and MICHAEL W. SPERRY

This Noncompetition, Severance and Employment Agreement (this "Agreement") is entered into as September 6, 2007 by and between Michael W. Sperry an individual ("Executive"), and Carolina First Bank, a South Carolina corporation headquartered in Greenville, South Carolina (the "Company").

## Factual Recitals

On May 10, 2004, The South Financial Group, Inc. ("TSFG") and Executive entered into a Noncompetition, Severance and Employment Agreement (the "Prior Agreement"). The parties desire that this Agreement amend and restate the Prior Agreement in its entirety.

TSFG and Executive entered into a Supplemental Executive Retirement Plan dated July 15, 2003 (the "SERP"). The parties hereto intend for this Agreement to modify the SERP to the extent set forth in Section 6.4 hereof.

## Agreement

In consideration of the premises and the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. <u>Employment</u>. Subject to the terms and conditions hereof, the Company hereby employs the Executive and Executive hereby accepts such employment as an Executive Vice President of the Company having such duties and responsibilities as are set forth in Section 3 below.

2. <u>Definitions</u>. For purposes of this Agreement, the following terms shall have the meanings specified below.

"Cause" shall mean:

(i) In the absence of a Change in Control: (a) fraud; (b) embezzlement; (c) conviction of the Executive of any felony; (d) a material breach of, or the willful failure or refusal by the Executive to perform and discharge the Executive's duties, responsibilities and obligations under this Agreement; (e) any act of moral turpitude or willful misconduct by the Executive intended to result in personal enrichment of the Executive at the expense of the Company, or any of its affiliates or which has a material adverse impact on the business or reputation of the Company or any of its affiliates (such determination to be made by the Board in its reasonable judgment); (f) intentional material damage to the property or business of the Company; (g) gross negligence; or (h) the ineligibility of the Executive to perform Executive's duties because of a ruling, directive or other action by any agency of the United States or any state of the United States having regulatory authority over the Company.

(ii) After a Change in Control: (a) material criminal fraud, (b) gross negligence, (c) material dereliction of duties, (d) intentional material damage to the property or business of the Company, or (e) the commission of a material felony, in each case, as determined in the reasonable discretion of the Board, but only if (1) the Executive has been provided with written notice of any assertion that there is a basis for termination for cause which notice shall specify in reasonable detail specific facts regarding any such assertion, (2) such written notice is provided to the Executive a reasonable time before the Board meets to consider any possible termination for cause, (3) at or prior to the meeting of the Board to consider the matters described in the written notice, an opportunity is provided to the Executive and Executive's counsel

to be heard before the Board with respect to the matters described in the written notice, (4) any resolution or other Board action held with respect to any deliberation regarding or decision to terminate the Executive for cause is duly adopted by a vote of a majority of the entire Board of the Company at a meeting of the Board called and held and (5) the Executive is promptly provided with a copy of the resolution or other corporate action taken with respect to such termination. No act or failure to act by the Executive shall be considered wilful unless done or omitted to be done by Executive not in good faith and without reasonable belief that Executive's action or omission was in the best interests of the Company. The unwillingness of the Executive to accept any or all of a change in the nature or scope of Executive's position, authorities or duties, a reduction in Executive's total compensation or benefits, a relocation that he deems unreasonable in light of Executive's personal circumstances, or other action by or upon request of the Company in respect of Executive's position, authority, or responsibility that he reasonably deems to be contrary to this Agreement, may not be considered by the Board to be a failure to perform or misconduct by the Executive.

"Change in Control" shall mean:

(i) when any Person or Persons acting as a "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act" and within the meaning of Section 409A of the Code and applicable regulations thereunder) acquires directly or indirectly, securities of The South Financial Group, Inc. ("TSFG") representing an aggregate of more than 50% of the combined voting power of TSFG's then outstanding voting securities other than:

(A) an acquisition by any employee plan established by TSFG;

(B) an acquisition by TSFG or any of its affiliates (as defined in Rule 12b-2 promulgated under the Exchange Act);

(C) an acquisition by an underwriter temporarily holding securities pursuant to an offering of such securities;

(D) an acquisition by a corporation owned, directly or indirectly, by stockholders of TSFG in substantially the same proportions as their ownership of TSFG; or

(E) except as provided in clause (iii) below, merger or consolidation of TSFG with any other corporation which is duly approved by the stockholders of TSFG; or

(ii) when a majority of the board of directors of TSFG is replaced during any 12-month period and such new appointments are not approved by a majority of the members of the current board prior to the date of appointment or election; or

(iii) when the stockholders of TSFG approve a merger or consolidation of TSFG with any other corporation other than (A) a merger or consolidation that would result in the voting securities of TSFG outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of any Company, at least a majority of the combined voting power of the voting securities of TSFG or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of TSFG (or similar transaction) in which no Person is or becomes the beneficial owner (as defined in clause (i) above), directly or indirectly, of securities of TSFG (not including in the securities beneficially owned by such Person any securities acquired directly from TSFG) representing a majority of the combined voting power of TSFG's then outstanding voting securities; or (C) a plan of complete liquidation of TSFG or an agreement for the sale or disposition by TSFG of all or substantially all of TSFG's assets.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor statute, rule or regulation of similar effect.

"Compensation" shall mean the sum of (i) Executive's Annual Base Salary (as defined in Section 6.1), and (ii) Executive's Annual Bonus Amount. For purposes of this definition, "Annual Bonus Amount" means the average of the annual cash bonuses earned by Executive under any written short-term (i.e. one year) plan (regardless of whether a particular bonus has yet been paid or whether any portion thereof was deferred) as a result of employment by the Company and its affiliates over the three year period immediately preceding the

date of termination. For purposes of this Agreement, this three year period shall be 2005 – 2007 and the 2007 bonus shall be as set forth in Section 6.2.

"Confidential Information" shall mean all business and other information relating to the business of the Company and its affiliates, including without limitation, technical or nontechnical data, programs, methods, techniques, processes, financial data, financial plans, product plans, and lists of actual or potential customers, which (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other Persons, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality. Such information and compilations of information shall be contractually subject to protection under this Agreement whether or not such information constitutes a trade secret and is separately protectable at law or in equity as a trade secret. Confidential Information shall not include any of the foregoing that does not constitute a trade secret under applicable law two years after any expiration or termination of this Agreement.

"Disability" or "Disabled" shall mean any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months which results in (i) Executive being unable to engage in any substantial gainful activity or (ii) Executive receiving income replacement benefits for a period of not less than 3 months under an accident and health plan (including disability benefits) covering employees of the Company. In addition, Executive will be deemed disabled if determined to be totally disabled by the Social Security Administration, or if determined to be disabled in accordance with a disability insurance program provided the definition of disability applied under such disability insurance program complies with the requirements of the preceding sentence.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Involuntary Termination" shall mean the termination by Executive of Executive's employment with the Company and all its affiliates that are considered a single employer within the meaning of Sections 414(b) and 414(c) of the Code within the one year period following a Change in Control which is due to (i) a material diminution of Executive's responsibilities, or working conditions, or duties; or (ii) a material diminution in the Executive's base pay; or (iii) a material negative change in the terms or status (including any rolling status) of this Agreement; or (iv) a forced relocation of Executive outside the Greenville, SC metropolitan area; or (v) a significant increase in Executive's travel requirements; provided, however, the Executive shall provide written notice to the Company of the initial existence of the condition causing the change in terms or status no more than ninety (90) days after the change in terms or status occurs and the Company shall have thirty (30) days to resolve the issue causing the change in terms or status. If the Company resolves such issue, then Executive's employment shall not be subject to Involuntary Termination.

"Person" shall mean any individual, corporation, bank, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or other entity.

"Voluntary Termination" shall mean the termination by Executive of Executive's employment following a Change in Control which is not the result of any of clauses (i) through (v) set forth in the definition of Involuntary Termination above.

3. Duties. Prior to October 1, 2007, Executive shall continue with his current duties as a senior credit executive reporting to H. Lynn Harton. From October 1, 2007 through March 31, 2008, Executive, though still an employee, shall serve in a more "consultant" role, and during such period, be responsible for calculating loan loss reserves, attend any meetings between the Company and the FDIC related to the credit area, and meet at least monthly with Mr. Harton for update purposes.

4. Term. The term of this Agreement and Executive's employment hereunder shall commence on the date hereof and terminate at the close of business on March 31, 2008 (the "Term").

---

Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

5. Termination. This Agreement may be terminated as set forth in this Section 5. This Section 5 is not intended to encompass the consequences of what occurs upon the expiration of this Agreement on March 31, 2008.

5.1The Company. The Company shall have the right to terminate Executive's employment hereunder at any time during the Term hereof (i) for Cause, (ii) if the Executive becomes Disabled, (iii) upon the Executive's death, or (iv) without Cause.

5.1.1 If the Company terminates Executive's employment under this Agreement pursuant to clause (i) of Section 5.1, the Company's obligations hereunder shall cease as of the date of termination; provided, however, if Executive is terminated for Cause after a Change in Control, then such termination shall be treated as a Voluntary Termination as contemplated in and subject to the terms of Section 5.2.3 below without the application of Section 5.2.4 below.

5.1.2 If the Company terminates Executive's employment under this Agreement pursuant to clauses (ii) or (iii) of Section 5.1, the Company's obligations hereunder shall cease as of the date of termination except that Executive or Executive's estate will be entitled to receive the bonus referenced in Section 6.2 hereof.

5.1.3 If the Company terminates Executive pursuant to clause (iv) of Section 5.1, Executive shall be entitled to receive immediately in a lump sum as severance upon such termination, an amount equal to three times Executive's Compensation.

5.1.4 In the event of such termination pursuant to clause (iv) of Section 5.1, (A) all rights of Executive pursuant to awards of share grants or options granted by the Company shall be deemed to have vested and shall be released from all conditions and restrictions, except for restrictions on transfer pursuant to the Securities Act of 1933, as amended, and (B) the Executive shall be deemed to be credited with service with the Company for such remaining Term for the purposes of the Company's benefit plans; (C) the Executive shall be deemed to have retired from the Company and shall be entitled as of the termination date, or at such later time as he may elect to commence receiving the total combined qualified and non-qualified retirement benefit to which he is entitled hereunder, or Executive's total non-qualified retirement benefit hereunder if under the terms of the Company's qualified retirement plan for salaried employees he is not entitled to a qualified benefit, and (D) if any provision of this Section 5.1.4 cannot, in whole or in part, be implemented and carried out under the terms of the applicable compensation, benefit, or other plan or arrangement of the Company because the Executive has ceased to be an actual employee of the Company, because the Executive has insufficient or reduced credited service based upon Executive's actual employment by the Company, because the plan or arrangement has been terminated or amended after the effective date of this Agreement, or because of any other reason, the Company itself shall pay or otherwise provide the equivalent of such rights, benefits and credits for such benefits to Executive, Executive's dependents, beneficiaries and estate. Subject to applicable legal limits to the contrary, including, without limitation, limits applicable to incentive stock options under the Code, in the event of termination pursuant to clause (iv) of Section 5.1, Executive shall have three years from the date of such termination to exercise any outstanding stock options (provided that such provision shall not be deemed to extend the 10 year term of any options).

5.2By Executive. Executive shall have the right to terminate Executive's employment hereunder if (i) the Company materially breaches this Agreement and such breach is not cured within 30 days after written notice of such breach is given by Executive to the Company; (ii) there is a Voluntary Termination; or (iii) there is an Involuntary Termination.

5.2.1 If Executive terminates Executive's employment other than pursuant to clauses (i), (ii) or (iii) of Section 5.2, the Company's obligations under this Agreement shall cease as of the date of such termination.

5.2.2 If Executive terminates Executive’s employment hereunder pursuant to clause (i) of Section 5.2 and there has been a Change in Control, or pursuant to clause (iii) of Section 5.2, Executive shall be entitled to receive Executive’s base salary and other benefits due Executive through the termination date less applicable taxes and other deductions and a lump sum payment equal to three times Executive’s Compensation. If the Executive terminates Executive’s employment pursuant to clause (i) of Section 5.2 and in the absence of a Change in Control, Executive shall be entitled to receive immediately in a lump sum as severance upon such termination, an amount equal to one times Executive’s Compensation.

5.2.3 If Executive terminates Executive’s employment pursuant to clause (ii) of Section 5.2, Executive shall be entitled to receive Executive’s base salary and other benefits due Executive through the termination date less applicable taxes and other deductions and receive immediately in a lump sum as severance aggregate compensation and benefits provided in Section 6 equal to one times Executive’s Compensation.

5.2.4 In addition, in the event of such termination pursuant to any of clauses (i) through (iii) of this Section 5.2, (A) all rights of Executive pursuant to awards of share grants or options granted by the Company shall be deemed to have vested and shall be released from all conditions and restrictions, except for restrictions on transfer pursuant to the Securities Act of 1933, as amended, and (B) the Executive shall be deemed to be credited with service with the Company for such remaining Term for the purposes of the Company’s benefit plans, and (C) the Executive shall be deemed to have retired from the Company and shall be entitled as of the termination date, or at such later time as he may elect to commence receiving the total combined qualified and non-qualified retirement benefit to which he is entitled hereunder, or Executive’s total non-qualified retirement benefit hereunder if under the terms of the Company’s qualified retirement plan for salaried employees he is not entitled to a qualified benefit, and (D) if any provision of this Section 5.2.4 cannot, in whole or in part, be implemented and carried out under the terms of the applicable compensation, benefit, or other plan or arrangement of the Company because the Executive has ceased to be an actual employee of the Company, because the Executive has insufficient or reduced credited service based upon Executive’s actual employment by the Company, because the plan or arrangement has been terminated or amended after the effective date of this Agreement, or because of any other reason, the Company itself shall pay or otherwise provide the equivalent of such rights, benefits and credits for such benefits to Executive, Executive’s dependents, beneficiaries and estate. Subject to applicable legal limits to the contrary including, without limitation, limits applicable to incentive stock options under the Code, in the event of termination pursuant to clauses (i) through (iii) of Section 5.2, Executive shall have three (3) years from the date of such termination to exercise any outstanding stock options (provided that such provision shall not be deemed to extend the 10 year term of any options).

6. Compensation. In consideration of Executive’s services and covenants hereunder, Company shall pay to Executive the compensation and benefits described below (which compensation shall be paid in accordance with the normal compensation practices of the Company,provided that Executive’s salary pursuant to Section 6.1 shall be payable not less frequently than monthly):

6.1Annual Salary. During the Term hereof, the Company shall pay to Executive a base salary equal to $250,000.00 (the “Annual Base Salary”).

6.22007 Incentive Bonus. Executive shall receive a bonus under the Management Incentive Compensation Plan for all services rendered during 2007 and for the first quarter of 2008 of $450,000, which amount shall be payable on or before March 15, 2008.

6.3Long Term Incentive Compensation Plan. From the date hereof, Executive shall not receive any further awards under TSFG’s Long Term Incentive Compensation Plan.

---

(i) All Executive's unvested time-based awards of LTIP restricted stock (i.e. 2,367 shares) shall be vested at the end of the Term.

(ii) At the end of the Term, TSFG shall vest any stock options held by Executive that are not "under water" on March 31, 2008. In addition, all vested stock options held by Executive upon expiration of the Term may be exercised on or before the earlier of March 31, 2009 or the expiration date of such stock option (which is ten years after issuance).

6.4Supplemental Executive Benefit Plan. Executive will continue to participate in the SERP through March 31, 2008. At the end of the Term hereof, the SERP shall be deemed amended to provide that Executive will be entitled to a 45% early retirement benefit, which shall be payable to Executive in accordance with the Early Retirement Benefit provisions of the SERP, subject to the provisions of Section 409A of the Code.

6.5Deferred Compensation. In January 2008, the Company will pay, on behalf of Executive, $15,000 into the TSFG Deferred Compensation Plan.

6.6Miscellaneous Benefits. During the Term hereof, Executive shall be entitled to participate in any other employee benefit plan, programs, policies or other arrangements provided by the Company to general employees.

6.7Term Life and Other Insurance. The Company will keep in place through the end of the Term the existing $1 million term life insurance policy that it maintains on Executive. During January 2008, the Company will pay the annual premium on such policy, together with a gross-up payment to cover income taxes associated with this premium), and after the Term hereof, Executive shall own such policy, which the option to continue at his expense, future premium payments. Executive's rights with respect to other insurance (such as group life, and supplemental group life for Executive and spouse) will be handled in accordance with the terms of such policies, and are not amended by this Agreement.

7. Excess Parachute Payments. It is the intention of the parties hereto that the severance payments and other compensation provided for herein are reasonable compensation for Executive's services to the Company and shall not constitute "excess parachute payments" within the meaning of Section 280G of the Code and any regulations thereunder. In the event that the Company's independent accountants acting as auditors for the Company on the date of a Change in Control determine that the payments provided for herein constitute "excess parachute payments," then the compensation payable hereunder shall be reduced to the point that such compensation shall not qualify as "excess parachute payments."

8. Confidentiality. Executive shall hold in a fiduciary capacity for the benefit of the Company all Confidential Information relating to the Company or any of its affiliates, and their respective businesses, which shall have been obtained by Executive during Executive's employment by the Company or any of its affiliates. After termination of Executive's employment with the Company for any reason, Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. Upon the termination or expiration of Executive's employment hereunder, Executive agrees to deliver promptly to the Company all Company files, customer lists, management reports, memoranda, research, Company forms, financial data and reports and other documents supplied to or created by Executive in connection with Executive's employment hereunder (including all copies of the foregoing) in Executive's possession or control and all of the Company's equipment and other materials in Executive's possession or control. The existence of any claim or cause of action of Executive against the Company, whether predicated in this Agreement or otherwise, shall not constitute a defense to the enforcement of Section 8 by the Company.

9. Noncompetition and Nonsolicitation Agreement. The Noncompete Period shall be the one year period following the date of termination of employment for any reason.

9.1 During the Noncompete Period, Executive shall not directly or indirectly enter into an employment or consulting arrangement with any other bank, thrift, or depository institution, including an institution in organization, (a "Competitor") which would involve Executive working or consulting as a credit executive and overseeing, servicing or otherwise having responsibility for customers located in the state of South Carolina. The parties acknowledge that Executive may (1) engage in consulting services in which Executive advises banking institutions as to credit department matters (but not as to particular matters relating to South Carolina-based customers) and/or (2) work for Orr Management Group (or a similar institution), again so long ass Executive does not provide services related to South Carolina-based customers.

9.2 During the Noncompete Period, Executive shall not directly or indirectly, including through another person or entity (including a Competitor) (i) solicit or induce any Company employee to leave the employment of the Company or in any way interfere with the relationship between Company and any employee, (ii) hire or engage any person who is an employee of Company, or (iii) solicit or induce any customer, supplier, or other person or entity in a business relation with Company to cease doing business with Company, or in any way interfere with such business relationship. For purposes of this Section 9.2, the phrase "customer, supplier or other person or entity in a business relation with Company" means those persons or entities with whom the Company had a customer relationship during the 12-month period prior to the termination of the Executive.

9.3 If, at the time of enforcement of this Section 9, a court shall hold that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances shall be substituted for the stated duration, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law and that such revised restrictions may be enforced against Executive. Executive agrees that the restrictions contained in this Section 9 are reasonable and appropriate when considered in light of the nature and extent of the business of the Company.

9.4 In the event of the breach or a threatened breach by Executive of any of the provisions of this Section 9, Company, in addition and supplementary to other rights and remedies existing in its favor, may apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof (without posting a bond or other security). In addition, in the event of an alleged breach or violation by Executive of this Section 9, the Noncompete Period shall be tolled until such breach or violation has been duly cured.

9.5 The existence of any claim or cause of action of Executive against the Company, whether predicated in this Agreement or otherwise, shall not constitute a defense to the enforcement of Section 9 by the Company. The Noncompete Period shall be extended commensurately for any period of time during which the covenants set forth in this Section 9 are contested. The obligations contained in this Section 9 shall not prohibit Executive from being an owner of not more than 5% of the outstanding stock of any class of a corporation which is publicly traded, so long as Executive has no active participation in the business of such corporation. The terms of this Section 9 shall survive the termination of Executive's employment and the termination or expiration of this Agreement.

10. Trust. Notwithstanding anything to the contrary in this agreement, in lieu of direct payments to the Executive under Section 5 of this Agreement, the Company shall establish an irrevocable trust to fund and pay Executive the maximum amount of obligations which could reasonably be expected to become payable hereunder under any circumstances (which may be a "rabbi trust" if so requested by Executive), which trust (i) shall have as trustee an individual acceptable to Executive, (ii) shall be fully funded upon the earlier of a Change in Control or the approval of any regulatory application filed by a potential acquiror of the Company seeking to acquire control of the Company, and (iii) shall contain such other terms

---

and conditions as are reasonably necessary in Executive's determination to ensure the Company's compliance with its obligations hereunder.

11. Assignment. The parties acknowledge that this Agreement has been entered into due to, among other things, the special skills of Executive, and agree that this Agreement may not be assigned or transferred by Executive, in whole or in part, without the prior written consent of Company.

12. Notices. All notices, requests, demands, and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given if delivered or seven days after mailing if mailed, first class, certified mail postage prepaid:

To the Company:
The South Financial Group, Inc.
Poinsett Plaza
104 South Main Street
Greenville, South Carolina 29601
Attn: Mary A. Jeffrey

To Executive:
Michael W. Sperry
219 Abbot Trail
Greenville, SC 29605

Any party may change the address to which notices, requests, demands, and other communications shall be delivered or mailed by giving notice thereof to the other party in the same manner provided herein.

13. Provisions Severable. If any provision or covenant, or any part thereof, of this Agreement should be held by any court to be invalid, illegal or unenforceable, either in whole or in part, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of the remaining provisions or covenants, or any part thereof, of this Agreement, all of which shall remain in full force and effect.

14. Remedies in the Absence of a Change in Control. The terms of this Section 14 will apply in the absence of a Change in Control.

14.1 The Executive acknowledges that if he breaches or threatens to breach Executive's covenants and agreements in this Agreement, such actions may cause irreparable harm and damage to the Company which could not be compensated in damages. Accordingly, if Executive breaches or threatens to breach this Agreement, the Company shall be entitled to injunctive relief, in addition to any other rights or remedies of the Company.

14.2 All claims, disputes and other matters in question between the Executive and the Company arising out of or related to the interpretation of this Agreement or the breach of this Agreement, except as specifically governed by the foregoing provisions where there may be irreparable harm and damage to the Company which could not be compensated in damages, shall be decided by arbitration in accordance with the rules of the American Arbitration Association. This agreement to arbitrate shall be specifically enforceable under applicable law in any court having jurisdiction. The award rendered by the arbitrator shall be final and judgment may be entered upon it in accordance with the applicable law of any court having jurisdiction thereof.

14.3 In the event that the Executive is reasonably required to engage legal counsel to enforce Executive's rights hereunder against the Company, Executive shall be entitled to receive from the Company Executive's reasonable attorneys= fees and costs; provided that Executive shall not be entitled to receive those fees and costs related to matters, if any, which were the subject of litigation and with respect to which a judgment is rendered against Executive.

---

Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

15. Remedies in the Event of a Change in Control. The terms of this Section 15 shall apply in the event of a Change in Control.

15.1 The Executive acknowledges that if he breaches or threatens to breach Executive's covenants and agreements in this Agreement, such actions may cause irreparable harm and damage to the Company which could not be compensated in damages. Accordingly, if Executive breaches or threatens to breach this Agreement, the Company shall be entitled to injunctive relief, in addition to any other rights or remedies of the Company. All claims, disputes and other matters in question between the Executive and the Company arising out of or related to the interpretation of this Agreement or the breach of this Agreement shall be decided under and governed by the laws of the State of South Carolina.

15.2 The Company is aware that upon the occurrence of a Change in Control, the Board or a stockholder of the Company may then cause or attempt to cause the Company to refuse to comply with its obligations under this Agreement, or may cause or attempt to cause the Company to institute, or may institute, litigation seeking to have this Agreement declared unenforceable, or may take, or attempt to take, other action to deny the Executive the benefits intended under this Agreement. In these circumstances, the purpose of this Agreement could be frustrated. It is the intent of the parties that the Executive not be required to incur the legal fees and expenses associated with the protection or enforcement of Executive's rights under this Agreement by litigation or other legal action because such costs would substantially detract from the benefits intended to be extended to the Executive hereunder, nor be bound to negotiate any settlement of Executive's rights hereunder under threat of incurring such costs. Accordingly, if at any time after a Change in Control, it should appear to the Executive that the Company is or has acted contrary to or is failing or has failed to comply with any of its obligations under this Agreement for the reason that it regards this Agreement to be void or unenforceable or for any other reason, or that the Company has purported to terminate Executive's employment for cause or is in the course of doing so in either case contrary to this Agreement, or in the event that the Company or any other person takes any action to declare this Agreement void or unenforceable, or institutes any litigation or other legal action designed to deny, diminish or to recover from the Executive the benefits provided or intended to be provided to Executive hereunder, and the Executive has acted in good faith to perform Executive's obligations under this Agreement, the Company irrevocably authorizes the Executive from time to time to retain counsel of Executive's choice at the expense of the Company to represent Executive in connection with the protection and enforcement of Executive's rights hereunder, including without limitation representation in connection with termination of Executive's employment contrary to this Agreement or with the initiation or defense of any litigation or other legal action, whether by or against the Executive or the Company or any director, officer, stockholder or other person affiliated with the Company, in any jurisdiction. The reasonable fees and expenses of counsel selected from time to time by the Executive as hereinabove provided shall be paid or reimbursed to the Executive by the Company on a regular, periodic basis upon presentation by the Executive of a statement or statements prepared by such counsel representing other officers or key executives of the Company in connection with the protection and enforcement of their rights under similar agreements between them and the Company, and, unless in Executive's sole judgment use of common counsel could be prejudicial to Executive or would not be likely to reduce the fees and expenses chargeable hereunder to the Company, the Executive agrees to use Executive's best efforts to agree with such other officers or executives to retain common counsel.

16. Waiver. Failure of either party to insist, in one or more instances, on performance by the other in strict accordance with the terms and conditions of this Agreement shall not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless such waiver is contained in a writing signed by the party making the waiver.

---

17. Amendments and Modifications. This Agreement may be amended or modified only by a writing signed by other parties hereto.

18. Governing Law. The validity and effect of this agreement shall be governed by and construed and enforced in accordance with the laws of the State of South Carolina.

19. 409A Compliance.

A. If the Agreement provides that the exercise of a stock option following Executive's termination of employment may be extended to a specified date beyond that set forth in the option award agreement, then it may be extended to a date no later than the earlier of (i) the date specified in the Agreement; (ii) the end of the scheduled term of any such stock option; or (iii) the tenth anniversary of the original date of grant of the stock option. If the Agreement does not provide for a stock option exercise period, this paragraph shall not apply.

B. The Company may delay payment of a benefit hereunder upon such events and conditions as the IRS may permit in generally applicable published regulatory or other guidance under Section 409A of the Code, including, without limitation, payments that the Company reasonably anticipates will be subject to the application of Section 162(m) of the Code, or will violate Federal securities laws or other applicable law; provided that any such delayed payment will be made at the earliest day at which the Company reasonably anticipates that the making of the payment would not cause such a violation.

C. If a payment is payable under the Agreement due to a "separation from service" for purposes of the rules under Treasury Regulation Section 1.409A-3(i)(2) (payments to specified employees upon a separation from service) and the Executive is determined to be a "specified employee" (as determined under Treasury Regulation Section 1.409A-1(i)) and related Company procedures), then the payment shall be made on a date that is six months after the date of the Executive's separation from service to the extent necessary to comply with the requirements of Section 409A of the Code and related treasury regulations.

D. The Agreement, as modified by this Amendment, is intended to comply with the requirements of 409A of the Internal Revenue Code and the regulations and other guidance issued thereunder, as in effect from time to time. To the extent a provision of the Agreement is contrary to or fails to address the requirements of Section 409A of the Code and related treasury regulations, the Agreement shall be construed and administered as necessary to comply with such requirements to the extent allowed under applicable treasury regulations until the Agreement is appropriately amended to comply with such requirements.

20. Withholding. The Company may withhold from any amounts payable under this Agreement such United States federal, state or local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

21. Entire Agreement. This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereto, and in particular, supersedes the Prior Agreement.

[end of page – signatures on the following page]



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the day and year first above written.

**EXECUTIVE**

/s/Michael W. Sperry
**Michael W. Sperry**

**CAROLINA FIRST BANK**

By: /s/ Mary A. Jeffrey
Title: Executive Vice President

**THE SOUTH FINANCIAL GROUP, INC.**

By: /s/ Mary A. Jeffrey
Title: Executive Vice President



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Exhibit 10.20

STRICTLY CONFIDENTIAL

**NOTICE: THIS CONTRACT IS SUBJECT TO ARBITRATION PURSUANT TO THE SOUTH CAROLINA UNIFORM ARBITRATION ACT**

# AMENDED AND RESTATED NONCOMPETITION, SEVERANCE AND EMPLOYMENT AGREEMENT Between CAROLINA FIRST BANK and HERBERT LYNN HARTON

This Amended and Restated Noncompetition, Severance and Employment Agreement (this “Agreement”) is made and entered into as of this February 25, 2008, by and between Herbert Lynn Harton, an individual (the “Executive”), and Carolina First Bank, a South Carolina corporation headquartered in Greenville, South Carolina (the “Company”) and wholly owned subsidiary of The South Financial Group, Inc. (“TSFG”).

## RECITALS

The Company’s Board of Directors (the “Board”) believes that the Executive has been instrumental in the success of the Company.

The Company desires to continue to employ the Executive as Executive Vice President — Chief Risk and Credit Policy Officer of the Company and in such other capacities as the Executive is currently employed as of the date hereof.

The terms hereof are consistent with the executive compensation objectives of the Company as established by the Board.

The Executive is willing to accept the employment contemplated herein under the terms and conditions set forth herein.

This Agreement amends and restates the original agreement between the Executive and the Company dated on or about March 1, 2007.

## AGREEMENT

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto agree as follows:

1. Employment. Subject to the terms and conditions hereof, the Company hereby employs the Executive and Executive hereby accepts such employment as the Executive Vice President — Chief Risk and Credit Policy Officer of the Company having such duties and responsibilities as are set forth in Section 3 below.

2. Definitions. For purposes of this Agreement, the following terms shall have the meanings specified below.

“Agreement” shall have the meaning set forth in the preamble.

“Annual Base Salary” shall have the meaning set forth in Section 6.1.

“Annual Bonus Amount” shall mean the average of the annual cash bonuses earned by Executive under any written short-term (i.e. one year) plan (regardless of whether a particular bonus has yet been paid or whether any portion thereof was deferred) as a result of employment by the Company and its affiliates over the three year period immediately preceding the date of termination. In calculating the Annual Bonus Amount: (i) if one of the year’s bonuses in the calculation period was based on a period of less than 12 full months, then such annual bonus amount shall be annualized; (ii) if Executive was employed for less than

three years and had not yet earned a bonus in year two and/or year three (as applicable) because Executive was not employed at December 31 of that year, then the Annual Bonus Amount shall be calculated based solely on the years in which Executive was employed at the end of the year; (iii) if Executive shall not have been employed long enough to earn a cash bonus, then the Annual Bonus Amount will be deemed to be the Executive's target bonus amount.

"Board" shall mean the Board of Directors of TSFG.

"Cause" shall mean:

(i) In the absence of a Change in Control: (a) fraud; (b) embezzlement; (c) conviction of the Executive of any felony; (d) a material breach of, or the wilful failure or refusal by the Executive to perform and discharge the Executive's duties, responsibilities and obligations under this Agreement; (e) any act of moral turpitude or wilful misconduct by the Executive intended to result in personal enrichment of the Executive at the expense of the Company, or any of its affiliates or which has a material adverse impact on the business or reputation of the Company or any of its affiliates (such determination to be made by the Board in its reasonable judgment); (f) intentional material damage to the property or business of the Company; (g) gross negligence; or (h) the ineligibility of the Executive to perform Executive's duties because of a ruling, directive or other action by any agency of the United States or any state of the United States having regulatory authority over the Company.

(ii) After a Change in Control: (a) material criminal fraud, (b) gross negligence, (c) material dereliction of duties, (d) intentional material damage to the property or business of the Company, or (e) the commission of a material felony, in each case, as determined in the reasonable discretion of the Board, but only if (1) the Executive has been provided with written notice of any assertion that there is a basis for termination for cause which notice shall specify in reasonable detail specific facts regarding any such assertion, (2) such written notice is provided to the Executive a reasonable time before the Board meets to consider any possible termination for cause, (3) at or prior to the meeting of the Board to consider the matters described in the written notice, an opportunity is provided to the Executive and Executive's counsel to be heard before the Board with respect to the matters described in the written notice, (4) any resolution or other Board action held with respect to any deliberation regarding or decision to terminate the Executive for cause is duly adopted by a vote of a majority of the entire Board of the Company at a meeting of the Board called and held and (5) the Executive is promptly provided with a copy of the resolution or other corporate action taken with respect to such termination. No act or failure to act by the Executive shall be considered wilful unless done or omitted to be done by Executive not in good faith and without reasonable belief that Executive's action or omission was in the best interests of the Company. The unwillingness of the Executive to accept any or all of a change in the nature or scope of Executive's position, authorities or duties, a reduction in Executive's total compensation or benefits, a relocation that he deems unreasonable in light of Executive's personal circumstances, or other action by or upon request of the Company in respect of Executive's position, authority, or responsibility that he reasonably deems to be contrary to this Agreement, may not be considered by the Board to be a failure to perform or misconduct by the Executive.

"Change in Control" shall mean:

(i) when any Person or Persons acting as "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act and within the meaning of Section 409A of the Code and applicable regulations thereunder) acquires directly or indirectly, securities of TSFG representing an aggregate of more than 50% of the combined voting power of TSFG's then outstanding voting securities other than an acquisition by:

(A) any employee plan established by TSFG;

(B) TSFG or any of its affiliates (as defined in Rule 12b-2 promulgated under the Exchange Act);

(C) an underwriter temporarily holding securities pursuant to an offering of such securities;

(D) a corporation owned, directly or indirectly, by stockholders of TSFG in substantially the same proportions as their ownership of TSFG; or



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

(E) except as provided in clause (iii) below, merger or consolidation of TSFG with any other corporation which is duly approved by the stockholders of TSFG; or

(ii) when a majority of the board of directors of TSFG is replaced during any 12-month period and such new appointments are not approved by a majority of the members of the current board prior to the date of appointment or election; or

(iii) The consummation of a merger, sale of substantially all assets, consolidation or similar transaction between TSFG and any other corporation other than (A) such a transaction that would result in the voting securities of TSFG outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of any company, at least a majority of the combined voting power of the voting securities of TSFG or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (B) such a transaction effected to implement a recapitalization of TSFG (or similar transaction) in which no Person is or becomes the beneficial owner (as defined in clause (i) above), directly or indirectly, of securities of TSFG (not including in the securities beneficially owned by such Person any securities acquired directly from TSFG) representing a majority of the combined voting power of TSFG's then outstanding voting securities; or (C) a plan of complete liquidation of TSFG.

"Code" shall mean the Internal Revenue Code of 1986, as amended, or any successor statute, rule or regulation of similar effect.

"Company" shall have the meaning set forth in the preamble.

"Compensation" shall mean the sum of (i) Executive's Annual Base Salary (as defined in Section 6.1), and (ii) Executive's Annual Bonus Amount.

"Competitor" shall have the meaning set forth in Section 9.

"Confidential Information" shall mean all business and other information relating to the business of the Company and its affiliates, including without limitation, technical or nontechnical data, programs, methods, techniques, processes, financial data, financial plans, product plans, and lists of actual or potential customers, which (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other Persons, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy or confidentiality. Such information and compilations of information shall be contractually subject to protection under this Agreement whether or not such information constitutes a trade secret and is separately protectable at law or in equity as a trade secret. Confidential Information shall not include any of the foregoing that does not constitute a trade secret under applicable law two years after any expiration or termination of this Agreement.

"Disability" or "Disabled" shall mean any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months which results in (i) Executive being unable to engage in any substantial gainful activity or (ii) Executive receiving income replacement benefits for a period of not less than 3 months under an accident and health plan (including disability benefits) covering employees of the Company. In addition, Executive will be deemed disabled if determined to be totally disabled by the Social Security Administration, or if determined to be disabled in accordance with a disability insurance program provided the definition of disability applied under such disability insurance program complies with the requirements of the preceding sentence.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

"Executive" shall have the meaning set forth in the preamble.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

“Noncompete Period” shall have the meaning set forth in Section 9.

“Involuntary Termination” shall mean the termination of Executive’s employment by the Executive following a Change in Control which, in the sole judgment of the Executive, is due to (i) a change of the Executive’s responsibilities, position (including status as Executive Vice President — Chief Risk and Credit Policy Officer of the Company, its successor or ultimate parent entity, office, title, reporting relationships or working conditions), authority or duties (including changes resulting from the assignment to the Executive of any duties inconsistent with Executive’s positions, duties or responsibilities as in effect immediately prior to the Change in Control); or (ii) a change in the terms or status (including the rolling three year termination date) of this Agreement; or (iii) a reduction in the Executive’s compensation or benefits; or (iv) a forced relocation of the Executive outside the Greenville metropolitan area; or (v) a significant increase in the Executive’s travel requirements (collectively “Status Changes”); provided, however, Executive must elect to terminate Executive’s employment within two (2) years of the Status Change on which Executive bases Executive’s employment termination.

“Other Benefits” means (i) any unpaid base salary through the date of termination and (ii) amounts that are vested benefits or that Executive is otherwise entitled to receive under any plan, policy, practice or program of or any other contract or agreement with the Company or its affiliates (other than this Agreement) at or subsequent to the date of termination in accordance with the terms of such plan, policy, practice or program or contract or agreement, except as explicitly modified by this Agreement. Notwithstanding the foregoing, “Other Benefits” shall not include any severance pay or benefits under any severance plan, program or policy of the Company and its affiliates. Without limiting the generality of the foregoing, the Executive’s resignation under this Agreement for any reason, shall in no way affect the Executive’s ability to terminate employment by reason of the Executive’s “retirement” under any compensation and benefits plans, programs or arrangements of the Company or its affiliates, including without limitation any retirement or pension plans or arrangements or to be eligible to receive benefits under any compensation or benefit plans, programs or arrangements of the Company or its affiliates, including without limitation any retirement or pension plan or arrangement of the Company or its affiliates or substitute plans adopted by the Company or its successors, and any termination which otherwise qualifies as Involuntary Termination shall be treated as such even if it is also a “retirement” for purposes of any such plan.

“Person” shall mean any individual, corporation, bank, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or other entity.

“Vesting Benefits” shall mean the following: (i) all rights of Executive pursuant to equity compensation grants including stock options granted by the Company shall vest and shall be released from all conditions and restrictions, except for restrictions on transfer pursuant to the Securities Act of 1933, as amended; (ii) subject to applicable legal limits to the contrary, including limits applicable to incentive stock options under the Code, Executive shall have the lesser of (a) three years from the date of such termination or (b) until the end of the scheduled term of any such stock option to exercise any outstanding stock options; (iii) Executive shall be entitled to any benefits to which Executive is entitled under the Supplemental Executive Retirement Agreement in accordance with the terms thereof; and (iv) for three years after Executive’s date of termination, or such longer period as may be provided by the terms of the appropriate plan, program, practice or policy, (the “Benefit Continuation Period”), the Company shall continue health care and life insurance benefits to the Executive and/or the Executive’s family at least equal to those that would have been provided to them in accordance with the plans, programs, practices and policies providing health care and life insurance benefits and at the benefit level as if the Executive’s employment had not been terminated or, if more favorable to the Executive, as in effect generally at any time thereafter with respect to other peer executives of the Company and its affiliates and their families; *provided*, *however*, that, the health care benefits provided during the Benefit Continuation Period shall be provided in such a manner that such benefits (and the costs and premiums thereof) are excluded from the Executive’s income for federal income tax purposes and, if the Company reasonably determines that providing continued coverage under one or more of its health care benefit plans contemplated herein could be taxable to the Executive, the Company



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

shall provide such benefits at the level required hereby through the purchase of individual insurance coverage; *provided, however*, that if the Executive becomes re-employed with another employer and is eligible to receive health care and life insurance benefits under another employer-provided plan, the health care and life benefits provided hereunder shall be secondary to those provided under such other plan during such applicable period of eligibility.

"Voluntary Termination" shall mean the termination by Executive of Executive's employment following a Change in Control which is not the result of any of clauses (i) through (v) set forth in the definition of Involuntary Termination above.

3. Duties. During the Term hereof, the Executive shall have such duties and authority as are typical of the Executive Vice President — Chief Risk and Credit Policy Officer of a company such as the Company, including, without limitation, those specified in the Company's Bylaws. Executive agrees that during the Term hereof, he will devote Executive's full time, attention and energies to the diligent performance of Executive's duties. Executive shall not, without the prior written consent of the Company, at any time during the Term hereof (i) accept employment with, or render services of a business, professional or commercial nature to, any Person other than the Company, (ii) engage in any venture or activity which the Company may in good faith consider to be competitive with or adverse to the business of the Company or of any affiliate of the Company, whether alone, as a partner, or as an officer, director, employee or shareholder or otherwise, except that the ownership of not more than 5% of the stock or other equity interest of any publicly traded corporation or other entity shall not be deemed a violation of this Section, or (iii) engage in any venture or activity which the Board may in good faith consider to interfere with Executive's performance of Executive's duties hereunder.

4. Term. Unless earlier terminated as provided herein, Executive's employment hereunder shall be for a rolling term of three years commencing on the date hereof (the "Term"). This Agreement shall be deemed to extend each day for an additional day automatically without any action on behalf of either party hereto; provided, however, that either party may, by written notice to the other, cause this Agreement to cease to extend automatically and upon such notice, the "Term" of this Agreement shall be the three years following the date of such notice, and this Agreement shall terminate upon the expiration of such Term.

5. Termination. This Agreement may be terminated as follows:

5.1 The Company. The Company shall have the right to terminate Executive's employment hereunder at any time during the Term hereof (i) for Cause, (ii) if the Executive becomes Disabled, (iii) upon the Executive's death, or (iv) without Cause.

5.1.1 If the Company terminates Executive's employment under this Agreement pursuant to clauses (i) of Section 5.1, the Company's obligations hereunder shall cease as of the date of termination; provided, however, if Executive is terminated for Cause after a Change in Control, then such termination shall be treated as a Voluntary Termination as contemplated in and subject to the terms of Section 5.2.3 below without the application of Section 5.2.4 below.

5.1.2 If the Company terminates Executive's employment under this Agreement pursuant to clauses (ii) or (iii) of Section 5.1, the Company's obligations hereunder shall cease as of the date of termination except that Executive or Executive's estate will be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum a pro-rata portion of the targeted Annual Incentive Bonus under Section 6.2 for the portion of the year actually worked by Executive prior to Executive's Disability or death.

5.1.3 If the Company terminates Executive pursuant to clause (iv) of Section 5.1 and there has been a Change in Control, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to three times Executive's Compensation. If the Company terminates Executive pursuant to clause (iv) of Section 5.1 and in the absence of a Change in Control, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to the product of (a) the Compensation and (b) the number of years and portions thereof remaining in the Term.

5.1.4 In the event of such termination pursuant to clause (iv) of Section 5.1, the Executive shall be entitled to the Vesting Benefits.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

5.2 By Executive. Executive shall have the right to terminate Executive's employment hereunder if (i) the Company materially breaches this Agreement and such breach is not cured within 30 days after written notice of such breach is given by Executive to the Company; (ii) there is a Voluntary Termination; or (iii) there is an Involuntary Termination.

5.2.1 If Executive terminates Executive's employment other than pursuant to clauses (i), (ii) or (iii) of Section 5.2, the Company's obligations under this Agreement shall cease as of the date of such termination.

5.2.2 If Executive terminates Executive's employment hereunder pursuant to clause (i) of Section 5.2 and there has been a Change in Control, or pursuant to clause (iii) of Section 5.2, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to three times Executive's Compensation. If the Executive terminates Executive's employment pursuant to clause (i) of Section 5.2 and in the absence of a Change in Control, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to one times Executive's Compensation.

5.2.3 If Executive terminates Executive's employment pursuant to clause (ii) of Section 5.2, Executive shall be entitled to receive (1) the Other Benefits and (2) immediately in a lump sum as severance upon such termination, an amount equal to one times Executive's Compensation.

5.2.4 In addition, in the event of such termination pursuant to any of clauses (i) through (iii) of this Section 5.2, the Executive shall be entitled to the Vesting Benefits.

6. Compensation. In consideration of Executive's services and covenants hereunder, Company shall pay to Executive the compensation and benefits described below (which compensation shall be paid in accordance with the normal compensation practices of the Company,provided that Executive's salary pursuant to Section 6.1 shall be payable not less frequently than monthly):

6.1Annual Salary. During the Term hereof, the Company shall pay to Executive a base salary established by the Company which for the first year of the Term shall be $275,000.00 (the "Annual Base Salary"). Executive's salary will be reviewed at the beginning of each of its fiscal years and, in the sole discretion of the Company, may be increased for such year (but not decreased). All references herein to Annual Base Salary shall refer to Executive's base salary as so increased.

6.2Annual Incentive Bonus. During Executive's employment, the Executive shall participate in the Management Incentive Compensation Plan or any successor thereto on terms equal to similarly situated officers.

6.3Long Term Incentive Compensation Plan. During Executive's employment, the Executive shall participate in the Long Term Incentive Plan or any successor thereto on terms equal to similarly situated officers.

6.4Supplemental Executive Benefit Plan. During Executive's employment, Executive shall be entitled to participate in a Supplemental Executive Retirement Agreement.

6.5Equity Compensation Awards. During Executive's employment, the Company may grant Executive equity compensation awards based on the Company's common stock as determined by the Company.

6.6Miscellaneous Benefits. During Executive's employment, Executive shall be entitled to participate in any other employee benefit plan, programs, policies or other arrangements generally provided by the Company to its comparable ranking executives for so long as the Company provides such benefits. The Company also agrees to provide Executive, during the Term hereof, with a $1.0 million term life insurance policy. The Company also agrees to provide a country club membership for the Executive. During the Term, Executive shall also be entitled to participate in all other benefits accorded general Company employees.

7. Excess Parachute Payments.

7.1 Anything in this Agreement to the contrary notwithstanding and except as set forth below, in the event it shall be determined that any Payment would be subject to the Excise Tax, then Executive shall be entitled to receive an additional payment (the "Gross-Up Payment") in an amount such that, after payment by Executive of all taxes (and any interest or penalties imposed with respect to such



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

taxes), including, without limitation, any income taxes (and any interest and penalties imposed with respect thereto) and Excise Tax imposed upon the Gross-Up Payment, but excluding any income taxes and penalties imposed pursuant to Section 409A of the Code, Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Payments. Notwithstanding the foregoing provisions of this Section 7.1, if it shall be determined that Executive is entitled to the Gross-Up Payment, but that the Parachute Value of all Payments does not exceed 110% of the Safe Harbor Amount, then no Gross-Up Payment shall be made to Executive and the amounts payable under this Agreement shall be reduced so that the Parachute Value of all Payments, in the aggregate, equals the Safe Harbor Amount. The reduction of the amounts payable hereunder, if applicable, shall be made by reducing the cash severance payments. For purposes of reducing the Payments to the Safe Harbor Amount, only the cash severance payments payable under this Agreement (and no other Payments) shall be reduced. If the reduction of the amount of cash severance payments payable under this Agreement would not result in a reduction of the Parachute Value of all Payments to the Safe Harbor Amount, no amounts payable under the Agreement shall be reduced pursuant to this Section 7.1. The Company's obligation to make Gross-Up Payments under this Section 7 shall not be conditioned upon Executive's termination of employment.

7.2 Subject to the provisions of Section 7.3, all determinations required to be made under this Section 7, including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determination, shall be made by Pricewaterhouse Coopers, or such other nationally recognized certified public accounting firm as may be designated by Executive (the "Accounting Firm"). The Accounting Firm shall provide detailed supporting calculations both to the Company and Executive within 15 business days of the receipt of notice from Executive that there has been a Payment or such earlier time as is requested by the Company. In the event that the Accounting Firm is serving as accountant or auditor for the individual, entity or group effecting the Change in Control, Executive may appoint another nationally recognized accounting firm to make the determinations required hereunder (which accounting firm shall then be referred to as the Accounting Firm hereunder). All fees and expenses of the Accounting Firm shall be borne solely by the Company. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments that will not have been made by the Company should have been made (the "Underpayment"), consistent with the calculations required to be made hereunder. In the event the Company exhausts its remedies pursuant to Section 7.3 and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment shall be promptly paid by the Company to or for the benefit of Executive.

7.3 The Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-Up Payment. Such notification shall be given as soon as practicable, but no later than 10 business days after Executive is informed in writing of such claim. The Executive shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. The Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which Executive gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies the Executive in writing prior to the expiration of such period that the Company desires to contest such claim, Executive shall:

1. give the Company any information reasonably requested by the Company relating to such claim,
2. take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Company,
3. cooperate with the Company in good faith in order effectively to contest such claim; and
4. permit the Company to participate in any proceedings relating to such claim;

*provided*, *however*, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest, and shall indemnify and hold Executive



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

harmless, on an after-tax basis, for any Excise Tax or income tax (including interest and penalties) imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Section 7.3, the Company shall control all proceedings taken in connection with such contest, and, at its sole discretion, may pursue or forgo any and all administrative appeals, proceedings, hearings and conferences with the applicable taxing authority in respect of such claim and may, at its sole discretion, either pay the tax claimed to the appropriate taxing authority on behalf of Executive and direct Executive to sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; *provided*, *however*, that, if the Company pays such claim and directs Executive to sue for a refund, the Company shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax (including interest or penalties) imposed with respect to such payment or with respect to any imputed income in connection with such payment; and *provided*, *further*, that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which the Gross-Up Payment would be payable hereunder, and Executive shall be entitled to settle or contest, as the case may be, any other issue raised by the Internal Revenue Service or any other taxing authority.

7.4 If, after the receipt by Executive of a Gross-Up Payment or payment by the Company of an amount on Executive's behalf pursuant to Section 7.3, Executive becomes entitled to receive any refund with respect to the Excise Tax to which such Gross-Up Payment relates or with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 7.3, if applicable) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after payment by the Company of an amount on Executive's behalf pursuant to Section 7.3, a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then the amount of such payment shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

7.5 Any Gross-Up Payment, as determined pursuant to this Section 7, shall be paid by the Company to Executive within five days of the receipt of the Accounting Firm's determination; provided that, the Gross-Up Payment shall in all events be paid no later than the end of Executive's taxable year next following Executive's taxable year in which the Excise Tax (and any income or other related taxes or interest or penalties thereon) on a Payment are remitted to the Internal Revenue Service or any other applicable taxing authority or, in the case of amounts relating to a claim described in Section 7.3 that does not result in the remittance of any federal, state, local and foreign income, excise, social security and other taxes, the calendar year in which the claim is finally settled or otherwise resolved. Notwithstanding any other provision of this Section 7, the Company may, in its sole discretion, withhold and pay over to the Internal Revenue Service or any other applicable taxing authority, for the benefit of Executive, all or any portion of any Gross-Up Payment, and Executive hereby consents to such withholding.

7.6 Definitions. The following terms shall have the following meanings for purposes of this Section 7.

"Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, together with any interest or penalties imposed with respect to such excise tax.

"Parachute Value" of a Payment shall mean the present value as of the date of the change of control for purposes of Section 280G of the Code of the portion of such Payment that constitutes a "parachute payment" under Section 280G(b)(2), as determined by the Accounting Firm for purposes of determining whether and to what extent the Excise Tax will apply to such Payment.

A "Payment" shall mean any payment or distribution in the nature of compensation (within the meaning of Section 280G(b)(2) of the Code) to or for the benefit of Executive, whether paid or payable pursuant to this Agreement or otherwise.

The "Safe Harbor Amount" means 2.99 times Executive's "base amount," within the meaning of Section 280G(b)(3) of the Code.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

8. Confidentiality. Executive shall hold in a fiduciary capacity for the benefit of the Company all Confidential Information relating to the Company or any of its affiliates, and their respective businesses, which shall have been obtained by Executive during Executive's employment by the Company or any of its affiliates. After termination of Executive's employment with the Company for any reason, Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or legal process, communicate or divulge any such information, knowledge or data to anyone other than the Company and those designated by it. Upon the termination or expiration of Executive's employment hereunder, Executive agrees to deliver promptly to the Company all Company files, customer lists, management reports, memoranda, research, Company forms, financial data and reports and other documents supplied to or created by Executive in connection with Executive's employment hereunder (including all copies of the foregoing) in Executive's possession or control and all of the Company's equipment and other materials in Executive's possession or control.

9. Noncompetition and Nonsolicitation Agreement.

9.1 During the term hereof and for the two year period following the date of termination of employment for any reason (the "Noncompete Period"), Executive shall not directly or indirectly enter into an employment relationship or a consulting arrangement (or other economically beneficial arrangement) with any other bank, thrift, or other lending institution, including such entities "in organization", headquartered in any county in which the Company has material banking operations (a "Competitor") which would both (1) involve Executive engaging in the same or substantially similar activities as those he provided to the Company at the time of his termination and (2) after a Change in Control, which would also involve Executive having significant customer oversight over any customers (if any) overseen at the time of the Change in Control. The obligations contained in this Section 9 shall not prohibit Executive from being an owner of not more than 5% of the outstanding stock of any class of a corporation which is publicly traded, so long as Executive has no active participation in the business of such corporation.

9.2 During the Noncompete Period, Executive shall not directly or indirectly, either as an independent contractor, employee, consultant, agent, partner, joint venturer or otherwise through another person or entity, including but not limited to a Competitor, (i) solicit, induce or attempt to induce (or aid any person or entity in doing so) any employee of Company to leave the employ of Company or in any way interfere with the relationship between Company and any employee thereof or (ii) hire or engage any person who was an employee of Company or any subsidiary at any time during the six month period preceding Executive's hiring or engagement of such employee.

9.3 If, at the time of enforcement of this Section 9, a court shall hold that the duration, scope or area restrictions stated herein are unreasonable under circumstances then existing, the parties agree that the maximum duration, scope or area reasonable under such circumstances shall be substituted for the stated duration, scope or area and that the court shall be allowed to revise the restrictions contained herein to cover the maximum period, scope and area permitted by law and that such revised restrictions may be enforced against Executive.

9.4 In the event of the breach or a threatened breach by Executive of any of the provisions of this Section 9, Company, in addition and supplementary to other rights and remedies existing in its favor, may apply to any court of law or equity of competent jurisdiction for specific performance and/or injunctive or other relief in order to enforce or prevent any violations of the provisions hereof (without posting a bond or other security). In addition, in the event of an alleged breach or violation by Executive of this Section 9, the Noncompete Period shall be tolled until such breach or violation has been duly cured.

9.5 The Noncompete Period shall be extended commensurately for any period of time during which the covenants set forth in this Section 9 are contested. Executive agrees that the restrictions contained in this Section 9 are reasonable.

10. Assignment.

10.1 This Agreement is personal to Executive, and, without the prior written consent of the Company, shall not be assignable by Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Executive's legal representatives.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

10.2 This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. Except as provided in Section 10.3, without the prior written consent of Executive this Agreement shall not be assignable by the Company.

10.3 The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. "Company" means the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

11. Notices. All notices, requests, demands, and other communications required or permitted hereunder shall be in writing and shall be deemed to have been duly given if delivered or seven days after mailing if mailed, first class, certified mail postage prepaid:

To the Company: Carolina First Bank, c/o TSFG
104 South Main Street
Greenville, South Carolina 29601
Attn: Mary A. Jeffrey

To Executive: At the most recent address for Executive on file at the Company.

Any party may change the address to which notices, requests, demands, and other communications shall be delivered or mailed by giving notice thereof to the other party in the same manner provided herein.

12. Provisions Severable/Savings Clause. If any provision or covenant, or any part thereof, of this Agreement should be held by any court to be invalid, illegal or unenforceable, either in whole or in part, such invalidity, illegality or unenforceability shall not affect the validity, legality or enforceability of the remaining provisions or covenants, or any part thereof, of this Agreement, all of which shall remain in full force and effect. With respect to any provision or covenant of Section 8 or 9 finally determined by a court of competent jurisdiction to be unenforceable, Executive, the Company and its affiliates hereby agree that such court shall have jurisdiction to reform such provision or covenant so that it is enforceable to the maximum extent permitted by law, and the parties agree to abide by such court's determination. If any of the provisions or covenants of Section 8 or 9 are determined to be wholly or partially unenforceable in any jurisdiction, such determination shall not be a bar to or in any way diminish the rights of the Company or its affiliates, as applicable, to enforce any such provision or covenant in any other jurisdiction.

13. Remedies.

13.1 Executive acknowledges that if he breaches or threatens to breach Executive's covenants and agreements in this Agreement, such actions may cause irreparable harm and damage to the Company which could not be compensated in damages. Accordingly, if Executive breaches or threatens to breach this Agreement, the Company shall be entitled to injunctive relief, in addition to any other rights or remedies of the Company.

13.2 All claims, disputes and other matters in question between Executive and the Company arising out of or related to the interpretation of this Agreement or the breach of this Agreement, except as specifically governed by the foregoing provisions where there may be irreparable harm and damage to the Company which could not be compensated in damages, shall be decided by arbitration in accordance with the rules of the American Arbitration Association. This agreement to arbitrate shall be specifically enforceable under applicable law in any court having jurisdiction. The award rendered by the arbitrator shall be final and judgment may be entered upon it in accordance with the applicable law of any court having jurisdiction thereof.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

14. No Mitigation. In no event shall Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Executive under any of the provisions of this Agreement, and such amounts shall not be reduced whether or not Executive obtains other employment.

15. Waiver. Failure of either party to insist, in one or more instances, on performance by the other in strict accordance with the terms and conditions of this Agreement shall not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless such waiver is contained in a writing signed by the party making the waiver.

16. Amendments and Modifications. This Agreement may be amended or modified only by a writing signed by other parties hereto.

17. Governing Law. The validity and effect of this agreement shall be governed by and construed and enforced in accordance with the laws of the State of South Carolina without regard to principles of conflicts of laws.

18. Withholding. The Company may withhold from any amounts payable under this Agreement such United States federal, state or local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

19. Compliance With Section 409A. Within the time period permitted by the applicable Treasury Regulations, the Company may, in consultation with the Executive, modify the Agreement, in the least restrictive manner necessary and without any diminution in the value of the payments to the Executive, in order to cause the provisions of the Agreement to comply with the requirements of Section 409A of the Code, so as to avoid the imposition of taxes and penalties on the Executive pursuant to Section 409A of the Code. Notwithstanding any provision of this Agreement to the contrary, in the event that the Executive is a “specified employee” within the meaning of Section 409A of the Code (as determined in accordance with the methodology established by the Company as in effect on the date of termination), amounts that would otherwise be payable under Section 5 during the six-month period immediately following the date of termination shall instead be paid, with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code, or provided on the first business day after the date that is six months following the Executive’s “separation from service” within the meaning of Section 409A of the Code. The Company and the Executive shall take all steps necessary (including with regard to any post-termination services by the Executive) to ensure that any termination described in this Agreement constitutes a “separation from service” within the meaning of Section 409A of the Code, and notwithstanding anything contained herein to the contrary, the date on which such separation from service takes place shall be the “date of termination”.

20. Enforceability of Confidentiality, Noncompetition and Nonsolicitation Provisions. The provisions of Sections 8 and 9, including all subparts thereof, shall be enforceable regardless of the reason for termination of Executive’s employment and without regard to whether the employment is terminated by Executive or the Company. Executive expressly agrees that should Executive terminate the employment relationship on the grounds of a breach by the Company, as provided at Section 5.2(i) or an Involuntary Termination, as provided at Section 5.2(ii), such breach or Involuntary Termination shall not have any affect upon the enforceability of the provisions of Sections 8 and 9, including all subparts thereof, and Executive may not assert any such breach or Involuntary Termination as a defense to an action to enforce the provisions of Sections 8 and 9, including all subparts thereof. The existence of any claim or cause of action of Executive against the Company, whether predicated in this Agreement or otherwise, shall not constitute a defense to the enforcement of Sections 8 or 9 by the Company.

21. Remedies after a Change in Control. The terms of this Section 14 will apply in the absence of a Change in Control.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

21.1 The Executive acknowledges that if he breaches or threatens to breach Executive's covenants and agreements in this Agreement, such actions may cause irreparable harm and damage to the Company which could not be compensated in damages. Accordingly, if Executive breaches or threatens to breach this Agreement, the Company shall be entitled to injunctive relief, in addition to any other rights or remedies of the Company.

21.2 All claims, disputes and other matters in question between the Executive and the Company arising out of or related to the interpretation of this Agreement or the breach of this Agreement, except as specifically governed by the foregoing provisions where there may be irreparable harm and damage to the Company which could not be compensated in damages, shall be decided by arbitration in accordance with the rules of the American Arbitration Association. This agreement to arbitrate shall be specifically enforceable under applicable law in any court having jurisdiction. The award rendered by the arbitrator shall be final and judgment may be entered upon it in accordance with the applicable law of any court having jurisdiction thereof.

21.3 In the event that the Executive is reasonably required to engage legal counsel to enforce Executive's rights hereunder against the Company, Executive shall be entitled to receive from the Company Executive's reasonable attorneys' fees and costs. In order to comply with Section 409A of the Code, in no event shall the payments by the Company under this Section 21.3 be made (i) with respect to expenses incurred following the 20th anniversary of the date on which the dispute arose and (ii) later than the end of the calendar year next following the calendar year in which such fees and expenses were incurred, *provided*, that the Executive shall have submitted an invoice for such fees and expenses at least 10 days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred. The amount of such legal fees and expenses that the Company is obligated to pay in any given calendar year shall not affect the legal fees and expenses that the Company is obligated to pay in any other calendar year, and the Executive's right to have the Company pay such legal fees and expenses may not be liquidated or exchanged for any other benefit.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the day and year first above written.

**EXECUTIVE**

**/s/ Lynn Harton**

**CAROLINA FIRST BANK**

By: /s/ Mary A. Jeffrey



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Exhibit 10.24

**THE SOUTH FINANCIAL GROUP**
**SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT**
**Between**
**THE SOUTH FINANCIAL GROUP, INC.**
**and**
**LYNN HARTON**

This Supplemental Executive Retirement Agreement (this "Agreement") is made and entered into effective as of this29 day of January, 2007 (the "Effective Date"), by and between LYNN HARTON, an individual (the "Executive"), and The South Financial Group, Inc., a South Carolina corporation and financial institution holding company headquartered in Greenville, South Carolina (the "Company").

## INTRODUCTION

The Company wishes to provide the Executive with supplemental retirement benefits and thereby encourage the Executive to continue providing services to the Company. The Company will pay the benefits from its general assets.

The Agreement is intended to be a top-hat plan (i.e., an unfunded deferred compensation plan maintained for a member of a select group of management or highly compensated employees) pursuant to Section 201(2), 301(a)(3), and 401(a)(1) of the Employee Retirement Income Security Act of 1974 ("ERISA").

This Agreement is intended to comply with the requirements of Section 409A of the Internal Revenue Code and the regulations and other guidance issued thereunder, as in effect from time to time. To the extent a provision of the Agreement is contrary to or fails to address the requirements of Code Section 409A, the Agreement shall be construed and administered as necessary to comply with such requirements until the Agreement is appropriately amended to comply with such requirements.

## AGREEMENT

The Executive and the Company agree as follows:

## Article 1
## Definitions

Whenever used in this Agreement, the following words and phrases shall have the meanings specified:

1.1 *"Affiliated Company"* means any company controlled by, controlling or under common control with the Company.

1.2 *"Benefit Basis"* means the average of the highest three fiscal years of annual Compensation earned by the Executive during the ten fiscal years of the Executive's employment prior to the Termination of Employment, or for such lesser number of fiscal years that the

Executive was employed by the Company prior to the Termination of Employment, including the year in which Termination of Employment occurs.

1.3 *"Board"* means the Board of Directors of The South Financial Group, Inc.

1.4 *"Cause"* means (i) the willful and continued failure of the Executive to perform substantially the Executive's duties with the Company or any Affiliated Company (other than any such failure resulting from incapacity due to physical or mental illness or following the Executive's Involuntary Termination), after a written demand for substantial performance is delivered to the Executive by the Chief Executive Officer that specifically identifies the manner in which the Chief Executive Officer of the Company believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in illegal conduct or gross misconduct, in each case, that is materially and demonstrably injurious to the Company. For purposes of this definition, no act, or failure to act, on the part of the Executive shall be considered "willful" unless it is done, or omitted to be done, by the Executive in bad faith or without reasonable belief that the Executive's action or omission was in the best interests of the Company. Any act, or failure to act, based upon authority given pursuant to a resolution duly adopted by the Board, or upon instructions of the Chief Executive Officer or senior officer, or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the Executive in good faith and in the best interests of the Company. The cessation of employment of the Executive shall not be deemed to be for Cause unless and until there shall have been delivered to the Executive a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters of the entire membership of the Board (excluding the Executive, if the Executive is a member of the Board) at a meeting of the Board called and held for such purpose (after reasonable notice is provided to the Executive and the Executive is given an opportunity, together with counsel for the Executive, to be heard before the Board), finding that, in the good faith opinion of the Board, the Executive is guilty of the conduct described in clause (i) or (ii) of this definition, and specifying the particulars thereof in detail.

1.5 *"Change in Control"* means:

(i) when any Person or Persons acting as a "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the "Exchange Act" and within the meaning of Code Section 409A and applicable regulations thereunder) acquires directly or indirectly, securities of the Company representing an aggregate of more than 50% of the combined voting power of the Company's then outstanding voting securities other than an acquisition by:

(A) any employee plan established by the Company;

(B) the Company or any of its affiliates (as defined in Rule 12b-2 promulgated under the Exchange Act);

(C) an underwriter temporarily holding securities pursuant to an offering of such securities;



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

(D) a corporation owned, directly or indirectly, by stockholders of the Company in substantially the same proportions as their ownership of the Company; or

(E) except as provided in clause (iii) below, merger or consolidation of the Company with any other corporation which is duly approved by the stockholders of the Company; or

(ii) when a majority of the board of directors of the Company is replaced during any 12-month period and such new appointments are not approved by a majority of the members of the current board prior to the date of appointment or election; or

(iii) The stockholders of the Company approve a merger or consolidation of the Company with any other corporation other than (A) a merger or consolidation that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of any Company, at least a majority of the combined voting power of the voting securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner (as defined in clause (i) above), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company) representing a majority of the combined voting power of the Company's then outstanding voting securities; or (C) a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

1.6 *"Code"* means the Internal Revenue Code of 1986, as amended.

1.7 *"Company"* means The South Financial Group, Inc. and shall include the Company and any and all of its subsidiaries where the context so applies; provided, however, for purposes of application of the "Change in Control" definition and related provisions, Company shall mean and be limited to The South Financial Group, Inc.

1.8 *"Compensation"* means the Executive's annual base salary and annual bonus under the Company's Management Incentive Compensation Plan, or any comparable bonus under any predecessor or successor plan, including any bonus or portion thereof that has been earned but deferred (and annualized for any fiscal year consisting of less than 12 full months or during which the Executive was employed for less than 12 full months) for the relevant fiscal year. If the Termination of Employment occurs prior to the end of the fiscal year, the bonus amount for such fiscal year shall be equal to the highest of the bonuses earned by the Executive in the prior three fiscal years (or for such lesser number of fiscal years prior to the Termination of Employment for which the Executive was eligible to earn such a bonus, and annualized in the case of any bonus earned for a partial fiscal year).



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

1.9 *"Disability" means* any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months which results in, (i) the Executive being unable to engage in any substantial gainful activity or (ii) the Executive receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering employees of the Company. In addition, the Executive will be deemed disabled if determined to be totally disabled by the Social Security Administration, or if determined to be disabled in accordance with a disability insurance program provided the definition of disability applied under such disability insurance program complies with the requirements of the preceding sentence.

1.10 *"Early Retirement Age"* means the date that the Executive has attained age 55 and completed seven Years of Service.

1.11 *"Early Retirement Date"* means the date that is the later of the Early Retirement Age or the Termination of Employment, but is before the Normal Retirement Date.

1.12 *"Early Termination"* means the Termination of Employment before Early Retirement Age for reasons other than (i) death, (ii) Disability, (iii) by the Company for Cause, (iv) by the Company without Cause during the two year period following a Change in Control, or (v) Involuntary Termination.

1.13 *"Early Termination Date"* means the month, day and year in which Early Termination occurs.

1.14 *"Effective Date"* meansJanuary 29, 2007.

1.15 *"Exchange Act"* means the Securities Exchange Act of 1934, as amended.

1.16 *"Involuntary Termination"* means a Termination of Employment by the Executive following a Change in Control which, in the sole judgment of the Executive, is due to (i) a change of the Executive's responsibilities, position (including the Executive's office, title, reporting relationships or working conditions), authority or duties (including changes resulting from the assignment to the Executive of any duties inconsistent with his positions, duties or responsibilities as in effect immediately prior to the Change in Control); or (ii) a reduction in the Executive's annual base salary or annual bonus opportunity under the Company's Management Incentive Compensation Plan, or any comparable bonus under any predecessor or successor plan, including any bonus or portion thereof that has been earned but deferred, or benefits; or (iii) a forced relocation of the Executive outside the Greenville, South Carolina metropolitan area; or (iv) a significant increase in the Executive' travel requirements (collectively "Status Changes"); provided, however, Executive must elect to terminate Executive's employment within two (2) years of the Status Change on which Executive bases Executive's employment termination.

1.17 *"Normal Retirement Age"* means Executive's 65th birthday.

1.18 *"Normal Retirement Date"* means the later of the Normal Retirement Age or Termination of Employment.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

1.19 *"Person"* means any individual, corporation, bank, partnership, joint venture, association, joint stock company, trust, unincorporated organization or other entity.

1.20 *"Rate"* means the Moody's Aa corporate bond rate as reported by the Society of Actuaries as of the Effective Date and updated on each December 31st thereafter.

1.21 *"Termination of Employment"* means the termination of the Executive's employment with the Company and all of its subsidiaries or affiliates that are considered a single employer within the meaning of Code Sections 414(b) and 414(c). If the Executive is employed by such a subsidiary or affiliate, the Executive will be deemed to incur a Termination of Employment if the subsidiary or affiliate ceases to be such a subsidiary or an affiliate, as the case may be, and the Executive does not immediately thereafter become an employee of the Company or another such subsidiary or affiliate. Temporary absences from employment while the Executive is on military leave, sick leave, or other bona fide leave of absence will not be considered a Termination of Employment if the period of such leave does not exceed six months, or if longer, so long as the Executive's right to reemployment with the Company is provided either by statute or by contract. However, if the period of leave exceeds six months and the Executive's right to reemployment is not provided either by statute or by contract, a Termination of Employment is deemed to occur on the first day immediately following such six-month period.

1.22 *"Vesting Percentage"* is the percentage of the accrual balance in which the Executive is vested as determined in accordance withSchedule A.

1.23 *"Vesting Start Date"* shall beJanuary 29, 2007.

1.24 *"Year of Service"* means a twelve-month continuous period of employment or a portion of such period, including periods of authorized vacation, authorized leave of absence and short-term disability leave, with the Company or any of its affiliates or their predecessors or successors rounded up to the nearest whole number commencing on the Vesting Start Date.

## Article 2
## Lifetime Benefits

2.1 *Normal Retirement Benefit.* Upon Termination of Employment (i) on or after Normal Retirement Age for reasons other than death, or (ii) upon Termination of Employment without Cause within two years following a Change in Control or (iii) upon Executive's Involuntary Termination, the Company shall pay to the Executive the benefit described in this Section 2.1 in lieu of any other benefit under this Agreement.

2.1.1 *Amount of Benefit.* Theannual benefit under this Section 2.1 is an amount equal to forty percent (40%) of the Benefit Basis, provided that in the event that the Executive has completed five Years of Service, the annual benefit under this Section 2.1 is an amount equal to sixty percent (60%) of the Benefit Basis.

2.1.2 *Payment of Benefit.* The Company shall pay the benefit to the Executive as follows:

(a) payment in a lump sum on the first day of the seventh month following the Executive's Normal Retirement Date or, if earlier, on the first day of the seventh month following the Executive's Termination of Employment without Cause within two years following a Change in Control or following the Executive's Involuntary Termination, as the case may be; or

(b) at the Executive's election (on the Election Form attached as Exhibit A) made no later than thirty (30) days after the Effective Date (and with respect to services to be performed after the election), payment in either 60, 120, or 180 equal monthly installments (such installments to be considered a "single" payment for purposes of Code Section 409A), as selected by the Executive, which installments may commence no earlier than the first day of the seventh month following the Executive's Termination of Employment.

The Executive may make a subsequent election to further delay a payment or to change the form of a payment among the methods described above, provided (i) the election does not take effect until at least twelve (12) months after the date the election is made, (ii) the payment is deferred for a period of at least five (5) years from the date such payment would otherwise have been made, and (iii) the election is made at least twelve (12) months prior to the date any such payment was scheduled to begin.

Notwithstanding the preceding, no election may be made by the Executive that will extend payment of the Executive's benefit more than fifteen (15) years past the date on which the Executive's benefit would otherwise have commenced under Section 2.1.2(a) following Executive's Normal Retirement Date.

For purposes of this Section 2.1, a lump sum payment shall be equal to the present value of the aggregate annual benefits that would have been payable to the Executive had such benefits been paid to Executive in equal monthly installments over the 180-month period immediately following the Executive's Termination of Employment, assuming a discount rate equal to the Rate. Payments in monthly installments shall be determined based on the present value of the aggregate annual benefits that would have been payable to Executive had such benefits been paid to Executive in equal monthly installments over the 180-month period immediately following Executive's Termination of Employment. An interest rate equal to the Rate will be applied to determine the actuarial equivalent of the equal monthly installment payments under this Section 2.1.

2.2 *Early Retirement Benefit*. Upon Termination of Employment on or after Early Retirement Age but before Normal Retirement Age for reasons other than (i) death, (ii) Disability, (iii) by the Company without Cause within two years following a Change in Control or (iv) upon Executive's Involuntary Termination, the Company shall pay to the Executive the benefit described in this Section 2.2 in lieu of any other benefits under this Agreement.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

2.2.1 *Amount of Benefit*. The annual benefit under this Section 2.2 is an amount equal to the greater of (i) the product of (A) the sum of (x) thirty percent (30%) and (y) three percent (e%) for each Year of Service completed by the Executive after the Early Retirement Age and (B) the Benefit Basis or (ii) the benefit under Section 2.3; provided that in no event shall the amount payable under this Section 2.2.1 be greater than the benefit set forth in Section 2.1.1.

2.2.2 *Payment of Benefit.* The Company shall pay the benefit to the Executive as follows:

(a) payment in a lump sum on the first day of the seventh month following the Executive's Termination of Employment in an amount equal to the present value of the aggregate annual benefits that would have been payable to the Executive had such benefits been paid to Executive in equal monthly installments over the 180-month period immediately following the Executive's Normal Retirement Age, and assuming a discount rate equal to the Rate; or

(b) at the Executive's election (on the Election Form attached as Exhibit A) made no later than thirty (30) days after the Effective Date (and with respect to services to be performed after the election), payment in either 60, 120, or 180 equal monthly installments (such installments to be considered a "single" payment for purposes of Code Section 409A), as selected by the Executive, which installments may commence no earlier than the first day of the seventh month following the Executive's Termination of Employment.

The Executive may make a subsequent election to delay a payment or to change the form of a payment among the methods described above, provided (i) the election does not take effect until at least twelve (12) months after the date the election is made, (ii) the payment is deferred for a period of at least five (5) years from the date such payment would otherwise have been made, and (iii) the election is made at least 12 months prior to the date any such payment was scheduled to begin.

Notwithstanding the preceding, no election may be made by the Executive that will extend payment of the Executive's benefit more than fifteen (15) years past the date on which the Executive's benefit would otherwise have commenced under Section 2.2.2(a).

For purposes of this Section 2.2, any lump sum payment shall be calculated as provided in Section 2.2.2(a). Payments in monthly installments shall be determined based on the actuarial equivalent of the lump sum determined under Section 2.2.2(a). An interest rate equal to the Rate will be applied to determine the actuarial equivalent of the equal monthly installment payments under this Section 2.2.2.

The optional forms of benefit payments under Section 2.2.2(b) shall be available to Executive only upon the Executive's Termination of Employment on or after Early Retirement Age but before Normal Retirement Age for reasons other than death;



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Disability; termination by the Company without Cause within two years following a Change in Control; or upon Executive's Involuntary Termination.

2.3 *Early Termination Benefit*. Upon Early Termination, the Company shall pay to the Executive the benefit described in this Section 2.3 in lieu of any other benefit under this Agreement.

2.3.1 *Amount of Benefit.* The benefit under this Section 2.3 is the Early Termination Annual Benefit set forth inSchedule A for the year ending immediately prior to the Early Termination Date.

2.3.2 *Payment of Benefit.* The Company shall pay the annual benefit to the Executive in 12 equal monthly installments payable on the first day of each month commencing with the first month following the Normal Retirement Age; provided, however, that in no event may such benefit commence earlier than the first day of the seventh month following the Executive's Termination of Employment if the Executive is then a "specified employee" of the Company within the meaning of Treasury Regulations Section 1.409A-1(i). The annual benefit shall be paid to the Executive for 180 months.

2.4 *Disability Benefit.* If the Executive terminates employment due to Disability prior to Normal Retirement Age, the Company shall pay to the Executive the benefit described in this Section 2.4 in lieu of any other benefit under this Agreement.

2.4.1 *Amount of Benefit.* If the Executive terminates employment due to Disability prior to Normal Retirement Age, but after Early Retirement Age, the benefit under this Section 2.4 shall be the annual benefit set forth in Section 2.2.1. If the Executive terminates employment due to Disability prior to Early Retirement Age, the benefit under this Section 2.4 is the Disability Annual Benefit set forth inSchedule A for the year ending immediately prior to the Early Termination Date.

2.4.2 *Payment of Benefit.* The Company shall pay the annual benefit amount to the Executive in 12 equal monthly installments payable on the first day of each month commencing with the month following the Termination of Employment. The annual benefit shall be paid to the Executive for 180 months.

## Article 3
## Death Benefits

3.1 *Death During Active Service.* If the Executive dies while in the active service of the Company, the Company shall pay to the Executive's beneficiary the benefit described in this Section 3.1. This benefit shall be paid in lieu of the Lifetime Benefits of Article 2.

3.1.1 *Amount of Benefit.* The annual benefit under this Section 3.1 is equal to the Disability Annual Benefit described in Section 2.4.1.

3.1.2 *Payment of Benefit.* The Company shall pay the annual benefit to the Executive's beneficiary in 12 equal monthly installments payable on the first day of each



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

month commencing with the month following the Executive's death. The annual benefit shall be paid to the Executive's beneficiary for 180 months.

3.2 *Death During Benefit Period.* If the Executive dies after the benefit payments have commenced under this Agreement but before receiving all such payments, the Company shall pay the remaining benefits to the Executive's beneficiary at the same time and in the same amounts they would have been paid to the Executive had the Executive survived.

3.3 *Death After Termination of Employment But Before Benefit Payments Commence.* If the Executive is entitled to benefit payments under this Agreement, but dies prior to the commencement of said benefit payments, the Company shall pay to the Executive's beneficiary the benefit payments that the Executive was entitled to prior to death except that the benefit payments shall commence on the first day of the month following the date of the Executive's death.

**Article 4**
**Beneficiaries**

4.1 *Beneficiary Designations.* The Executive shall designate a beneficiary by filing a written designation with the Company. The Executive may revoke or modify the designation at any time by filing a new designation. However, designations will only be effective if signed by the Executive and accepted by the Company during the Executive's lifetime. The Executive's beneficiary designation shall be deemed automatically revoked if the beneficiary predeceases the Executive, or if the Executive names a spouse as beneficiary and the marriage is subsequently dissolved. If the Executive dies without a valid beneficiary designation, all payments shall be made to the Executive's estate.

4.2 *Facility of Payment*. If a benefit is payable to a minor, to a person declared incapacitated, or to a person incapable of handling the disposition of his or her property, the Company may pay such benefit to the guardian, legal representative or person having the care or custody of such minor, incapacitated person or incapable person. The Company may require proof of incapacity, minority or guardianship as it may deem appropriate prior to distribution of the benefit. Such distribution shall completely discharge the Company from all liability with respect to such benefit.

**Article 5**
**General Limitations**

5.1 *Termination for Cause.* Notwithstanding any provision of this Agreement to the contrary, the Company shall not pay any benefit under this Agreement if the Company terminates the Executive's employment for Cause.

5.2 *Suicide.* The Company shall not pay any benefit under this Agreement if the Executive commits suicide within two years after the date of this Agreement.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

## Article 6
## Claims and Review Procedures

6.1 *Claims Procedure.* The Company shall notify any person or entity that makes a claim against the Agreement (the "Claimant") in writing, within 90 days of Claimant's written application for benefits, of his or her eligibility or noneligibility for benefits under the Agreement. If the Company determines that the Claimant is not eligible for benefits or full benefits, the notice shall set forth (1) the specific reasons for such denial, (2) a specific reference to the provisions of the Agreement on which the denial is based, (3) a description of any additional information or material necessary for the Claimant to perfect his or her claim, and a description of why it is needed, and (4) an explanation of the Agreement's claims review procedure and other appropriate information as to the steps to be taken if the Claimant wishes to have the claim reviewed. If the Company determines that there are special circumstances requiring additional time to make a decision, the Company shall notify the Claimant of the special circumstances and the date by which a decision is expected to be made, and may extend the time for up to an additional 90 days.

6.2 *Review Procedure.* If the Claimant is determined by the Company not to be eligible for benefits, or if the Claimant believes that he or she is entitled to greater or different benefits, the Claimant shall have the opportunity to have such claim reviewed by the Company by filing a petition for review with the Company within 60 days after receipt of the notice issued by the Company. Said petition shall state the specific reasons which the Claimant believes entitle him or her to benefits or to greater or different benefits. Within 60 days after receipt by the Company of the petition, the Company shall afford the Claimant (and counsel, if any) an opportunity to present his or her position to the Company verbally or in writing. Claimant (or counsel) shall have the opportunity to submit written comments, documents, records, and other information relating to the claim for benefits, and shall be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to the Claimant's claim. The review shall take into account all comments, documents, records, and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The Company shall notify the Claimant of its decision in writing within the 60-day period, stating specifically the basis of its decision, written in a manner calculated to be understood by the Claimant and the specific provisions of the Agreement on which the decision is based. If, because of the need for a hearing, the 60-day period is not sufficient, the decision may be deferred for up to another 60 days at the election of the Company, but notice of this deferral shall be given to the Claimant.

6.3 *Special Procedures Applicable to Disability Benefits.* If a claim for benefits under the Agreement is contingent on a determination by the Company (or its designee) that the Executive suffers from a Disability, the Claimant shall receive a written response to the initial claim from the Company within 45 days, rather than 90 days. If special circumstances require an extension, the Company shall notify the Claimant within the 45-day processing period that additional time is needed. If the Company requests additional information so it can process the claim, the Claimant will have at least 45 days in which to provide the information. Otherwise, the initial extension cannot exceed 30 days. If circumstances require further extension, the Company will again notify the Claimant, this time before the end of the initial 30-day extension.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

The notice will state the date a decision can be expected. In no event will a decision be postponed beyond an additional 30 days after the end of the first 30-day extension. The Claimant may request a review of the Company's decision regarding the Disability claim within 180 days, rather than 60 days. The review must be conducted by a fiduciary different from the fiduciary who originally denied the claim, the fiduciary also cannot be subordinate to the fiduciary who originally denied the claim. If the original denial of the claim was based on a medical judgment, the reviewing fiduciary must consult with an appropriate health care professional who was not consulted on the original claim and who is not subordinate to someone who was The review must identify the medical or vocational experts consulted on the original claim. The Claimant may request, in writing, a list of those medical or vocational experts. The Claimant will receive notice of the reviewing fiduciary's final decision regarding the Disability claim within 45 days, rather than 60 days, of the request for review.

## Article 7
## Amendments and Termination

7.1 *Amendment.* This Agreement may not be amended or modified other than by a written agreement executed by the parties hereto or their respective successors and legal representatives.

7.2 *Termination.* Notwithstanding the preceding Section 7.1, the Company shall have the right to terminate this Agreement and to accelerate the payment of benefits under the Agreement in accordance with Code Section 409A and related treasury regulations and other guidance issued under Section 409A only as follows:

(i) if all plans or arrangements of a similar type that cover or benefit employees are terminated; or

(ii) within 30 days before or 12 months after a Change in Control; or

(iii) upon the Company's bankruptcy or dissolution.

## Article 8
## Miscellaneous

8.1 *Binding Effect.* This Agreement shall bind the Executive and the Company, and their beneficiaries, survivors, executors, successors, administrators and transferees.

8.2 *No Guarantee of Employment.* This Agreement is not an employment policy or contract. It does not give the Executive the right to remain an employee of the Company, nor does it interfere with the Company's right to discharge the Executive. It also does not require the Executive to remain an employee nor interfere with the Executive's right to terminate employment at any time.

8.3 *Non-Transferability.* Benefits under this Agreement cannot be sold, transferred, assigned, pledged, attached or encumbered in any manner.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

8.4 *Successors.* This Agreement is personal to the Executive, and, without the prior written consent of the Company, shall not be assignable by the Executive other than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's legal representatives. This Agreement shall inure to the benefit of and be binding upon the Company and its successors and assigns. Subject to the following sentences of this Section 8.4, this Agreement shall not be assignable by the Company without the prior written consent of the Executive. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. "Company" means the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid that assumes and agrees to perform this Agreement by operation of law or otherwise.

8.5 *Tax Withholding.* The Company shall withhold any taxes that are required to be withheld from the benefits provided under this Agreement.

8.6 *Applicable Law.* The Agreement and all rights hereunder shall be governed by the laws of the State of South Carolina, without regard to principles of conflicts of laws.

8.7 *Unfunded Arrangement.* The Executive and beneficiary are general unsecured creditors of the Company for the payment of benefits under this Agreement. The benefits represent the mere promise by the Company to pay such benefits. The rights to benefits are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors.

8.8 *Entire Agreement.* This Agreement constitutes the entire agreement between the Company and the Executive as to the subject matter hereof. No rights are granted to the Executive by virtue of this Agreement other than those specifically set forth herein. From and after the Effective Date, this Agreement shall supersede any other agreement between the parties with respect to the subject matter hereof .

8.9 *Administration and Recordkeeping Authority.* Except as otherwise specifically provided herein, the Company shall have the sole responsibility for and the sole control of the operation, administration, and recordkeeping of this Agreement and shall have the power and authority to take all action and to make all decisions and interpretations that may be necessary or appropriate in order to administer and operate the Agreement, including, without limiting the generality of the foregoing, the power, duty, and responsibility to:

(i) Resolve and determine all disputes or questions arising under the Agreement, including the power to determine the rights of the Participant and beneficiaries and their respective benefits, and to remedy any ambiguities, inconsistencies, or omissions in the Agreement;

(ii) Adopt such rules of procedure and regulations as in its opinion may be necessary for the proper and efficient administration of the Agreement and as are consistent with the Agreement;



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

(iii) Implement the Agreement in accordance with its terms;

(iv) Establish and revise the method of accounting for the Agreement; and

(v) Maintain a record of benefit payments.

8.10 *Named Fiduciary.* The Company shall be the named fiduciary and plan administrator under the Agreement. The named fiduciary may delegate to others certain aspects of the management and operation responsibilities of the plan including the employment of advisors and the delegation of ministerial duties to qualified individuals.

8.11 *Captions.* The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

8.12 *Severability.* The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

8.13 *Delay of Payment.* The Company may delay payment of a benefit hereunder upon such events and conditions as the IRS may permit in generally applicable published regulatory or other guidance under Code Section 409A, including, without limitation, payments that the Company reasonably anticipates will be subject to the application of Code Section 162(m), or will violate Federal securities laws or other applicable law, or will violate a loan covenant or similar contractual requirement; provided that any such delayed payment will be made at the earliest date at which the Company reasonably anticipates that the making of the payment would not cause such a violation.

8.14 *Acceleration of Payment.* Payment of a benefit hereunder may be accelerated if the Company determines such payment to a person other than the Executive is necessary to fulfill the terms of a domestic relations order (as defined in Code Section 414(p)(1)(B)). To the extent permitted under Code Section 409A and applicable treasury regulations and applicable published regulatory or other guidance, the Company may authorize payment of any portion of an Executive's benefit (i) to pay FICA tax imposed on any amounts under this Agreement and/or (ii) at any time that the Agreement fails to meet the requirements of Code Section 409A with respect to the Executive, the amount required to be included in income for the Executive as a result of such failure, and (iii) to otherwise comply with the requirements of Code Section 409A.

**IN WITNESS WHEREOF**, the Executive and a duly authorized Company officer have signed this Agreement.

| **EXECUTIVE:** | **COMPANY:** | |
|---|---|---|
| | **THE SOUTH FINANCIAL GROUP, INC.** | |
| /s/ Lynn Harton | By: | /s/ Mary A. Jeffrey |
| **Lynn Harton** | | **Mary A. Jeffrey** |
| | Title: | Executive Vice President |



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

## BENEFICIARY DESIGNATION

## THE SOUTH FINANCIAL GROUP
## SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT

### LYNN HARTON

**I DESIGNATE THE FOLLOWING AS BENEFICIARY OF ANY DEATH BENEFITS UNDER THIS SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT:**

Primary: Flavia Baraldi Harton

Contingent: Sara Elizabeth Harton (50%)

Katherine Leigh Harton (50%)

**NOTE: To name a trust as beneficiary, please provide the name of the trustee(s) and the exact name and date of the trust agreement.**

I understand that I may change these beneficiary designations by filing a new written designation with the Company. I further understand that the designations will be automatically revoked if the beneficiary predeceases me, or, if I have named my spouse as beneficiary and our marriage is subsequently dissolved.

Signature:/s/ Lynn Harton

Date:January 29, 2007

Accepted by the Company this29 day ofJanuary, 2007.

By:/s/ Mary A. Jeffrey

Title:EXECUTIVE VICE PRESIDENT



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**SCHEDULE A CALCULATIONS**

**THE SOUTH FINANCIAL GROUP**
**SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT**

**To determine the Executive's Early Termination Benefit or Disability Retirement Benefit for the year of the Termination of Employment, the following calculations shall be made:**

1. Project the Benefit Basis as of Normal Retirement Age by increasing the Benefit Basis as of the Executive's date of Termination of Employment by 5% per year, compounded annually, until Normal Retirement Age (the "Projected Retirement Benefit Basis").
2. Multiply the Projected Retirement Benefit Basis by the applicable percentage set forth in 2.1.1 (the product, "Annual Projected Retirement Benefit").
3. Calculate the discounted value at Normal Retirement Age of the aggregate Annual Projected Retirement Benefit that would have been paid to the Executive in equal monthly installments over the 180-month period immediately following the Normal Retirement Date, by using the Rate, compounded monthly (such discounted value, the "Lump Sum Projected Retirement Benefit").
4. Calculate the aggregate amount that has accrued through the end of the year ending immediately prior to the date of the Executive's Termination of Employment by accruing each month from the Effective Date through Normal Retirement Age, with interest on such amounts calculated monthly at the Rate, in order to accumulate to the Lump Sum Projected Retirement Benefit as of the Normal Retirement Date (the "Accrual Balance").

**In the case of Early Termination Benefit:**

5. Multiply the Accrual Balance by **10**% per Year of Service, subject to a maximum of 100% (the "Vested Accrual Balance").
6. Increase the Vested Accrual Balance by the Rate, compounded monthly, to the Normal Retirement Age (the "Inflated Vested Accrual Balance").
7. Calculate a fixed annuity which is payable in 180 equal monthly installments, crediting interest on the unpaid balance of the Inflated Vested Accrual Balance at the Rate, compounded monthly.

**In the case of Disability Retirement Benefit:**

8. The Disability Annual Benefit amount is determined by calculating a fixed annuity which is payable in 180 equal monthly installments, crediting interest on the unpaid balance of the Accrual Balance at the Rate, compounded monthly.



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Exhibit 10.27

**FIRST AMENDMENT**
**TO**
**SUPPLEMENTAL EXECUTIVE RETIREMENT AGREEMENT**

This First Amendment to The South Financial Group Supplemental Executive Retirement Agreement between The South Financial Group, Inc. ("Company") and Michael W. Sperry ("Executive") is made and entered into this ___day of November, 2007.

**WHEREAS**, Company and Executive entered into the Supplemental Executive Retirement Agreement dated July 15, 2003, attached hereto as Exhibit A and incorporated herein by reference ("Agreement"); and

**WHEREAS**, the parties desire to amend the Agreement to provide for a change in the form of payment upon the Executive's early retirement, as permitted under IRS Notice 2005-1 and other guidance under Section 409A of the Internal Revenue Code.

**NOW, THEREFORE**, the Agreement is amended as provided below:

1. **Section 2.2 of the Agreement is amended in its entirety to read as follows:**

   2.2.2 *Payment of Benefit*. The Company shall pay the annual benefit to the Executive in equal monthly installments for 120 months on the first day of each month commencing on the seventh month following the Executive's Early Retirement Date. The present value of such monthly payments shall be equal to the present value of the benefits that would have been payable to the Executive if the Executive received a monthly benefit for 180 months beginning at the Executive's Normal Retirement Age assuming a discount rate equal to the Rate.

2. **A new Section 8.13 is hereby added to the Agreement as follows:**

   8.13 *Compliance With Section 409A*. Notwithstanding any other provision of this Agreement, to the extent applicable, this Agreement is intended to comply with Section 409A of the Code and the regulations (or similar guidance) thereunder. To the extent any provision of this Agreement is contrary to or fails to address the requirements of Section 409A of the Code, this Agreement shall be construed and administered as necessary to comply with such requirements.

**IN WITNESS WHEREOF**, the Executive and a duly authorized Company officer have signed this First Amendment to the Agreement.

**EXECUTIVE:**

/s/ Michael W. Sperry
**MICHAEL W. SPERRY**

**COMPANY:**

**THE SOUTH FINANCIAL GROUP, INC.**

By: /s/ Mary A. Jeffrey

Title: EVP — Human Resources

**Exhibit 21.1**

SUBSIDIARIES OF REGISTRANT

| NAME OF SUBSIDIARY | DIRECT/INDIRECT | JURISDICTION INCORPORATION |
|---|---|---|
| American Pensions, Inc. | Direct | South Carolina |
| Bowditch Insurance Corporation | Indirect | Florida |
| Carolina First Bank | Direct | South Carolina |
| Carolina First Community Development Corporation | Indirect | South Carolina |
| Carolina First Mortgage Loan Trust | Indirect | South Carolina |
| Carolina First Mortgage Loan Trust II | Indirect | South Carolina |
| Carolina First Securities, Inc. | Indirect | South Carolina |
| CF Investment Company | Direct | South Carolina |
| Citrus REIT Corporation | Indirect | Florida |
| CNB Properties, Inc. | Indirect | Florida |
| Flaresco, Inc. | Indirect | Florida |
| FLOREIT, Inc. | Indirect | Virginia |
| Florida Banks Statutory Trust III | Direct | Delaware |
| Koss-Olinger and Company | Indirect | Florida |
| Koss-Olinger Consulting, Inc. | Indirect | Florida |
| Mtnbk, Ltd. | Indirect | North Carolina |
| NDC New Markets Investments XIII, L.P. | Indirect | Delaware |
| RE Holdings, Inc. | Indirect | South Carolina |
| SCOREIT, Inc. | Indirect | Virginia |
| South Financial Capital Trust 2006-I | Direct | Delaware |
| South Financial Capital Trust 2006-II | Direct | Delaware |
| South Financial Capital Trust 2007-I | Direct | Delaware |
| South Financial Capital Trust 2007-II | Direct | Delaware |
| South Financial Capital Trust 2007-III | Direct | Delaware |
| South Group Insurance Services, Inc. | Indirect | South Carolina |
| Summit Title, LLC | Indirect | North Carolina |
| TSFG Capital Trust A | Direct | Delaware |
| TSFG Capital Trust B | Direct | Delaware |
| TSFG Capital Trust C | Direct | Delaware |
| TSFG Capital Trust D | Direct | Delaware |
| TSFG Capital A, LLC | Direct | Delaware |
| TSFG Capital B, LLC | Direct | Delaware |
| TSFG Capital C, LLC | Direct | Delaware |
| TSFG Capital D, LLC | Direct | Delaware |

Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements (Nos. 33-79668, 333-31948, 333-53170, 333-99159, 333-102877, 333-103763, 333-104947, 333-109578, 333-111805, 333-177409, 333-117508 and 333-124859) on Form S-8 and the Registration Statements (Nos. 333-112404, 333-106578, 333-120366 and 333-137578) on Form S-3 of The South Financial Group, Inc. of our report dated February 28, 2008 relating to the consolidated financial statements, management's assessment of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Charlotte, North Carolina
February 28, 2008



Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Exhibit 23.2

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders
The South Financial Group, Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 33-79668, 333-31948, 333-53170, 333-99159, 333-102877, 333-103763, 333-104947, 333-109578, 333-111805, 333-177409, 333-117508, and 333-124859) on Form S-8 and the registration statements (Nos. 333-112404, 333-106578, 333-120366, and 333-137578) on Form S-3 of The South Financial Group, Inc. of our report dated March 10, 2006, with respect to the consolidated statements of income, changes in shareholders' equity and comprehensive income, and cash flows for the year ended December 31, 2005, which report appears in the December 31, 2007, annual report on Form 10-K of The South Financial Group, Inc.

/s/ KPMG LLP

Greenville, South Carolina
February 28, 2008

Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Exhibit 31.1

**CERTIFICATION**

I, Mack I. Whittle, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of The South Financial Group, 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: February 28, 2008

/s/ Mack I. Whittle, Jr.
Mack I. Whittle, Jr.
Chief Executive Officer

Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

Exhibit 31.2

**CERTIFICATION**

I, James R. Gordon, certify that:

1. I have reviewed this annual report on Form 10-K of The South Financial Group, 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 registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant 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 registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: February 28, 2008

/s/ James R. Gordon
James R. Gordon
Executive Vice President and Chief Financial Officer
(Principal Accounting and Financial Officer)

Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Exhibit 32.1**

**Certification of the Chief Executive Officer**
**Pursuant to 18 U.S.C. 1350**
**(Section 906 of the Sarbanes-Oxley Act of 2002)**

I, Mack I. Whittle, Jr., Chief Executive Officer of The South Financial Group, Inc. ("TSFG") certify that to the best of my knowledge, based upon a review of the annual report on Form 10-K for the period ended December 31, 2007 of TSFG (the "Report"):

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of TSFG.

/s/ Mack I. Whittle, Jr.
Mack I. Whittle, Jr.
Chief Executive Officer
The South Financial Group, Inc.
February 28, 2008

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to The South Financial Group, Inc. and will be retained by The South Financial Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Source: SOUTH FINANCIAL GROU, 10-K, February 29, 2008

**Exhibit 32.2**

**Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)**

I, James R. Gordon, the Executive Vice President and Principal Financial Officer of The South Financial Group, Inc. ("TSFG") certify that to the best of my knowledge, based upon a review of the annual report on Form 10-K for the period ended December 31, 2007 of TSFG (the "Report"):

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of TSFG.

/s/ James R. Gordon
James R. Gordon
Executive Vice President and Chief Financial Officer
(Principal Accounting and Financial Officer)
The South Financial Group, Inc.
February 28, 2008

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to The South Financial Group, Inc. and will be retained by The South Financial Group, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Created by 10KWizard www.10KWizard.com