FORM 10-Q

SOUTH FINANCIAL GROUP INC - TSFG

Filed: November 07, 2008 (period: September 30, 2008)

Quarterly report which provides a continuing view of a company's financial position

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)
☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2008

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the 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)	(IRS 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

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 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☐ Smaller reporting company ☐
(Do not check if a 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 number of outstanding shares of the issuer's $1.00 par value common stock as of November 3, 2008 was 73,905,229.

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

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

	September 30, 2008	September 30, 2007	December 31, 2007
Assets			
Cash and due from banks	$ 176,293	$ 221,529	$ 290,974
Interest-bearing bank balances	35	520	5,551
Securities			
Available for sale, at fair value	1,995,681	2,323,241	1,986,212
Held to maturity (fair value $24,566, $41,047, and $39,782, respectively)	24,518	41,174	39,691
Total securities	2,020,199	2,364,415	2,025,903
Loans held for sale (includes $14,334 measured at fair value at September 30, 2008)	37,575	19,572	17,867
Loans held for investment	10,299,640	10,173,237	10,213,420
Less: Allowance for loan losses	(200,748)	(118,861)	(126,427)
Net loans held for investment	10,098,892	10,054,376	10,086,993
Premises and equipment, net	274,258	226,784	233,852
Accrued interest receivable	51,207	73,383	70,464
Goodwill	461,458	650,637	651,003
Other intangible assets, net	23,112	29,032	27,179
Other assets	552,149	459,973	467,798
Total assets	$ 13,695,178	$ 14,100,221	$ 13,877,584
Liabilities and Shareholders' Equity			
Liabilities			
Deposits			
Noninterest-bearing retail and commercial deposits	$ 1,022,632	$ 1,164,312	$ 1,127,657
Interest-bearing retail and commercial deposits	6,412,343	6,353,852	6,402,503
Total retail and commercial deposits	7,434,975	7,518,164	7,530,160
Brokered deposits	2,573,833	1,983,505	2,258,408
Total deposits	10,008,808	9,501,669	9,788,568
Short-term borrowings	1,188,929	2,070,581	1,637,550
Long-term debt	773,109	732,203	698,340
Accrued interest payable	61,463	73,418	69,288
Other liabilities	129,255	174,098	133,530
Total liabilities	12,161,564	12,551,969	12,327,276
Commitments and contingencies (Note 10)	-	-	-
Shareholders' equity			
Preferred stock-no par value; authorized 10,000,000 shares; issued and outstanding 249,000 shares at September 30, 2008	249,000	-	-
Common stock-par value $1 per share; authorized 200,000,000 shares; issued and outstanding 73,005,766, 72,971,394, and 72,455,205 shares, respectively	73,006	72,971	72,455
Surplus	1,104,697	1,116,361	1,107,601
Retained earnings	120,578	391,019	386,061
Accumulated other comprehensive loss, net of tax	(13,667)	(32,099)	(15,809)

Total shareholders' equity	1,533,614	1,548,252	1,550,308
Total liabilities and shareholders' equity	$ 13,695,178	$ 14,100,221	$ 13,877,584

See notes to consolidated financial statements (unaudited), which are an integral part of these statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Interest Income				
Interest and fees on loans	$ 155,433	$ 195,393	$ 484,677	$ 573,982
Interest and dividends on securities:				
Taxable	20,186	25,390	61,169	81,094
Exempt from federal income taxes	2,422	2,856	7,594	8,792
Total interest and dividends on securities	22,608	28,246	68,763	89,886
Interest on short-term investments	197	100	375	338
Total interest income	178,238	223,739	553,815	664,206
Interest Expense				
Interest on deposits	69,071	94,497	209,357	275,042
Interest on short-term borrowings	4,036	20,503	24,325	62,932
Interest on long-term debt	9,512	11,965	31,603	38,399
Total interest expense	82,619	126,965	265,285	376,373
Net Interest Income	95,619	96,774	288,530	287,833
Provision for Credit Losses	84,608	10,504	221,663	36,642
Net interest income after provision for credit losses	11,011	86,270	66,867	251,191
Noninterest Income	27,900	29,917	91,006	84,570
Noninterest Expenses	93,392	78,739	449,191	240,367
(Loss) income before income taxes	(54,481)	37,448	(291,318)	95,394
Income tax (benefit) expense	(29,526)	11,609	(54,139)	31,107
Net (Loss) Income	(24,955)	25,839	(237,179)	64,287
Preferred stock dividends	6,250	-	12,083	-
Net (Loss) Income Available to Common Shareholders	$ (31,205)	$ 25,839	$ (249,262)	$ 64,287
Average Common Shares Outstanding, Basic	72,755	73,146	72,606	73,971
Average Common Shares Outstanding, Diluted	72,755	73,606	72,606	74,505
Earnings Per Common Share, Basic	$ (0.43)	$ 0.35	$ (3.43)	$ 0.87
Earnings Per Common Share, Diluted	(0.43)	0.35	(3.43)	0.86
Dividends per common share	0.01	0.18	0.21	0.54

See notes to consolidated financial statements (unaudited), which are an integral part of these statements.

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

	Shares of Common Stock	Common Stock	Preferred Stock	Surplus	Retained Earnings and Other*	Accumulated Other Comprehensive Loss, Net	Total
Balance, December 31, 2006	75,341,276	$ 75,341	$ -	$ 1,167,685	$ 367,110	$ (48,104)	$ 1,562,032
Net income	-	-	-	-	64,287	-	64,287
Other comprehensive income, net of income tax of $9,133	-	-	-	-	-	16,005	16,005
Comprehensive income	-	-	-	-	-	-	80,292
Cash dividends declared ($0.54 per common share)	-	-	-	-	(39,895)	-	(39,895)
Common stock activity:							
Repurchase of stock	(3,000,000)	(3,000)	-	(68,315)	-	-	(71,315)
Exercise of stock options, including income tax benefit of $1,038	461,057	461	-	8,481	-	-	8,942
Dividend reinvestment plan	108,030	108	-	2,309	-	-	2,417
Restricted stock plan	24,450	24	-	2,486	(146)	-	2,364
Employee stock purchase plan	14,902	15	-	320	-	-	335
Director compensation	16,143	16	-	379	-	-	395
Acquisitions	6,025	6	-	140	-	-	146
Common stock released by trust for deferred compensation	-	-	-	-	88	-	88
Deferred compensation payable in common stock	-	-	-	-	(88)	-	(88)
Cumulative effect of initial application of FIN 48	-	-	-	-	(488)	-	(488)
Stock option expense	-	-	-	2,821	-	-	2,821
Other, net	(489)	-	-	55	151	-	206
Balance, September 30, 2007	72,971,394	$ 72,971	$ -	$ 1,116,361	$ 391,019	$ (32,099)	$ 1,548,252
Balance, December 31, 2007	72,455,205	$ 72,455	$ -	$ 1,107,601	$ 386,061	$ (15,809)	$ 1,550,308
Net loss	-	-	-	-	(237,179)	-	(237,179)
Other comprehensive income, net of income tax of $1,185	-	-	-	-	-	2,142	2,142
Comprehensive loss	-	-	-	-	-	-	(235,037)
Cash dividends declared:							
Common ($0.21 per common share)	-	-	-	-	(15,331)	-	(15,331)
Preferred	-	-	-	-	(12,083)	-	(12,083)
Issuance of preferred stock	-	-	250,000	(11,028)	-	-	238,972
Common stock activity:							
Dividend reinvestment plan	206,206	206	-	1,626	-	-	1,832
Conversion of preferred stock	153,844	154	(1,000)	846	(50)	-	(50)
Restricted stock plan	101,378	101	-	2,794	(163)	-	2,732
Director compensation	49,571	50	-	358	-	-	408
Employee stock purchase plan	31,557	32	-	215	-	-	247
Acquisitions	4,403	4	-	20	-	-	24
Exercise of stock options, including income tax benefit of $6	3,602	4	-	37	-	-	41
Common and preferred stock purchased by trust for deferred compensation	-	-	-	-	(441)	-	(441)
Deferred compensation payable in common and preferred stock	-	-	-	-	441	-	441

Cumulative effect of initial application of:							
SFAS 159, net of tax	-	-	-	-	60	-	60
EITF 06-4	-	-	-	-	(737)	-	(737)
Stock option expense	-	-	-	2,287	-	-	2,287
Other, net	-	-	-	(59)	-	-	(59)
Balance, September 30, 2008	73,005,766	$ 73,006	$ 249,000	$ 1,104,697	$ 120,578	$ (13,667)	$ 1,533,614

* Other includes guarantee of employee stock ownership plan debt and deferred compensation.

See notes to consolidated financial statements (unaudited), which are an integral part of these statements.

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

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash Flows from Operating Activities		
Net (loss) income	$ (237,179)	$ 64,287
Adjustments to reconcile net (loss) income to net cash provided by operating activities		
Depreciation, amortization, and accretion, net	28,233	25,305
Provision for credit losses	221,663	36,642
Share-based compensation expense	6,061	6,110
Goodwill impairment	188,431	-
(Gain) loss on securities	(1,547)	3,335
Gain on Visa IPO share redemption	(1,904)	-
(Gain) loss on certain derivative activities	(49)	1,202
Gain on sale of mortgage loans	(2,634)	(4,018)
Loss on early extinguishment of debt	339	1,530
Loss on disposition of premises and equipment	333	81
Loss on disposition of other real estate owned	949	151
Excess tax benefits from share-based compensation	(6)	(1,038)
Origination of loans held for sale	(201,350)	(330,144)
Sale of loans held for sale and principal repayments	224,410	364,982
(Increase) decrease in other assets	(38,150)	5,416
(Decrease) increase in other liabilities	(9,503)	17,292
Net cash provided by operating activities	178,097	191,133
Cash Flows from Investing Activities		
Sale of securities available for sale	193,029	212,353
Maturity, redemption, call, or principal repayments of securities available for sale	375,013	230,382
Maturity, redemption, call, or principal repayments of securities held to maturity	15,166	11,194
Purchase of securities available for sale	(580,138)	(12,440)
Purchase of securities held to maturity	-	(140)
Origination of loans held for investment, net of principal repayments	(331,593)	(529,181)
Sale of loans held for investment	38,663	-
Sale of other real estate owned	3,230	4,225
Sale of premises and equipment	7	432
Purchase of premises and equipment	(43,358)	(23,475)
Cash equivalents acquired, net of payment for acquisitions	3,817	-
Net cash used for investing activities	(326,164)	(106,650)
Cash Flows from Financing Activities		
Increase (decrease) in deposits	200,094	(22,749)
(Decrease) increase in short-term borrowings	(449,487)	300,524
Issuance of long-term debt	203,320	126,290
Payment of long-term debt	(132,235)	(523,934)
Issuance of preferred stock, net	238,972	-
Cash dividends paid on common stock	(28,367)	(40,328)
Cash dividends paid on preferred stock	(5,833)	-
Repurchase of common stock	-	(71,315)
Excess tax benefits from share-based compensation	6	1,038
Other common stock activity	1,400	10,209
Net cash provided by (used for) financing activities	27,870	(220,265)
Net decrease in cash and cash equivalents	(120,197)	(135,782)

Cash and cash equivalents at beginning of year		296,525		357,831
Cash and cash equivalents at end of period	$	176,328	$	222,049
Supplemental Cash Flow Data				
Interest paid, net of amounts capitalized	$	269,204	$	370,841
Income tax payments, net		3,599		25,653
Significant non-cash investing and financing transactions:				
Decrease in unrealized loss on available for sale securities		431		13,840
Loans transferred from held for investment to held for sale		61,904		-
Loans transferred to other real estate owned		23,882		6,000

See notes to consolidated financial statements (unaudited), which are an integral part of these statements.

Note 1 - General

The foregoing unaudited Consolidated Financial Statements and Notes are presented in accordance with the instructions for the Securities and Exchange Commission Quarterly Report on Form 10-Q. TSFG" refers to The South Financial Group, Inc. and subsidiaries, except where the context requires otherwise. The information contained in the Consolidated Financial Statements included in TSFG's Annual Report on Form 10-K for the year ended December 31, 2007 should be referred to in connection with the reading of these unaudited interim Consolidated Financial Statements. The Consolidated Balance Sheet at December 31, 2007 is derived from TSFG's Consolidated Audited Financial Statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments necessary to present a fair statement of the results for the interim periods have been made. All such adjustments are of a normal, recurring nature.

Nature of Operations

TSFG is a bank 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, 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), in Florida (as Mercantile Bank), and on the Internet (as Bank Caroline). TSFG also owns several non-bank subsidiaries. At September 30, 2008, TSFG operated through 82 branch offices in South Carolina, 71 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.

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.

Preferred Stock

Preferred stock ranks senior to common shares with respect to dividends and has preference in the event of liquidation. Preferred stock is reported in shareholders' equity unless it is mandatorily redeemable or it embodies an unconditional obligation that the Company must or may settle in shares whose monetary value at inception is based solely or predominantly on any of the following: (1) a fixed amount known at inception, (2) variations in something other than the fair value of the Company's equity shares, or (3) variations inversely related to changes in the fair value of the Company's equity shares as prescribed in Statement of Financial Accounting Standards (SFAS") No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." Dividends declared on preferred stock are accounted for as a reduction in retained earnings. Issuance costs are charged against surplus.

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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2008 presentations.

Recently Adopted Accounting Pronouncements

Fair Value Measurements

SFAS No. 157 (SFAS 157"), Fair Value Measurements," 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. TSFG adopted SFAS 157 for its financial assets and liabilities on January 1, 2008 with no significant impact on its Consolidated Financial Statements. See Note 14 for fair value disclosures. Financial Accounting Standards Board (FASB") Staff Position FAS 157-2 (FSP 157-2") delays the effective date of SFAS 157 for nonfinancial assets and liabilities measured at fair value on a nonrecurring basis until fiscal years beginning after November 15, 2008. As a result, TSFG will adopt this standard for nonfinancial assets and liabilities effective January 1, 2009.

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 within the scope of EITF 06-4. TSFG adopted this standard effective January 1, 2008, with a $737,000 decrease to retained earnings.

Fair Value Option for Financial Assets and Financial Liabilities

SFAS No. 159 (SFAS 159"), The Fair Value Option for Financial Assets and Financial Liabilities," 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. The impact of adoption was an increase to retained earnings of $60,000, net of income tax of $32,000. For additional information on the fair value option, see Note 14.

Written Loan Commitments Recorded at Fair Value through Earnings

Staff Accounting Bulletin No. 109 (SAB 109"), Written Loan Commitments Recorded at Fair Value Through Earnings," supersedes SAB No. 105, Application of Accounting Principles to Loan Commitments," and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. TSFG adopted SAB 109 effective January 1, 2008 with no significant impact on its Consolidated Financial Statements.

Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active

FASB Staff Position FAS 157-3 (FSP FAS 157-3"), Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" clarifies the application of SFAS 157 in a market that is not active and expands the guidance for estimating the present value of future cash flows for some hard-to-value financial instruments, such as collateralized debt obligations. TSFG adopted FSP FAS 157-3 effective September 30, 2008 with no significant impact on its Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

Business Combinations

SFAS No. 141R (SFAS 141R"), Business Combinations," 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

SFAS No. 160 (SFAS 160"), Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51," 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.

Disclosures about Derivative Instruments and Hedging Activities

SFAS No. 161 (SFAS 161"), Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133," amends SFAS 133, Accounting for Derivative Instruments and Hedging Activities," to amend and expand the disclosure requirements of SFAS 133 to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under SFAS 133 and its related interpretations, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for fiscal years beginning after November 15, 2008, and TSFG does not expect adoption of this standard to have a significant impact on its Consolidated Financial Statements.

Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities

FASB Staff Position EITF 03-6-1 (FSP EITF 03-6-1"), Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities," states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. FSP EITF 03-6-1 is effective for fiscal years beginning after December 15, 2008, and TSFG does not expect adoption of this standard to have a significant impact on its Consolidated Financial Statements, although the Company continues to evaluate the effects of adoption.

Determination of the Useful Life of Intangible Assets

FASB Staff Position FAS 142-3 (FSP FAS 142-3"), Determination of the Useful Life of Intangible Assets," amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets." FSP FAS 142-3 is effective for fiscal years beginning after December 15, 2008, and TSFG does not expect adoption of this standard to have a significant impact on its Consolidated Financial Statements.

Note 2 - Noninterest Income and Noninterest Expense

The following presents the details for noninterest income and noninterest expense (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Noninterest Income				
Service charges on deposit accounts	$ 11,376	$ 11,213	$ 32,791	$ 33,049
Debit card income, net (1)	2,006	1,838	5,938	5,244
Customer service fee income	1,425	1,533	4,114	4,226
Total customer fee income	14,807	14,584	42,843	42,519
Insurance income	2,368	2,839	7,816	9,123
Retail investment services, net (2)	2,294	2,064	5,960	5,799
Trust and investment management income	1,728	1,642	5,251	4,970
Benefits administration fees	813	889	2,303	2,380
Total wealth management income	7,203	7,434	21,330	22,272
Bank-owned life insurance income	2,881	2,974	8,938	10,279
Mortgage banking income	879	834	4,222	4,780
Merchant processing income, net	916	928	2,582	2,434
Gain (loss) on certain derivative activities	(199)	198	49	(1,202)
Gain (loss) on securities	(725)	287	1,547	(3,335)
Gain on Visa IPO share redemption	-	-	1,904	-
Other	2,138	2,678	7,591	6,823
Total noninterest income	$ 27,900	$ 29,917	$ 91,006	$ 84,570
Noninterest Expenses				
Salaries and wages	$ 42,321	$ 34,535	$ 115,609	$ 106,171
Employee benefits	9,252	8,862	27,663	27,866
Occupancy	9,770	8,723	27,365	25,876
Furniture and equipment	6,991	6,543	20,107	19,491
Professional services	4,573	4,278	11,679	13,295
Regulatory assessments	3,020	300	7,471	1,164
Advertising and business development	2,114	1,443	7,316	5,347
Loan collection and monitoring	4,112	710	7,249	1,889
Amortization of intangibles	1,474	1,907	4,721	6,044
Telecommunications	1,628	1,404	4,527	4,215
(Gain) loss on early extinguishment of debt	(125)	1,299	339	1,530
Branch acquisition and conversion costs	-	-	731	-
Visa-related litigation	-	-	(863)	-
Goodwill impairment	-	-	188,431	-
Other	8,262	8,735	26,846	27,479
Total noninterest expenses	$ 93,392	$ 78,739	$ 449,191	$ 240,367

(1) In fourth quarter 2007, TSFG began presenting its debit card income net of related expenses. Debit card expense totaled (in thousands) $740 and $2,083, respectively, for the three and nine months ended September 30, 2008, and $607 and $1,781, respectively, for the three and nine months ended September 30, 2007. Amounts presented for prior periods have been reclassified to conform to the current presentation.

(2) In fourth quarter 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) $288 and $749, respectively, for the three and nine months ended September 30, 2008, and $249 and $754, respectively, for the three and nine months ended September 30, 2007. Amounts presented for prior periods have been reclassified to conform to the current presentation.

Note 3 - Accumulated Other Comprehensive Income (Loss)

The following summarizes accumulated other comprehensive income (loss), net of tax (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net Unrealized Losses on Securities Available for Sale				
Balance at beginning of period	$ (34,287)	$ (59,565)	$ (30,765)	$ (47,378)
Other comprehensive income (loss):				
Unrealized holding gains (losses) arising during the period	4,580	33,088	(1,271)	10,509
Income tax benefit (expense)	(1,708)	(12,263)	425	(4,013)
Less: Reclassification adjustment for losses included in net (loss) income	1,664	36	1,965	3,331
Income tax expense (benefit)	(583)	(13)	(688)	(1,166)
	3,953	20,848	431	8,661
Balance at end of period	(30,334)	(38,717)	(30,334)	(38,717)
Net Unrealized Gains (Losses) on Cash Flow Hedges				
Balance at beginning of period	16,602	(3,806)	14,956	(726)
Other comprehensive income (loss):				
Unrealized gain on change in fair values	101	16,046	2,633	11,848
Income tax expense	(36)	(5,616)	(922)	(4,146)
Less: Amortization of terminated swaps	-	(9)	-	(550)
Income tax expense	-	3	-	192
	65	10,424	1,711	7,344
Balance at end of period	16,667	6,618	16,667	6,618
	$ (13,667)	$ (32,099)	$ (13,667)	$ (32,099)
Total other comprehensive income	$ 4,018	$ 31,272	$ 2,142	$ 16,005
Net (loss) income	(24,955)	25,839	(237,179)	64,287
Comprehensive (loss) income	$ (20,937)	$ 57,111	$ (235,037)	$ 80,292

Note 4 - Branch Acquisition

In June 2008, Carolina First Bank acquired five branch offices (including related loans and deposits) in Florida from an unrelated financial institution. In connection with this branch acquisition, the Company acquired loans of $6.4 million, premises and equipment of $13.4 million, and deposits totaling $24.5 million, and recorded a core deposit intangible asset of $655,000. The core deposit intangible asset is being amortized over 5 years using an accelerated method.

Note 5 - Gross Unrealized Losses on Investment Securities

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 an unrealized loss position, were as follows (in thousands):

	September 30, 2008					
	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. Government agencies	$ 301,557	$ 4,387	$ -	$ -	$ 301,557	$ 4,387
Agency mortgage-backed securities	611,009	10,447	513,148	34,691	1,124,157	45,138
Private label mortgage-backed securities	15,152	445	-	-	15,152	445
State and municipals	97,781	711	2,966	127	100,747	838
Corporate bonds	9,855	38	-	-	9,855	38
Equity investments	-	-	820	200	820	200
	$ 1,035,354	$ 16,028	$ 516,934	$ 35,018	$ 1,552,288	$ 51,046
Securities Held to Maturity						
State and municipals	$ 5,604	$ 57	$ 1,287	$ 26	$ 6,891	$ 83

	December 31, 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. 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
Corporate bonds	4,792	617	-	-	4,792	617
Equity investments	3,044	935	-	-	3,044	935
	$ 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

At September 30, 2008, TSFG had 467 individual investments that were in an unrealized loss position. The unrealized losses summarized above, except for equity investments, were primarily 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 September 30, 2008, these investments are not considered impaired on an other-than-temporary basis.

In second quarter 2008, TSFG recorded $927,000 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. In third quarter 2008, TSFG sold approximately $8.4 million of corporate bonds and recognized a gain on sale of approximately $129,000. In addition, in third quarter 2008, TSFG recorded $1.8 million in other-than-temporary impairment on certain community bank-related investments included in the equity investment portfolio. In the nine months ended September 30, 2007, TSFG recorded $2.9 million in other-than-temporary impairment on its corporate bond portfolio.

TSFG also invests in limited partnerships, limited liability companies (LLCs") and other privately held companies. At September 30, 2008, TSFG's investment in these entities, included in other assets, totaled $16.9 million, of which $4.5 million were accounted for under the cost method and $12.4 million were accounted for under the equity method. In the nine months ended September 30, 2008, TSFG recorded $589,000 in other-than-temporary impairment on these investments, although none was recorded in third quarter 2008. In the three and nine months ended September 30, 2007, TSFG recorded $363,000 and $705,000 in other-than-temporary impairment on these investments.

Note 6 - Loans

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

	September 30, 2008	December 31, 2007
Commercial, financial and agricultural	$ 2,333,390	$ 2,309,294
Real estate - construction	1,710,837	1,763,365
Real estate - residential mortgages (1-4 family)	1,538,160	1,390,729
Commercial secured by real estate	3,941,121	3,946,440
Consumer	776,132	803,592
Loans held for investment	$ 10,299,640	$ 10,213,420
Included in the above:		
Nonaccrual loans	$ 237,812	$ 80,191
Loans past due 90 days and still accruing interest	$ 12,899	$ 5,349

During the three and nine months ended September 30, 2008, TSFG transferred loans with an unpaid principal balance totaling $71.7 million and $111.7 million, respectively, from the held for investment portfolio to the held for sale portfolio, and charged-off $28.1 million and $49.8 million, respectively, of these loans against the allowance for loan losses. Of these loans, $38.7 million (net of charge-offs) were sold, leaving $23.2 million (net of charge-offs) on the balance sheet in loans held for sale at September 30, 2008, of which $22.6 million are considered nonperforming 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. The following table summarizes information on impaired loans (in thousands):

	At and For the Nine Months Ended September 30, 2008	At and For the Year Ended December 31, 2007
Impaired loans	$ 198,018	$ 68,102
Related allowance	29,911	11,340
Interest income recognized	44	59
Foregone interest	11,416	3,437

At September 30, 2008 and December 31, 2007, impaired loans totaling $42.9 million and $32.2 million, respectively, had a specific allowance of zero.

Note 7 - Allowance for Credit Losses

The allowance for loan losses, reserve for unfunded lending commitments, and allowance for credit losses are presented below (in thousands):

	At and For the Nine Months Ended September 30, 2008	At and For the Nine Months Ended September 30, 2007	At and For the Year Ended December 31, 2007
Allowance for loan losses			
Balance at beginning of period	$ 126,427	$ 111,663	$ 111,663
Provision for loan losses	221,679	36,104	67,325
Loans charged-off	(152,664)	(34,159)	(59,408)
Recoveries of loans previously charged-off	5,306	5,253	6,847
Balance at end of period	$ 200,748	$ 118,861	$ 126,427
Reserve for unfunded lending commitments			
Balance at beginning of year	$ 2,268	$ 1,025	$ 1,025
Provision for unfunded lending commitments	(16)	538	1,243
Balance at end of period	$ 2,252	$ 1,563	$ 2,268
Allowance for credit losses			
Balance at beginning of year	$ 128,695	$ 112,688	$ 112,688
Provision for credit losses	221,663	36,642	68,568
Loans charged-off	(152,664)	(34,159)	(59,408)
Recoveries of loans previously charged-off	5,306	5,253	6,847
Balance at end of period	$ 203,000	$ 120,424	$ 128,695

Note 8 - Goodwill

The following summarizes the changes in the carrying amount of goodwill related to each of TSFG's business segments (in thousands) for the period ended September 30, 2008:

	South Carolina Bank	North Carolina Bank	Florida Bank	Other	Total
Balance, December 31, 2007	$ 119,267	$ 87,961	$ 440,538	$ 3,237	$ 651,003
Reclassification for change in operating segments	(3,085)	(343)	(12,651)	16,079	-
Revised balance, December 31, 2007	116,182	87,618	427,887	19,316	651,003
Goodwill impairment charge	-	-	(188,431)	-	(188,431)
Purchase accounting adjustments	-	-	(1,838)	724	(1,114)
Balance, September 30, 2008	$ 116,182	$ 87,618	$ 237,618	$ 20,040	$ 461,458

Effective January 1, 2008, TSFG changed its operating segments to exclude insurance agencies from the geographic banking segments. The insurance line of business is now included in Other" (see Note 16). As a result, the goodwill balance as of December 31, 2007 has been reclassified for comparability.

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets" (SFAS 142"), TSFG evaluates its goodwill annually for each reporting unit as of June 30th. However, the acceleration of credit deterioration in Florida prompted TSFG to perform an interim impairment evaluation of a significant portion of the recorded goodwill as of March 31, 2008. As a result of this evaluation, during first quarter 2008, TSFG recognized goodwill impairment in the Florida banking segment primarily due to increased projected credit costs and a related decrease in projected loan

growth, as well as changes in the measurement of segment profitability. The goodwill impairment charge of $188.4 million was recorded in noninterest expense in the consolidated statements of income in first quarter 2008. The fair value of the Florida reporting unit evaluated for impairment was determined primarily using discounted cash flow models based on internal forecasts and, to a lesser extent, market-based trading and transaction multiples.

The annual impairment evaluation as of June 30, 2008 and a subsequent interim impairment evaluation as of September 30, 2008 indicated that no additional impairment charge was required, and there have been no events or circumstances since quarter-end indicating additional impairment.

Note 9 - Derivative Financial Instruments and Hedging Activities

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

	September 30, 2008			December 31, 2007		
	Fair Value			Fair Value		
	Asset	Liability	Notional Amount	Asset	Liability	Notional Amount
Cash Flow Hedges						
Interest rate swaps associated with lending activities	$ 22,069	$ 976	$ 1,085,000	$ 20,114	$ -	$ 830,000
Interest rate floor associated with lending activities	5,531	-	200,000	4,531	-	200,000
Fair Value Hedges						
Interest rate swaps associated with brokered CDs	461	4,730	285,352	672	8,235	988,477
Other Derivatives						
Forward foreign currency contracts	447	447	12,591	5	5	653
Customer swap contracts	8,664	8,769	758,951	5,065	5,065	238,224
Options, interest rate swaps and other	4,046	4,521	154,475	5,807	7,712	161,832
	$ 41,218	$ 19,443	$ 2,496,369	$ 36,194	$ 21,017	$ 2,419,186

In the three and nine months ended September 30, 2008, noninterest income included a loss of $199,000 and a gain of $49,000, respectively, for certain derivative activities. In the three and nine months ended September 30, 2007, noninterest income included a gain of $198,000 and a loss of $1.2 million, respectively, for certain derivative activities. These amounts 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 for fair value hedges, which totaled a loss of $127,000 and a gain of $119,000, respectively, for the three and nine months ended September 30, 2008, and a gain of $47,000 and a loss of $695,000, respectively, for the three and nine months ended September 30, 2007; and other miscellaneous items.

Note 10 - Commitments and Contingent Liabilities

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 2004 acquisition of Florida Banks, Inc. (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 September 30, 2008, 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 September 30, 2008, TSFG had invested approximately $55 million in the project (which is included in premises and equipment on the consolidated balance sheet as construction in progress) and had entered into additional contractual commitments of approximately $37 million.

CEO Retirement

On September 2, 2008, the Board of Directors and Mack I. Whittle, the Company's Chairman, President, and Chief Executive Officer, entered into a severance agreement pursuant to which Whittle would receive certain retirement benefits and retire on or before December 30, 2008 (at the Board's election). Those benefits include, among others, a lump sum cash payment of $4.1 million, vesting of all equity awards (see Note 13 - Share-Based Compensation), service credit under the Supplemental Executive Retirement Plan through age 65 (incremental expense of $4.1 million, of which approximately $2 million relates to service credit through age 65) which provides an annual retirement payment commencing at retirement date, vested benefits under other Company plans, continued welfare and fringe benefits for three years, and three years of continued life insurance coverage. The incremental expense related to these benefits is approximately $12 million, of which $4.6 million was recognized in third quarter 2008, with the remaining expense to be recognized in fourth quarter 2008. Subsequent to quarter-end, the Executive Committee, on behalf of the Board, specified that Whittle's retirement would be effective October 27, 2008, which did not materially impact the amount or timing of such benefits described above.

Loan Commitments

TSFG is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, commercial letters of credit, and standby letters of credit. These 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 is represented by the contractual amount of these 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 to a customer provided 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 certain 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 the collateral obtained, if deemed necessary by TSFG upon extension of credit, is based on TSFG's credit evaluation of the borrower.

Commercial letters of credit and standby letters of credit are conditional commitments issued by TSFG to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in making loans to customers. TSFG generally holds collateral supporting those commitments if deemed necessary. A summary of the contractual amounts of TSFG's financial instruments relating to extension of credit with off-balance-sheet risk follows (in thousands):

	Outstanding Commitments	
	September 30, 2008	December 31, 2007
Loan commitments:		
Commercial, financial, agricultural, and other	$ 926,080	$ 988,962
Commercial secured by real estate	467,508	698,179
Home equity loans	496,726	530,626
Standby letters of credit	147,766	184,529
Documentary letters of credit	583	153
Unused business credit card lines	34,064	32,948
Total	$ 2,072,727	$ 2,435,397

Note 11 - Preferred Stock

On May 8, 2008, TSFG issued, in the aggregate, 250,000 shares of no par value, mandatory convertible non-cumulative preferred stock (Preferred Stock"), at a purchase price and liquidation preference of $1,000 per share. Dividends are payable quarterly, if declared by the Board of Directors, at an annual rate of 10%. Each share of Preferred Stock is mandatorily convertible into 153.846 shares of TSFG's common stock, based on a conversion price of $6.50 per share of common stock, on May 1, 2011. On or after July 18, 2010, the Preferred Stock is also automatically convertible if, for a period of 20 consecutive trading days, the closing price of TSFG's common stock has been at least $21.00 per share. In addition, the Preferred Stock is convertible at the option of the holder before the mandatory conversion events described above.

During third quarter 2008, 1,000 shares of Preferred Stock were converted into approximately 154,000 common shares. The following is a summary of TSFG's Preferred Stock outstanding as of September 30, 2008:

	Number of shares	Carrying value (in thousands)
Series 2008ND-V	55,331	$ 55,331
Series 2008ND-NV	183,949	183,949
Series 2008D-V	2,248	2,248
Series 2008D-NV	7,472	7,472
Total	249,000	$ 249,000

The voting and conversion rights of the Preferred Stock were voted upon and approved at a special shareholders' meeting on July 18, 2008. As a result, all four Preferred Stock series were considered common stock equivalents at September 30, 2008 and would have added approximately 38.3 million shares to the computation of diluted earnings per share, had the effect not been antidilutive.

All four series of Preferred Stock are in parity to each other and rank senior to common shares both as to dividend and liquidation preferences. Since July 18, 2008, except when they are entitled to vote as a separate class, the holders of the Preferred Stock are entitled to vote their shares on an as-converted basis with our common stock as a single class. The affirmative vote of two-thirds of the holders of outstanding Preferred Stock (voting as a separate class) is required for approval of any proposed changes in the preferences and special rights of such stock, or for certain acquisitions announced during the first 18 months following the issuance of the Preferred Stock. The Preferred Stock has no participation rights, unless the quarterly cash dividend on TSFG's common stock is increased above certain thresholds after May 1, 2010. In that event, the Preferred Stock would be entitled to receive additional dividends in proportion to the increase in the common stock dividend. The Preferred Stock is not redeemable and is not subject to any sinking fund.

Subsequent to quarter-end, 5,750 shares of Preferred Stock were converted into approximately 885,000 common shares.

Note 12 - Share Information

The following is a summary of the basic and diluted average common shares outstanding and (loss) earnings per share calculations (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net (loss) income	$ (24,955)	$ 25,839	$ (237,179)	$ 64,287
Preferred stock dividends	(6,250)	-	(12,083)	-
Net (loss) income available to common shareholders (numerator)	$ (31,205)	$ 25,839	$ (249,262)	$ 64,287
Basic				
Average common shares outstanding (denominator)	72,755,480	73,146,211	72,605,990	73,970,963
(Loss) earnings per share	$ (0.43)	$ 0.35	$ (3.43)	$ 0.87
Diluted				
Average common shares outstanding	72,755,480	73,146,211	72,605,990	73,970,963
Average dilutive potential common shares	-	459,541	-	533,977
Average diluted shares outstanding (denominator)	72,755,480	73,605,752	72,605,990	74,504,940
(Loss) earnings per share	$ (0.43)	$ 0.35	$ (3.43)	$ 0.86

For the three and nine months ended September 30, 2008, options to purchase an additional 4.8 million shares of common stock were outstanding but were not included in the computation of diluted earnings per share because their inclusion would have had an antidilutive effect. Likewise, for the three and nine months ended September 30, 2007, options to purchase an additional 2.1 million and 2.0 million shares, respectively, of common stock were outstanding but were not included in the computation of diluted earnings per share because their inclusion would have had an antidilutive effect.

Also excluded from the computation of diluted earnings per share for the three and nine months ended September 30, 2008 because of their antidilutive effect were 38.3 million shares of common stock related to Preferred Stock and 873,000 shares of common stock related to restricted stock and restricted stock units granted under equity incentive programs.

Note 13 - Share-Based Compensation

In the third quarter 2008, TSFG's Board of Directors approved long-term incentive awards for the period 2008-2010. A total of 216,550 restricted stock units (RSUs") and 1.1 million stock options with a total grant-date fair value of $5.0 million were issued. The stock options granted to the 18 most senior officers are market-based stock options and will not vest unless the executive remains employed by the Company at June 30, 2011 and the Company's closing stock price for 20 consecutive trading days during the first six months of 2011 equals or exceeds $12 per share. The compensation expense for the market-based options will be recognized on a straight-line basis over the period from the date of grant through June 30, 2011. The remaining stock options and all restricted stock units will vest 50% on each of January 31, 2010 and January 31, 2011, based on continued service to those respective dates, and will be expensed ratably over the vesting period.

Additionally, in third quarter 2008, TSFG's Board of Directors modified and accelerated the vesting of several previous share-based awards to CEO/Chairman Mack Whittle in connection with his retirement on or before December 30, 2008. As a result, expense related to unvested tranches of the original awards was reversed, and the incremental expense related to the modified awards ($2.0 million) will be recognized during the third and fourth quarters of 2008.

Subsequent to quarter-end, the Executive Committee, on behalf of the Board, specified that Whittle's retirement would be effective October 27, 2008.

Note 14 - Fair Value Disclosures

Effective January 1, 2008, TSFG adopted SFAS 157 (for its financial assets and liabilities) and SFAS 159. SFAS 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS 157 requires, among other things, the Company to maximize the use of observable inputs and minimize the use of unobservable inputs in its fair value measurement techniques. The adoption of SFAS 157 resulted in no change to January 1, 2008 retained earnings. The application of SFAS 157 in situations where the market for a financial asset is not active was clarified by the issuance of FSP FAS 157-3 in October 2008. FSP FAS 157-3 became effective for TSFG's interim financial statements as of September 30, 2008 and did not significantly impact the methods by which the Company determines the fair values of its financial assets.

SFAS 159 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. TSFG elected the fair value option for its portfolio of mortgage loans held for sale in order to reduce certain timing differences and better match changes in fair values of the loans with changes in the value of derivative instruments used to economically hedge them. As a result of its election, TSFG recorded the following entry to opening retained earnings (in thousands):

	Opening Balance Sheet January 1, 2008	Adoption Net Gain (Loss)	Adjusted Balance Sheet January 1, 2008
Mortgage loans held for sale	$ 17,867	$ 92	$ 17,959
Pretax cumulative effect of adoption of the fair value option		92	
Tax impact		(32)	
Cumulative effect of adoption of the fair value option (increase to retained earnings)		$ 60	

Adoption of these standards did not have a significant impact on earnings for the three and nine months ended September 30, 2008.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1 - Valuations are based on quoted prices in active markets for identical assets and liabilities. Level 1 assets include debt and equity securities that are traded in an active exchange market, as well as certain U.S. Treasury securities that are highly liquid and are actively traded in over-the-counter markets.

- Level 2 - Valuations are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes U.S. government agencies, agency mortgage-backed debt securities, private-label mortgage-backed debt securities, state and municipal bonds, corporate bonds, certain derivative contracts, and mortgage loans held for sale.

- Level 3 - Valuations include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets. For example, certain available for sale securities included in this category are not readily marketable and may only be redeemed with the issuer at par. This category also includes certain derivative contracts for which independent pricing information is not available for a significant portion of the underlying assets.

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis (in thousands):

	September 30, 2008			
	Total	**Level 1**	**Level 2**	**Level 3**
Securities available for sale	$ 1,995,681	$ 173,265	$ 1,782,862	$ 39,554
Mortgage loans held for sale	14,334	-	14,334	-
Derivative assets	41,218	-	34,489	6,729
Total	$ 2,051,233	$ 173,265	$ 1,831,685	$ 46,283
Derivative liabilities	$ 19,443	$ -	$ 14,336	$ 5,107

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows (in thousands):

	Three Months Ended September 30, 2008		**Nine Months Ended September 30, 2008**	
	Securities Available For Sale	**Net Derivative Asset (Liability)**	**Securities Available For Sale**	**Net Derivative Asset (Liability)**
Balance at beginning of period	$ 40,191	$ 2,028	$ 37,735	$ 370
Total net (losses) gains included in net income	-	(1,371)	-	855
Purchases, sales, issuances and settlements, net	(637)	(593)	1,819	(1,161)
Transfers into Level 3	-	1,558	-	1,558
Balance at end of period	$ 39,554	$ 1,622	$ 39,554	$ 1,622
Net (losses) gains included in net income relating to assets held at September 30, 2008	$ -	$ (1,371)	$ -	$ 855

The majority of the net gains and losses in the table above were included in gain/loss on certain derivative activities in noninterest income.

Also, we may be required, from time to time, to measure certain other assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from write-downs of individual assets. For financial assets measured at fair value on a nonrecurring basis in the three and nine months ended September 30, 2008 that were still held in the balance sheet at quarter end, the following table provides the level of valuation assumptions used to determine each adjustment and the carrying value of the related individual assets at quarter end (in thousands).

	Carrying value at September 30, 2008				Total gains (losses) September 30, 2008	
	Total	Level 1	Level 2	Level 3	Three Months Ended	Nine Months Ended
Loans held for investment [1]	$ 168,107	$ -	$ -	$ 168,107	$ (30,599)	$ (65,125)
Loans held for sale [2]	23,241	-	-	23,241	(20,617)	(22,520)

(1) Represents carrying value and related write-downs of loans for which adjustments are based on the appraised value of the collateral.

(2) Represents carrying value and related write-downs of loans carried at lower of cost or fair value. The write-downs were recorded as charge-offs against the allowance for loan losses. These numbers exclude mortgage loans held for sale, which are measured at fair value on a recurring basis pursuant to the fair value option.

During the nine months ended September 30, 2008, TSFG also measured certain nonfinancial assets using fair value on a nonrecurring basis, including portions of goodwill and certain foreclosed assets. In accordance with FSP 157-2, we have delayed application of the provisions of SFAS 157 to those measurements, and as such they are not included in the table above.

Fair Value Option

At September 30, 2008, mortgage loans held for sale for which the fair value option was elected had an aggregate fair value and outstanding principal balance of $14.3 million. Interest income on these loans is calculated based on the note rate of the loan and is recorded in interest income in the income statement. During the three and nine months ended September 30, 2008, net losses resulting from changes in fair value of these loans of $56,000 and $75,000, respectively, were recorded in mortgage banking income. These changes in fair value were mostly offset by hedging activities. An immaterial portion of these amounts was attributable to changes in instrument-specific credit risk.

Note 15 - Income Taxes

The effective income tax rate as a percentage of pretax income was 54.2% and 18.6%, respectively, for the three and nine months ended September 30, 2008. Income tax expense differed from the amount computed by applying TSFG’s statutory U.S. federal income tax rate of 35% to pretax income for the three and nine months ended September 30, 2008 primarily as a result of the impact of the nondeductible goodwill impairment, other nontaxable and nondeductible items, and management’s projections.

Note 16 - Business Segments

South Carolina Bank, North Carolina Bank, and Florida Bank are TSFG’s primary reportable segments for management financial reporting. Effective January 1, 2008,TSFG began to exclude its insurance operations from its banking segments due to a change in management responsibility and changed its allocation methodology for provision for credit losses and noninterest expenses. 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 (including insurance 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 stand-alone entities. If the management structure and/or allocation process changes, 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
Three Months Ended September 30, 2008					
Net interest income before inter-segment income (expense)	$ 36,456	$ 17,112	$ 30,409	$ 11,642	$ 95,619
Inter-segment interest income (expense)	3,216	(3,792)	883	(307)	-
Net interest income	39,672	13,320	31,292	11,335	95,619
Provision for credit losses	11,502	11,641	53,222	8,243	84,608
Noninterest income	12,624	2,586	7,240	5,450	27,900
Other noninterest expenses - direct [(1)]	16,984	5,689	17,982	52,737	93,392
Contribution before allocation	23,810	(1,424)	(32,672)	(44,195)	(54,481)
Noninterest expenses - allocated [(2)]	18,711	5,220	15,681	(39,612)	-
Contribution before income taxes	$ 5,099	$ (6,644)	$ (48,353)	$ (4,583)	(54,481)
Income tax expense					(29,526)
Net income					$ (24,955)
Nine Months Ended September 30, 2008					
Net interest income before inter-segment income (expense)	$ 109,611	$ 52,204	$ 98,785	$ 27,930	$ 288,530
Inter-segment interest income (expense)	13,639	(10,563)	1,963	(5,039)	-
Net interest income	123,250	41,641	100,748	22,891	288,530
Provision for credit losses	25,720	27,689	150,846	17,408	221,663
Noninterest income	36,380	7,544	22,085	24,997	91,006
Goodwill impairment	-	-	188,431	-	188,431
Other noninterest expenses - direct [(1)]	49,670	16,702	48,995	145,393	260,760
Contribution before allocation	84,240	4,794	(265,439)	(114,913)	(291,318)
Noninterest expenses - allocated [(2)]	56,160	15,917	47,565	(119,642)	-
Contribution before income taxes	$ 28,080	$ (11,123)	$ (313,004)	$ 4,729	(291,318)
Income tax expense					(54,139)
Net income					$ (237,179)
September 30, 2008					
Total assets	$ 4,138,157	$ 1,860,753	$ 3,821,693	$ 3,874,575	$ 13,695,178
Total loans held for investment	3,954,694	1,778,073	3,541,870	1,025,003	10,299,640
Total deposits	3,254,831	1,063,637	3,052,739	2,637,601	10,008,808

(1) Noninterest expenses - direct include the direct costs of the segment's operations such as facilities, personnel, and other operating expenses.

(2) Noninterest expenses - allocated includes expenses not directly attributable to the segments, such as information services, operations, human resources, accounting, finance, treasury, and corporate incentive plans.

	South Carolina Bank	North Carolina Bank	Florida Bank	Other	Total
Three Months Ended September 30, 2007					
Net interest income before inter-segment income (expense)	$ 43,046	$ 21,490	$ 43,464	$ (11,226)	$ 96,774
Inter-segment interest income (expense)	826	(6,961)	(4,040)	10,175	-
Net interest income	43,872	14,529	39,424	(1,051)	96,774
Provision for credit losses	5,119	2,281	1,407	1,697	10,504
Noninterest income	12,041	2,424	6,955	8,497	29,917
Noninterest expenses - direct (1)	15,394	5,168	13,842	44,335	78,739
Contribution before allocation	35,400	9,504	31,130	(38,586)	37,448
Noninterest expenses - allocated (2)	17,671	5,905	13,824	(37,400)	-
Contribution before income taxes	$ 17,729	$ 3,599	$ 17,306	$ (1,186)	37,448
Income tax expense					11,609
Net income					25,839
Nine Months Ended September 30, 2007					
Net interest income before inter-segment income (expense)	$ 127,925	$ 62,887	$ 124,980	$ (27,959)	$ 287,833
Inter-segment interest income (expense)	1,835	(20,369)	(8,636)	27,170	-
Net interest income	129,760	42,518	116,344	(789)	287,833
Provision for credit losses	9,286	14,752	7,749	4,855	36,642
Noninterest income	35,365	6,834	21,032	21,339	84,570
Noninterest expenses - direct (1)	46,094	15,068	42,792	136,413	240,367
Contribution before allocation	109,745	19,532	86,835	(120,718)	95,394
Noninterest expenses - allocated (2)	53,411	18,152	43,324	(114,887)	-
Contribution before income taxes	$ 56,334	$ 1,380	$ 43,511	$ (5,831)	95,394
Income tax expense					31,107
Net income					64,287
September 30, 2007					
Total assets	$ 4,081,151	$ 1,861,119	$ 4,126,815	$ 4,031,136	$ 14,100,221
Total loans held for investment	3,846,863	1,740,461	3,587,056	998,857	10,173,237
Total deposits	3,473,451	1,120,939	2,890,552	2,016,727	9,501,669

(1) Noninterest expenses - direct include the direct costs of the segment's operations such as facilities, personnel, and other operating expenses.

(2) Noninterest expenses - allocated includes expenses not directly attributable to the segments, such as information services, operations, human resources, accounting, finance, treasury, and corporate incentive plans.

Item 2. ***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 consolidated financial statements appearing in this report as well as the Annual Report of TSFG on Form 10-K for the year ended December 31, 2007. Results of operations for the three and nine months ended September 30, 2008 are not necessarily indicative of results that may be attained for any other period.

Index to Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations

Website Availability of Reports Filed with the Securities and Exchange Commission

All of TSFG's electronic filings with the Securities and Exchange Commission (SEC"), including its Annual Report 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 made available at no cost on TSFG's web site, www.thesouthgroup.com, through the Investor Relations link. TSFG's SEC filings are also available through the SEC's web site at www.sec.gov.

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 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 interest 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, loan sales, the adequacy of the allowance for credit losses, provision for credit losses, and the assessment of problem loans (including loans acquired via acquisition);
- the receipt of Troubled Asset Relief Program Capital Purchase proceeds;
- the selection of an interim and/or permanent Chief Executive Officer;
- 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;
- loss of deposits due to perceived capital weakness or otherwise;
- availability of wholesale funding;
- adequacy of capital and future capital needs;
- 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;
- 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 any potential future 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 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 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. Management believes that these presentations of customer deposits," customer funding," and wholesale borrowings" aid in the identification of funding generated by its lines of business versus its treasury department. 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 bank holding company, headquartered in Greenville, South Carolina, with $13.7 billion in total assets and 180 branch offices in South Carolina, Florida, and North Carolina at September 30, 2008.

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 North Carolina and South Carolina (as Carolina First Bank), in Florida (as Mercantile Bank), and on the Internet (as Bank Caroline). At September 30, 2008, approximately 45% of TSFG's customer deposits (total deposits less brokered deposits) were in South Carolina, 41% were in Florida, and 14% were in North Carolina.

TSFG uses a super-community bank strategy and targets 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 a net loss of $237.2 million, or $3.43 per diluted share, for the first nine months of 2008, compared with net income of $64.3 million, or $0.86 per diluted share, for the first nine months of 2007. The net loss was primarily due to a $221.7 million provision for credit losses resulting from continued credit deterioration, particularly in the Florida market, and a $188.4 million goodwill impairment charge resulting from a decrease in value of the Florida banking segment.

At September 30, 2008, nonperforming assets as a percentage of loans and foreclosed property increased to 2.83% from 0.88% at December 31, 2007 and 0.58% at September 30, 2007. The increase in nonperforming assets was primarily attributable to accelerating deterioration in residential construction and development-related loans, principally in Florida markets. For the nine months ended September 30, 2008, annualized net loan charge-offs totaled 1.90% of average loans held for investment, compared to 0.53% for the year ended December 31, 2007, and 0.39% for the nine months ended September 30, 2007. TSFG's provision for credit losses increased to $221.7 million for the first nine months of 2008 compared to $36.6 million for the first nine months of 2007.

In order to strengthen its capital and liquidity position, TSFG issued $250.0 million of mandatory convertible non-cumulative preferred stock (Preferred Stock") on May 8, 2008, with net proceeds of $239.0 million. The preferred securities pay dividends at an annual rate of 10%, have a conversion price of $6.50 per common share, and the remaining outstanding shares (249,000 at September 30, 2008) will convert into approximately 38.3 million common shares on or before May 1, 2011. (See Note 11 to the Consolidated Financial Statements for additional details regarding the Preferred Stock.)

TSFG's tangible equity to tangible asset ratio increased to 7.94% at September 30, 2008, from 6.61% at December 31, 2007, due primarily to the issuance of Preferred Stock. In addition, all regulatory capital ratios exceeded well-capitalized minimums.

Tax-equivalent net interest income was $292.6 million for both the first nine months of 2008 and 2007. The net interest margin for the first nine months of 2008 was 3.13%, compared with 3.11% for the first nine months of 2007. This margin improvement is partly due to the decline in funding costs outpacing the decline in earning asset yields, and the issuance of preferred stock. Federal Reserve actions to reduce the targeted fed funds rate by 225 basis points during the first nine months of 2008 led to decreased earning asset yields and a decline in average funding costs. Noninterest income totaled $91.0 million for the first nine months of 2008, compared to $84.6 million for the first nine months of 2007. The increase in noninterest income was largely attributable to a gain on mandatory partial redemption of shares received in the Visa IPO of $1.9 million and a net gain on securities of $1.6 million in the first nine months of 2008 versus a $3.3 million net loss during the first nine months of 2007. In addition, for the first nine months of 2008, gain on certain derivative activities totaled $49,000 versus a loss of $1.2 million for the first nine months of 2007. TSFG's debit card income (net) and merchant processing income (net) for the first nine months of 2008 increased over the prior year amounts, but were offset by decreases in most other noninterest income categories.

Noninterest expenses totaled $449.2 million for the first nine months of 2008, compared to $240.4 for the nine months ended September 30, 2007. This increase was primarily due to the $188.4 million goodwill impairment charge in the first quarter of 2008. The increase in noninterest expenses also included higher employment contract and severance expense related to the retirement of TSFG's CEO, higher advertising and business development expenses, higher regulatory assessments, higher loan collection and monitoring expenses, and branch acquisition and conversion costs related to the acquisition of five branches in Orlando, partially offset by declines in professional fees.

Using period-end balances, TSFG's loans held for investment at September 30, 2008 increased 0.84% from December 31, 2007, and total deposit balances increased 2.2%. Customer funding (deposits less brokered deposits plus customer sweep accounts) decreased 2.3% from December 31, 2007 to September 30, 2008.

On September 2, 2008, the Board of Directors and Mack I. Whittle, the Company's Chairman, President, and Chief Executive Officer, entered into a severance agreement pursuant to which Whittle would receive certain retirement benefits and retire on or before December 30, 2008 (at the Board's election). Those benefits include, among others, a lump sum cash payment of $4.1 million, vesting of all equity awards, service credit under the Supplemental Executive Retirement Plan through age 65 (incremental expense of $4.1 million, of which approximately $2 million relates to service credit through age 65) which provides an annual retirement payment commencing at retirement date, vested benefits under other Company plans, continued welfare and fringe benefits for three years, and three years of continued life insurance coverage. The incremental expense related to these benefits is approximately $12 million, of which $4.6 million was recognized in third quarter 2008, with the remaining expense to be recognized in fourth quarter 2008. Subsequent to quarter-end, the Executive Committee, on behalf of the Board, specified that Whittle's retirement would be effective October 27, 2008.

The Board has appointed a Succession Committee to oversee a nationwide search for a replacement for Whittle. In the interim, John C.B. Smith, Jr., the Company's former Lead Independent Director and now Chairman (see below), will lead the Board of Directors and oversee management until such time as a principal executive officer is named. In addition, TSFG's three-person operating council, consisting of the Chief Financial Officer, Chief Commercial Banking Officer, and Chief Retail Banking Officer will guide the Company through this transition period, acting as the principal executive officers for purposes of filings. As alluded to above, on November 3, 2008, the Board amended TSFG's Bylaws to consolidate the roles and responsibilities of the Chairman and Lead Independent Director into a single Chairman position. It named John C. B. Smith, Jr. as Chairman, and William R. Timmons III as Vice Chairman.

Recent Market Developments

The global and U.S. economies are experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system during the past year. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of residential-related loans and mortgage-backed securities, but spreading to credit default swaps and other derivative securities have caused many financial institutions to seek additional capital, to merge with larger and stronger institutions and, in some cases, to fail.

Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers, including other financial institutions. The availability of credit, confidence in the financial sector, and level of volatility in the financial markets have been significantly adversely affected as a result. In recent weeks, volatility and disruption in the capital and credit markets has reached unprecedented levels. In some cases, the markets have produced downward pressure on stock prices and credit capacity for certain issuers without regard to those issuers' underlying financial strength.

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, the Emergency Economic Stabilization Act of 2008 (the EESA") was signed into law on October 3, 2008. Pursuant to the EESA, the U.S. Treasury was given the authority to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets.

On October 3, 2008, the FDIC increased its insurance coverage limits on all deposits from $100,000 to $250,000 per account until December 31, 2009.

On October 14, 2008, Secretary Paulson, after consulting with the Federal Reserve and the FDIC, announced that the Department of the Treasury will purchase equity stakes in certain banks and thrifts. Under this program, known as the Troubled Asset Relief Program Capital Purchase Program (the TARP Capital Purchase Program"), the Treasury will make $250 billion of capital available to U.S. financial institutions in the form of preferred stock (from the $700 billion authorized by the EESA). In conjunction with the purchase of preferred stock, the Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions will be required to adopt the Treasury's standards for executive compensation and corporate governance for the period during which the Treasury holds equity issued under the TARP Capital Purchase Program. Secretary Paulson also announced that nine large financial institutions agreed to participate in the TARP Capital Purchase Program.

Also on October 14, 2008, after receiving a recommendation from the boards of the FDIC and the Federal Reserve, and consulting with the President, Secretary Paulson signed the systemic risk exception to the FDIC Act, enabling the FDIC to temporarily provide a 100% guarantee of the senior unsecured debt of all FDIC-insured institutions and their holding companies, as well as deposits in noninterest-bearing transaction deposit accounts under a Temporary Liquidity Guarantee Program through December 31, 2009. Coverage under the Temporary Liquidity Guarantee Program is available for 30 days without charge (subsequently extended to December 5, 2008) and thereafter at a cost of 75 basis points per annum for senior unsecured debt and 10 basis points per annum for noninterest-bearing transaction deposits.

TSFG has decided to pursue capital under the TARP Capital Purchase Program, which based on the program guidelines, would range from $115 to $347 million; however, no assurance can be given that TSFG will be approved under those guidelines. Additionally, TSFG has decided to proceed with the Temporary Liquidity Guarantee Program related to noninterest-bearing deposit accounts after the initial period of November 12, 2008; however, TSFG continues to evaluate whether it will participate in the Temporary Liquidity Guarantee Program relative to the guarantee of applicable unsecured obligations.

It is not clear at this time what impact the EESA, the TARP Capital Purchase Program, the Temporary Liquidity Guarantee Program, or other liquidity and funding initiatives will have on the financial markets and the other difficulties described above, including the high levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies. Further adverse effects could have an adverse effect on the Company and its business.

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 (loans held for sale, securities, derivatives, privately held investments, impaired loans); income tax assets or liabilities; share-based compensation; and accounting for acquisitions, including the fair value determinations, the analysis of goodwill for 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. 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. Management's ongoing evaluation of the adequacy of the Allowance considers both impaired and unimpaired loans and takes into consideration TSFG's past loan loss experience, known and inherent risks in the portfolio, existing adverse situations that may affect the borrowers' ability to repay, estimated value of any underlying collateral, an analysis of guarantees and an analysis of current economic factors and existing conditions.

Assessing the adequacy of the Allowance is a process that requires considerable judgment. Management considers the period-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 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 described above, adjusted for factors specific to binding commitments, including the probability of funding and historical loss ratio.

A more detailed discussion of TSFG's Allowance and reserve for unfunded lending commitments is included in the Balance Sheet Review - Allowance for Loan Losses and Reserve for Unfunded Lending Commitments" section.

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

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.

SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is based on quoted market prices for the same or similar instruments, adjusted for any differences in terms. If market values 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 values are not readily available.

TSFG carries its available for sale securities, mortgage loans held for sale, 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 mortgage loans held for sale 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 TSFG 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.

We may be required, from time to time, to measure certain other assets at fair value on a nonrecurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from write-downs of individual assets. For example, nonrecurring fair value adjustments to loans held for investment reflect full or partial write-downs that are based on the loan's observable fair value or the fair value of the underlying collateral in accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan." Nonrecurring fair value adjustments to loans held for sale (other than mortgage loans held for sale) reflect the application of the principle of lower of cost or fair value.

See Note 14 to the Consolidated Financial Statements for more information on fair value measurements for the three and nine months ended September 30, 2008.

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. 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.

TSFG recognizes deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Management regularly reviews the Company's deferred tax assets for recoverability based on history of earnings, expectations for future earnings and expected timing of reversals of temporary differences. Realization of the deferred tax asset in accordance with GAAP ultimately depends on the existence of sufficient taxable income available under tax law, including future reversals of existing temporary differences, future taxable income exclusive of reversing differences, taxable income in prior carryback years, and tax planning strategies.

Although realization is not assured, management believes the recorded deferred tax assets, beyond the REIT capital loss and the South Carolina non-bank net operating loss (which currently have a valuation allowance recorded as reported in Note 16 to the Consolidated Financial Statements included in TSFG's Annual Report on Form 10-K for the year ended December 31, 2007), are fully recoverable based on forecasts of future income and current forecasts for the periods through which losses may be carried back and/or forward. Should the assumptions of future profitability change significantly beyond the carryback period, a valuation allowance may be established if management believes any portion of the deferred tax asset will not be realized.

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, the fair value of service-based stock options is determined using the Black-Scholes valuation model, and the fair value of market-based stock options is determined using a Monte Carlo simulation. Both the Black-Scholes model and the Monte Carlo simulation require the input of 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 evaluates goodwill for 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 implied fair value.

During first quarter 2008, the acceleration of credit deterioration in Florida prompted TSFG to perform an updated interim impairment evaluation of a significant portion of the recorded goodwill as of March 31, 2008. As a result of this evaluation, during first quarter 2008, TSFG recognized goodwill impairment in the Florida banking segment primarily due to increased projected credit costs and a related decrease in projected loan growth, as well as changes in the measurement of segment profitability. See Goodwill" for additional discussion of management's process and the assumptions and judgments applied. The annual evaluation performed as of June 30, 2008 and a subsequent interim evaluation performed as of September 30, 2008 indicated that no additional impairment charge was required as of those dates.

For several previous acquisitions, TSFG has agreed to issue contingent 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 2007, TSFG started construction on its Expanded Corporate Facilities. Through September 30, 2008, TSFG had invested approximately $55 million in the project (which has been capitalized in premises and equipment on the consolidated balance sheet as construction in progress) and had entered into additional contractual commitments of approximately $37 million. The initial phase of the facilities is expected to be placed in service during mid-2009.

Balance Sheet Review

Loans

TSFG focuses its lending activities on small and middle market businesses and individuals in its geographic markets. At September 30, 2008, outstanding loans totaled $10.3 billion, which equaled 103.3% of total deposits (139.0% of customer deposits) and 75.5% of total assets. Loans held for investment increased $86.2 million, or 0.84%, from $10.2 billion at December 31, 2007. 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, Florida, and North Carolina. At September 30, 2008, approximately 6% 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.

During the three and nine months ended September 30, 2008, TSFG transferred commercial real estate loans with an unpaid principal balance totaling $71.7 million and $111.7 million, respectively, from the held for investment portfolio to the held for sale portfolio, and charged-off $28.1 million and $49.8 million, respectively, of these loans against the allowance for loan losses. Of these loans, $38.7 million (net of charge-offs) were sold, leaving $23.2 million (net of charge-offs) on the balance sheet in loans held for sale at September 30, 2008, of which $22.6 million are considered nonperforming loans.

TSFG generally sells a majority of its residential mortgage loans in the secondary market. TSFG also retains certain of its mortgage loans in its held for investment portfolio as part of its overall balance sheet management strategy. Mortgage loans held for sale decreased $3.5 million to $14.3 million at September 30, 2008, from $17.9 million at December 31, 2007, primarily due to lower mortgage loan volume and timing of mortgage sales. Effective January 1, 2008, TSFG elected to account for its mortgage loans held for sale at fair value pursuant to SFAS 159.

Table 1 summarizes outstanding loans held for investment 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 2 provides a stratification of the loan portfolio held for investment by loan purpose, which is more meaningful in terms of portfolio management. This presentation differs from that in Table 1, which stratifies the portfolio by collateral type and borrower type, consistent with external regulatory reporting.

Table 1

Loan Portfolio Composition Based on Collateral Type or Borrower Type

(dollars in thousands)

	September 30, 2008	September 30, 2007	December 31, 2007
Commercial, financial and agricultural	$ 2,333,390	$ 2,289,016	$ 2,309,294
Real estate - construction (1)	1,710,837	2,160,125	1,763,365
Real estate - residential mortgages (1-4 family)	1,538,160	1,376,716	1,390,729
Commercial secured by real estate (1)	3,941,121	3,533,700	3,946,440
Consumer	776,132	813,680	803,592
Loans held for investment	$ 10,299,640	$ 10,173,237	$ 10,213,420

(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.

Table 2

Loan Portfolio Composition Based on Loan Purpose

(dollars in thousands)

	September 30, 2008	September 30, 2007	December 31, 2007
Commercial Loans			
Commercial and industrial (1)	$ 2,824,117	$ 2,693,973	$ 2,742,863
Owner - occupied real estate (2)	1,206,597	1,042,131	1,070,376
Commercial real estate (3)	4,094,164	4,178,653	4,158,384
	8,124,878	7,914,757	7,971,623
Consumer Loans			
Indirect - sales finance	680,413	707,819	699,014
Consumer lot loans	249,062	334,971	311,386
Direct retail (1)	100,257	109,883	107,827
Home equity (1)	784,357	746,253	754,158
	1,814,089	1,898,926	1,872,385
Mortgage Loans (1)	360,673	359,554	369,412
Total loans held for investment	$ 10,299,640	$ 10,173,237	$ 10,213,420
Percentage of Loans Held for Investment			
Commercial and industrial	27.4%	26.5%	26.9%
Owner - occupied real estate (2)	11.7	10.2	10.5
Commercial real estate	39.8	41.1	40.7
Consumer	17.6	18.7	18.3
Mortgage	3.5	3.5	3.6
Total	100.0%	100.0%	100.0%

(1) In second quarter 2008, TSFG reclassified certain loan balances. Amounts presented for prior periods have been reclassified to conform to the current presentation.

(2) In Table 1, 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.

(3) See Commercial Real Estate Concentration," Credit Quality," and Allowance for Loan Losses and Reserve for Unfunded Lending Commitments" for more detail on commercial real estate loans.

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 (CRE") loans are loans to finance real properties that are acquired, developed, or constructed for sale or lease to parties unrelated to the borrower. Our CRE products fall into four primary categories including land, acquisition and development, construction, and income property. See Commercial Real Estate Concentration" below for further details.

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 years to six years. During second quarter 2008, TSFG ceased originating indirect loans in Florida, and plans to allow this portion of the portfolio to run off over its remaining life. At September 30, 2008, this portfolio of Florida indirect loans totaled $428.6 million.

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 primarily 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 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 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.

Portfolio risk is partially managed by maintaining a house" lending limit at a level significantly lower than the legal lending limit of Carolina First Bank and by requiring approval by the Risk Committee of the Board of Directors to exceed this house limit. At September 30, 2008, TSFG's house lending limit was $35 million, and 10 credit relationships totaling $441.2 million were in excess of the house lending limit (but not the legal lending limit). The 20 largest credit relationships had an aggregate outstanding principal balance of $477.8 million, or 4.6% of total loans held for investment at September 30, 2008, compared to 4.2% of total loans held for investment at December 31, 2007.

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 September 30, 2008, the loan portfolio included commitments totaling $1.2 billion in SNCs. Outstanding borrowings under these commitments totaled $701.6 million at September 30, 2008, increasing from $660.7 million at December 31, 2007. The largest commitment was $40.0 million and the largest outstanding balance was $30.6 million at September 30, 2008. 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. Going forward, we expect to reduce the percentage of our portfolio invested in SNCs.

Commercial Real Estate Concentration

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 with 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.

TSFG's commercial real estate products include the following:

CRE Product	Description
Completed income property	Loans to finance a variety of income producing properties, including apartments, retail centers, hotels, office buildings and industrial facilities
Residential A&D	Loans to develop land into residential lots
Commercial A&D	Loans to finance the development of raw land into sellable commercial lots
Commercial construction	Loans to finance the construction of various types of income property
Residential construction	Loans to construct single family housing; primarily to residential builders
Residential condo	Loans to construct or convert residential condominiums
Undeveloped land	Loans to acquire land for resale or future development

Underwriting policies dictate the loan-to-value (LTV") limitations for commercial real estate loans. Table 3 presents selected characteristics of commercial real estate loans by product type.

Table 3

Selected Characteristics of Commercial Real Estate Loans

(dollars in thousands)

	September 30, 2008			
	Policy LTV	Weighted Average Time to Maturity (in months)	Weighted Average Loan Size	Largest Ten Total O/S
Completed income property	85%	44.7	$ 488	$ 134,029
Residential A&D	75	10.7	672	109,616
Commercial A&D	75	11.2	1,000	98,939
Commercial construction	80	28.1	2,325	142,340
Residential construction	80	12.5	329	69,544
Residential condo	80	10.1	1,567	138,747
Undeveloped land	65	11.2	709	81,813
Overall		29.7	$ 597	$ 775,028

In addition to LTV limitations, other commercial real estate management processes are as follows:

Project Hold Limits. TSFG has implemented project hold limits (which represent the maximum amount that TSFG will hold in its portfolio by project) tiered by the underlying risk. These project limits act to encourage the appropriate amount of borrower and geographic granularity within the portfolio. Since the project limits vary by grade, TSFG attempts to reduce the exposure in correlation to the amount of assigned risk inherent in the project.

Construction Advances. TSFG monitors construction advances on all new construction projects and existing or renewed construction projects over set thresholds to ensure inspections are properly obtained and advances are consistent with the construction budget. The appropriateness of the construction budget is part of the underwriting package and considered during the approval process. The monitoring is administered by the centralized Construction Loan Administration department on an ongoing basis.

Quarterly Project Reviews. On a quarterly basis, each commercial real estate loan greater than $5 million is reviewed as part of a large project review process. Risk Management and the Relationship Manager discuss recent sales activity, local market absorption rates and the progress of each transaction in order to ensure proper internal risk rating and borrower strategy.

Appraisal Policies. It is TSFG's policy to comply with Interagency Appraisal and Evaluation Guidelines as issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision (the Agencies"). These guidelines address

supervisory matters relating to real estate appraisals and evaluations used to support real estate-related financial transactions and provide guidance to both examiners and regulated institutions about prudent appraisal and evaluation programs. Under the Agencies' appraisal regulations, the appraiser is selected and engaged directly by TSFG or its agent. Additionally, because the appraisal and evaluation process is an integral component of the credit underwriting process, these processes should be isolated from influence by our loan production process. TSFG orders and reviews all appraisals for loans over a set threshold through a centralized review function.

Although the Agencies' appraisal regulations exempt certain categories of real estate-related financial transactions from the appraisal requirements, most real estate transactions over $250,000 are considered federally regulated transactions and thus require appraisals. The Agencies allow us to use an existing appraisal or evaluation to support a subsequent transaction, if we document that the existing estimate of value remains valid. Criteria for determining whether an existing appraisal or evaluation remains valid will vary depending upon the condition of the property and the marketplace, and the nature of any subsequent transaction. Factors that could cause changes to originally reported values include: the passage of time; the volatility of the local market; the availability of financing; the inventory of competing properties; improvement to, or lack of maintenance of, the subject property or competing surrounding properties; changes in zoning; or environmental contamination.

While the Agencies' appraisal regulations generally allow appropriate evaluations of real estate collateral in lieu of an appraisal for loan renewals and refinancing, in certain situations an appraisal is required. If new funds are advanced over reasonable closing costs, we would be expected to obtain a new appraisal for the renewal of an existing transaction when there is a material change in market conditions or the physical aspects of the property that threatens our real estate collateral protection.

A reappraisal would not be required when we advance funds to protect our interest in a property, such as to repair damaged property, because these funds should be used to restore the damaged property to its original condition. If a loan workout involves modification of the terms and conditions of an existing credit, including acceptance of new or additional real estate collateral, which facilitates the orderly collection of the credit or reduces our risk of loss, a reappraisal or reevaluation may be prudent, even if it is obtained after the modification occurs.

TSFG's policy is to order new appraisals in the following circumstances:

- Funds are being advanced to increase the loan above the originally committed loan amount and the appraisal is more than 18 months old;
- Loan is downgraded to substandard or worse, and the appraisal is more than three years old or significant adverse changes have occurred in the market where the property is located;
- Loan is downgraded to watch, and the appraisal is more than five years old or significant adverse changes have occurred in the market where the property is located;
- Loan is restructured to advance additional funds or extend the original amortization term, and the appraisal is over three years old or significant adverse changes have occurred in the market where the property is located;
- Property is being cross-pledged to another loan (other than an abundance of caution), and the appraisal is over three years old or significant adverse changes have occurred in the market where the property is located.

Credit Officers and Special Assets Officers make the final determination of whether an updated appraisal is required and the timing of the updated appraisal, as part of their approval and portfolio management responsibilities.

Stress Testing. TSFG has implemented a Dual Risk Rating system with nine risk scorecards. The Risk Rating system was launched in December 2007, and fully implemented by March 31, 2008. TSFG expects to begin stressing historical risk ratings following proper validation of assignments and migration studies.

Late in first quarter 2008, the land portfolio in Florida began to exhibit indicators of distress which prompted additional analysis of the existing portfolio and potential losses based on existing loan to value ratios and anticipated default probabilities. This analysis is further discussed in Allowance for Loan Losses and Reserve for Unfunded Lending Commitments" below. The allowance for loan losses was increased by approximately $26 million during the first nine months of 2008 as a result of this analysis.

Table 4 presents the commercial real estate portfolio by geography, while Table 5 presents the commercial real estate portfolio by geography and property type. Commercial real estate nonaccruals, past dues, and net charge-offs are presented in Tables 7, 8, and 12, respectively. TSFG monitors trends in these categories in order to evaluate the possibility of higher credit risk in its commercial real estate portfolio.

Table 4

Commercial Real Estate Loans by Geographic Diversification [(1)]

(dollars in thousands)

	September 30, 2008		December 31, 2007	
	Balance	**% of Total CRE**	**Balance**	**% of Total CRE**
South Carolina, exluding Coastal:				
Upstate South Carolina (Greenville)	$ 451,735	11.0%	$ 400,936	9.6%
Midlands South Carolina (Columbia)	248,121	6.1	300,414	7.2
Greater South Charlotte South Carolina (Rock Hill)	155,565	3.8	134,166	3.2
Coastal South Carolina:				
North Coastal South Carolina (Myrtle Beach)	324,300	7.9	297,075	7.2
South Coastal South Carolina (Charleston)	305,943	7.5	231,881	5.6
Western North Carolina (Hendersonville/Asheville)	832,527	20.3	868,226	20.9
Central Florida:				
Central Florida (Orlando)	265,675	6.5	278,416	6.7
Marion County, Florida (Ocala)	165,836	4.1	168,054	4.0
North Florida:				
Northeast Florida (Jacksonville)	299,139	7.3	327,877	7.9
North Central Florida	318,909	7.8	301,485	7.3
South Florida (Ft. Lauderdale)	249,901	6.1	283,937	6.8
Tampa Bay Florida	476,513	11.6	565,917	13.6
Total commercial real estate loans	$ 4,094,164	100.0%	$ 4,158,384	100.0%

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

Note: At September 30, 2008 and December 31, 2007, average loan size for commercial real estate loans totaled $597,000 and $557,000, respectively.

Table 5

Commercial Real Estate Loans by Geography and Product Type

(dollars in thousands)

	September 30, 2008 Commercial Real Estate Loans by Geography								
	SC, Excl Coastal	**Coastal SC**	**Western NC**	**Central FL**	**North FL**	**South FL**	**Tampa Bay**	**Total CRE**	**% of LHFI**
Commercial Real Estate Loans by Product Type									
Completed income property	$ 427,767	$ 286,122	$ 457,476	$ 194,794	$ 358,517	$ 152,861	$ 206,409	$ 2,083,946	20.3%
Residential A&D	111,484	76,460	171,628	55,919	81,290	4,048	54,523	555,352	5.4
Commercial A&D	45,634	31,050	42,321	25,380	10,295	12,932	72,455	240,067	2.3
Commercial construction	162,072	47,627	26,659	35,988	47,940	11,005	29,068	360,359	3.5
Residential construction	49,514	32,329	53,988	29,018	34,171	11,265	15,270	225,555	2.2
Residential condo	23,928	109,938	10,295	9,223	17,541	17,484	20,111	208,520	2.0
Undeveloped land	35,022	46,717	70,160	81,189	68,294	40,306	78,677	420,365	4.1

Total CRE Loans	$ 855,421	$ 630,243	$ 832,527	$ 431,511	$ 618,048	$ 249,901	$ 476,513	$ 4,094,164	39.8%
CRE Loans as % of Total Loans HFI	8.3%	6.1%	8.1%	4.2%	6.0%	2.4%	4.7%	39.8%	

See Credit Quality" for additional commercial real estate information.

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 the 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.

For TSFG's policy regarding impairment on loans, nonaccruals, charge-offs, and foreclosed property, refer to Item 8, Note 1 - Summary of Significant Accounting Policies in the notes to the Consolidated Financial Statements in the Annual Report on Form 10-K for year ended December 31, 2007.

Table 6 presents our credit quality indicators.

Table 6

Credit Quality Indicators

(dollars in thousands)

	September 30, 2008	September 30, 2007	December 31, 2007
Loans held for investment	$ 10,299,640	$ 10,173,237	$ 10,213,420
Allowance for loan losses	200,748	118,861	126,427
Allowance for credit losses (1)	203,000	120,424	128,695
Nonaccrual loans - commercial and industrial (2)(3)	28,309	18,056	22,963
Nonaccrual loans - owner - occupied real estate (2)	6,951	3,738	4,085
Nonaccrual loans - commercial real estate (2)	160,479	13,972	36,634
Nonaccrual loans - consumer (3)	21,184	13,397	11,606
Nonaccrual loans - mortgage (3)	20,889	2,646	4,903
Restructured loans accruing interest	2,279	1,448	1,440
Total nonperforming loans held for investment	240,091	53,257	81,631
Nonperforming loans held for sale - commercial real estate	22,576	-	-
Foreclosed property (other real estate owned and personal property repossessions)	30,503	5,658	8,276
Total nonperforming assets	$ 293,170	$ 58,915	$ 89,907
Loans past due 90 days or more (mortgage and consumer with interest accruing)	$ 12,899	$ 2,629	$ 5,349
Total nonperforming assets as a percentage of loans and foreclosed property	2.83%	0.58%	0.88%
Allowance for loan losses to nonperforming loans HFI	0.84x	2.23x	1.55x

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

(2) At September 30, 2008, December 31, 2007, and September 30, 2007, commercial nonaccrual loans included $157,000, $218,000, and $403,000, respectively, in restructured loans.

(3) In second quarter 2008, TSFG reclassified certain loan balances. Amounts presented for prior periods have been reclassified to conform to the current presentation.

TSFG's nonperforming asset ratio (nonperforming assets as a percentage of loans and foreclosed property) increased to 2.83% at September 30, 2008 from 0.88% at December 31, 2007 and 0.58% at September 30, 2007. The

increase in nonperforming assets was primarily attributable to accelerating market deterioration in residential housing and development-related loans, principally in Florida markets.

During the three and nine months ended September 30, 2008, TSFG transferred loans with an unpaid principal balance totaling $71.7 million and $111.7 million, respectively, from the held for investment portfolio to the held for sale portfolio, and charged-off $28.1 million and $49.8 million, respectively, of these loans against the allowance for loan losses. Of these loans, $38.7 million (net of charge-offs) were sold, leaving $23.2 million (net of charge-offs) on the balance sheet in loans held for sale at September 30, 2008, of which $22.6 million are considered nonperforming loans.

Table 7 presents CRE nonaccrual loans by geography and product type. At September 30, 2008, there were no CRE loans past due 90 days still accruing interest.

Table 7

Commercial Real Estate Nonaccrual Loans

(dollars in thousands)

	September 30, 2008 CRE Nonaccrual Loans HFI (NAL") by Geography								
	SC, Excl Coastal	**Coastal SC**	**Western NC**	**Central FL**	**North FL**	**South FL**	**Tampa Bay**	**Total CRE NAL**	**% of NAL (1)**
CRE Nonaccrual Loans by Product Type									
Completed income property	$ 1,830	$ 1,771	$ 6,043	$ 6,775	$ 1,761	$ 3,027	$ 637	$ 21,844	9.2%
Residential A&D	2,313	2,588	14,695	7,884	3,530	250	26,917	58,177	24.5
Commercial A&D	396	7,050	579	152	-	-	-	8,177	3.4
Commercial construction	-	-	1,424	-	-	1,658	-	3,082	1.3
Residential construction	1,288	1,859	5,608	9,503	1,537	11	-	19,806	8.3
Residential condo	-	2,349	-	1,712	-	8,811	6,934	19,806	8.3
Undeveloped land	147	-	860	440	3,764	15,880	8,496	29,587	12.5
Total CRE Nonaccrual Loans	$ 5,974	$ 15,617	$ 29,209	$ 26,466	$ 10,592	$ 29,637	$ 42,984	$ 160,479	67.5%
CRE Nonaccrual Loans as % of Total Nonaccrual Loans (1)	2.5%	6.6%	12.3%	11.1%	4.4%	12.5%	18.1%	67.5%	

(1) Calculated as a percent of nonaccrual loans held for investment, which totaled $237.8 million at September 30, 2008. Excludes nonaccrual loans held for sale, which totaled $22.6 million at September 30, 2008.

Table 8 provides detail regarding commercial real estate loans past due 30 days or more.

Table 8

Commercial Real Estate Loans Past Due 30 Days or More (excluding nonaccruals)

(dollars in thousands)

	September 30, 2008		December 31, 2007	
	Balance	**% of CRE**	**Balance**	**% of CRE**
North Carolina	$ 14,418	0.35%	$ 10,029	0.24%
South Carolina	11,720	0.29	1,889	0.05
Florida	24,886	0.61	14,383	0.34
Total CRE loans past due 30 days or more	$ 51,024	1.25%	$ 26,301	0.63%

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. Table 9 summarizes information on impaired loans.

Table 9

Impaired Loans

(dollars in thousands)

	At and For the Nine Months Ended September 30, 2008	At and For the Nine Months Ended September 30, 2007	At and For the Year Ended December 31, 2007
Impaired loans	$ 198,018	$ 38,060	$ 68,102
Average investment in impaired loans	182,475	35,251	40,360
Related allowance	29,911	11,010	11,340
Foregone interest	11,416	2,142	3,437

Potential problem loans consist of commercial loans that are performing in accordance with contractual terms but for which management has concerns about the ability of an obligor to continue to comply with repayment terms because of the obligor's potential operating or financial difficulties. These loans are identified through our internal risk grading processes. Management monitors these loans closely and reviews their performance on a regular basis. Table 10 provides additional detail regarding potential problem loans.

Table 10

Potential Problem Loans

(dollars in thousands)

	September 30, 2008		
		Outstanding Principal Balance	
	Number of Loans	Amount	Percentage of Loans Held for Investment
Large potential problem loans ($5 million or more)	17	$ 169,799	1.65%
Small potential problem loans (less than $5 million)	811	272,087	2.64
Total potential problem loans [1]	828	$ 441,886	4.29%

[1] Includes commercial and industrial, commercial real estate, and owner-occupied real estate.

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.

Management's ongoing evaluation of the adequacy of the Allowance considers both impaired and unimpaired loans and takes into consideration TSFG's past loan loss experience, known and inherent risks in the portfolio, existing adverse situations that may affect the borrowers' ability to repay, estimated value of any underlying collateral, an analysis of guarantees and an analysis of current economic factors and existing conditions.

TSFG, through its lending and credit functions, continuously reviews its loan portfolio for credit risk. TSFG employs an independent credit review area that reviews the lending and credit functions and processes to validate that credit risks are appropriately identified and addressed and reflected in the risk ratings. Using input from the credit risk identification process, the Company's credit risk management area analyzes and validates the Company's Allowance calculations. The analysis includes four basic components: general allowances for loan pools segmented based on similar risk characteristics, specific allowances for individually impaired loans, subjective and judgmental qualitative adjustments based on identified economic factors and existing conditions and other risk factors, and the unallocated component of the Allowance (which is determined based on the overall Allowance level and the determination of a range given the inherent imprecision of calculating the Allowance).

Management reviews the methodology, calculations and results and ensures that the calculations are appropriate and that all material risk elements have been assessed in order to determine the appropriate level of Allowance for the inherent losses in the loan portfolio at each quarter end. The Allowance for Credit Losses Committee is in place to ensure that the process is systematic and consistently applied.

The following chart reflects the various levels of reserves included in the Allowance:

Level I	General allowance calculated based upon historical losses
Level II	Specific reserves for individually impaired loans
Level III	Subjective/judgmental adjustments for economic and other risk factors
Unfunded	Reserves for off-balance sheet (unadvanced) exposure
Unallocated	Represents the imprecision inherent in the previous calculations
Total	Represents summation of all reserves

Level I Reserves. The first reserve component is the general allowance for loan pools segmented based on similar risk characteristics that are determined by applying adjusted historical loss factors to each loan pool. This part of the methodology is governed by SFAS No. 5, Accounting for Contingencies." The general allowance factors are based upon recent and historical charge-off experience and are applied to the outstanding portfolio by loan type and internal risk rating. Historical loss analyses of the previous 12 quarters provide the basis for factors used for homogenous pools of smaller loans, such as indirect auto and other consumer loan categories which generally are not evaluated based on individual risk ratings but almost entirely based on historical losses. The loss factors used in the Level I analyses are adjusted quarterly based on loss trends and risk rating migrations.

TSFG generates historical loss ratios from actual loss history for eight subsets of the loan portfolio over a 12 quarter period (3 years). Commercial loans are sorted by risk rating into four pools-Pass, Special Mention, Substandard, and Doubtful. Consumer loans are sorted into four pools by product type-Direct, Indirect, Revolving, and Mortgage.

The adjusted loss ratio for each pool is multiplied by the dollar amount of loans in the pool in order to create a range. We then add and subtract five percent (5.0%) to and from this amount to create the upper and lower boundaries of the range. The upper and lower boundary amounts for each pool are summed to establish the total range. Although TSFG generally uses the actual historical loss rate, on occasion management may decide to select a higher or lower boundary based on known market trends or internal behaviors that would impact the performance of a specific portfolio grouping. The Level I reserves totaled $64.7 million at September 30, 2008, based on the portfolio historical loss rates, compared to $48.7 million at December 31, 2007.

Level II Reserves. The second component of the Allowance involves the calculation of specific allowances for each individually impaired loan in accordance with SFAS No. 114, Accounting by Creditors for Impairment of a Loan." In situations where a loan is determined to be impaired (primarily because it is probable that all principal and interest amounts due according to the terms of the note will not be collected as scheduled), a specific reserve may or may not be warranted. Upon examination of the collateral and other factors, it may be determined that TSFG reasonably expects to collect all amounts due; therefore, no specific reserve is warranted. Any loan determined to be impaired (whether a specific reserve is assigned or not) is excluded from the Level I calculations described above.

TSFG tests a broad group of loans for impairment each quarter (this includes all loans over $500,000 that have been placed in nonaccrual status). Once a loan is identified as impaired, reserves are based on a thorough analysis of the most probable source of repayment which is normally the liquidation of collateral, but may also include discounted future cash flows or the market value of the loan itself. Generally, for collateral dependent loans, current market appraisals are utilized for larger credits; however, in situations where a current market appraisal is not available, management uses the best available information (including appraisals for similar properties, communications with qualified real estate professionals, information contained in reputable publications and other observable market data) to estimate the current fair value (less cost to sell) of the subject property. TSFG had Level II reserves of $29.9 million at September 30, 2008, compared to $11.3 million at December 31, 2007.

Level III Reserves. The third component of the Allowance represents subjective and judgmental adjustments determined by management to account for the effect of risks or losses that are not fully captured elsewhere. This part of the methodology is calculated in accordance with SFAS 5 and reflects adjustments to historical loss experience to incorporate current economic conditions and other factors which impact the inherent losses in the portfolio. This component includes amounts for new loan products or portfolio categories which are deemed to have risks not included in the other reserve elements as well as macroeconomic and other factors. The qualitative risk factors of this third allowance level are more subjective and require a high degree of management judgment. Currently, Level III Reserves include additional reserves for current economic conditions, the commercial real estate concentration in the portfolio, and an additional adjustment to represent declining land values in Florida.

During first quarter 2008, undeveloped land loans were experiencing distressed default rates, and higher loss severities were expected. TSFG performed two separate analyses to determine an accurate adjustment to this category. Both analyses concluded that an adjustment to the allowance of $23.8 million was appropriate. This adjustment was added to the Allowance in the Florida Bank segment for the first time during first quarter 2008. This analysis was updated during third quarter 2008 with updated loan balances on this subportfolio using an adjusted appraisal discount, which resulted in the new Level III allowance component increasing to $25.9 million.

TSFG also experienced an increase in losses in the indirect portfolio, as $9.1 million was charged-off during the first nine months of 2008, compared to $3.8 million in the first nine months of 2007. As a result of that recognizable increase, an adjustment was made to the component of economic conditions increasing that portion of the Allowance by $10.5 million.

As a result of the two areas mentioned above, the Level III Reserves increased to $102.6 million at September 30, 2008, from $66.4 million at December 31, 2007.

Reserve for Unfunded Commitments. At September 30, 2008 and December 31, 2007, the reserve for unfunded commitments was $2.3 million. This reserve is determined by formula; historical loss ratios are multiplied by potential usage levels (i.e., the difference between actual usage levels and the second highest historical usage level).

Unallocated Reserves. The calculated Level I, II and III reserves are 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 ranges, and is distributed to the loan categories based on the mix of loans in each category. The unallocated portion is calculated as the sum of the differences between the actual calculated Allowance and the lower boundary amounts for each category in our model. The sum of these differences at September 30, 2008 was $11.6 million, up from $7.7 million at June 30, 2008 and $6.0 million at December 31, 2007. The unallocated Allowance is the result of management's best estimate of risks inherent in the portfolio, economic uncertainties and other subjective factors, including industry trends, as well as the imprecision inherent in estimates used for the allocated portions of the Allowance. Management reviews the overall level of the Allowance as well as the unallocated component and considers the level of both amounts in determining the appropriate level of reserves for the overall inherent risk in TSFG's total loan portfolio.

Changes in the Level II reserves (and the overall Allowance) may not correlate to the relative change in impaired loans depending on a number of factors including whether the impaired loans are secured, the collateral type, and the estimated loss severity on individual loans. Specifically, impaired loans increased to $198.0 million at September 30, 2008 from $68.1 million at December 31, 2007, primarily attributable to commercial real estate loans in Florida. Most of the loans contributing to the increase were over $500,000 and were evaluated for whether a specific reserve was warranted based on the analysis of the most probable source of repayment including liquidation of the collateral. Based on this analysis, the Level II Reserves increased 164% compared to the 191% increase in impaired loans.

Changes in the other components of the Allowance (reserves for Level I, Level III, unallocated, and unfunded commitments) are not related to specific loans but reflect changes in loss experience and subjective and judgmental adjustments made by management. For example, due to indicators of stress on the land portfolio in Florida and other credit quality indicators, these reserves were increased by $26 million during the first nine months of 2008.

Assessing the adequacy of the Allowance is a process that requires considerable judgment. Management's judgments are based on numerous assumptions about current events, which we believe to be reasonable, but which may or may not be 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 us to adjust our Allowance based on information available to them at the time of their examination.

Table 11 summarizes the changes in the allowance for loan losses, reserve for unfunded lending commitments, and allowance for credit losses and provides certain related ratios.

Table 11

Summary of Loan and Credit Loss Experience

(dollars in thousands)

	At and For the Nine Months Ended September 30, 2008	At and For the Nine Months Ended September 30, 2007	At and For the Year Ended December 31, 2007
Allowance for loan losses, beginning of year	$ 126,427	$ 111,663	$ 111,663
Net charge-offs:			
Loans charged-off	(152,664)	(34,159)	(59,408)
Loans recovered	5,306	5,253	6,847
	(147,358)	(28,906)	(52,561)
Additions to allowance through provision expense	221,679	36,104	67,325
Allowance for loan losses, end of period	$ 200,748	$ 118,861	$ 126,427
Reserve for unfunded lending commitments, beginning of year	$ 2,268	$ 1,025	$ 1,025
Provision for unfunded lending commitments	(16)	538	1,243
Reserve for unfunded lending commitments, end of period	$ 2,252	$ 1,563	$ 2,268
Allowance for credit losses, beginning of year	$ 128,695	$ 112,688	$ 112,688
Net charge-offs:			
Loans charged-off	(152,664)	(34,159)	(59,408)
Loans recovered	5,306	5,253	6,847
	(147,358)	(28,906)	(52,561)
Additions to allowance through provision expense	221,663	36,642	68,568
Allowance for credit losses, end of period	$ 203,000	$ 120,424	$ 128,695
Average loans held for investment	$ 10,366,359	$ 9,925,410	$ 9,985,751
Loans held for investment, end of period	10,299,640	10,173,237	10,213,420
Net charge-offs as a percentage of average loans held for investment (annualized)	1.90%	0.39%	0.53%
Allowance for loan losses as a percentage of loans held for investment	1.95	1.17	1.24
Allowance for credit losses as a percentage of loans held for investment	1.97	1.18	1.26
Allowance for loan losses to nonperforming loans held for investment	0.84x	2.23x	1.55x

The provision for credit losses for the first nine months of 2008 totaled $221.7 million, which exceeded net loan charge-offs by $74.3 million. The higher provision largely reflected credit deterioration due to continued weakness in housing markets, particularly in Florida. The allowance for credit losses as a percentage of loans held for investment increased to 1.97% at September 30, 2008 from 1.26% at December 31, 2007 and 1.18% at September 30, 2007. Table 12 provides additional detail for net charge-offs.

Table 12

Net Charge-Offs by Product Type

(dollars in thousands)

	Nine Months Ended September 30, 2008 Amount	% of NCO
Commercial and industrial	$ 24,516	16.6%
Owner-occupied real estate	1,742	1.2
Commercial real estate	95,474	64.8
Indirect - sales finance	9,137	6.2
Home equity	3,612	2.5
Mortgage and consumer lot	11,920	8.1
Direct retail	957	0.6
Total Net Charge-Offs	$ 147,358	100.0%

Nine Months Ended September 30, 2008 CRE Net Charge-Offs (NCO") by Geography

	SC, Excl Coastal	Coastal SC	Western NC	Central FL	North FL	South FL	Tampa Bay	Total CRE NCO	% of NCO
CRE Net Charge-Offs by Product Type									
Completed income property	$ 542	$ 219	$ 2,153	$ 1,052	$ 388	$ -	$ 533	$ 4,887	3.3%
Residential A&D	497	234	1,859	10,409	11,124	-	6,134	30,257	20.5
Commercial A&D	245	-	211	150	-	625	8,425	9,656	6.6
Commercial construction	-	-	(45)	-	-	2,856	-	2,811	1.9
Residential construction	928	670	949	1,174	2,292	-	-	6,013	4.1
Residential condo	-	1,000	185	465	140	4,209	16,972	22,971	15.6
Undeveloped land	150	-	1,426	621	10,153	5,849	680	18,879	12.8
Total CRE Net Charge-Offs	$ 2,362	$ 2,123	$ 6,738	$ 13,871	$ 24,097	$ 13,539	$ 32,744	$ 95,474	64.8%
CRE Net Charge-Offs as % of Total Net Charge-Offs	1.6%	1.4%	4.6%	9.4%	16.4%	9.2%	22.2%	64.8%	

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, FHLB advances, and securities sold under repurchase agreements. 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 13 shows the carrying values of the investment securities portfolio.

Table 13

Investment Securities Portfolio Composition

(dollars in thousands)

	September 30, 2008	September 30, 2007	December 31, 2007
Available for Sale (at fair value)			
U.S. Treasury	$ 28,084	$ 168,614	$ 27,592
U.S. Government agencies	327,933	659,681	503,571
Agency mortgage-backed securities	1,312,116	1,119,547	1,088,427
Private label mortgage-backed securities	15,152	-	-
State and municipal	260,532	303,388	302,586
Other investments:			
Corporate bonds	9,855	20,680	20,380
Federal Home Loan Bank (FHLB") stock	38,478	43,060	35,333
Community bank stocks	1,555	4,789	4,988
Other equity investments	1,976	3,482	3,335
	1,995,681	2,323,241	1,986,212
Held to Maturity (at amortized cost)			
State and municipal	24,418	40,934	39,451
Other investments	100	240	240
	24,518	41,174	39,691
Total	$ 2,020,199	$ 2,364,415	$ 2,025,903
Total securities as a percentage of total assets	14.8%	16.8%	14.6%
Percentage of Total Securities Portfolio			
U.S. Treasury	1.4%	7.1%	1.4%
U.S. Government agencies	16.2	27.9	24.8
Agency mortgage-backed securities	64.9	47.3	53.7
Private label mortgage-backed securities	0.8	-	-
State and municipal	14.1	14.6	16.9
Other investments	2.6	3.1	3.2
Total	100.0%	100.0%	100.0%

Securities (i.e., securities available for sale and securities held to maturity) excluding the unrealized loss on securities available for sale averaged $2.1 billion in the first nine months of 2008, 20.8% below the average for the corresponding period in 2007 of $2.6 billion.

The average tax-equivalent portfolio yield decreased for the nine months ended September 30, 2008 to 4.67% from 4.81% for the nine months ended September 30, 2007.

The expected duration of the debt securities portfolio was approximately 4.0 years at September 30, 2008, an increase from approximately 3.3 years at December 31, 2007. 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 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 98.8% of total securities at September 30, 2008. 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 62% of mortgage-backed securities (MBS") are collateralized mortgage obligations (CMOs") with an average duration of 5.3 years. The majority of these securities are government agency securities. At September 30, 2008, approximately 14% 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.

In second quarter 2008, TSFG recorded $927,000 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. In third quarter 2008, TSFG sold approximately $8.4 million of corporate bonds and recognized a gain on sale of approximately $129,000. In addition, in third quarter 2008, TSFG recorded $1.8 million in other-than-temporary impairment on certain community bank-related investments included in the equity investment portfolio due to the severity and/or duration of the impairment. In the nine months ended September 30, 2007, TSFG recorded $2.9 million in other-than-temporary impairment on its corporate bond portfolio. In third quarter 2007, TSFG sold approximately $70 million of corporate bonds.

At September 30, 2008, TSFG had equity investments in four community banks located in the Southeast with a fair value of $1.6 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. As mentioned above, in third quarter 2008, TSFG recorded $1.8 million in other-than-temporary impairment on certain of these investments and certain community bank-related investments included in other equity investments.

The net unrealized loss on securities available for sale (pre-tax) totaled $48.1 million at September 30, 2008, compared with a $48.8 million loss at December 31, 2007. If interest rates increase, credit spreads continue to widen, and/or market illiquidity worsens, TSFG expects its net unrealized loss on securities available for sale to increase. See Item 1, Note 5 to the Consolidated Financial Statements for information about TSFG's securities in unrealized loss positions.

Table 14 shows the credit risk profile of the securities portfolio.

Table 14

Investment Securities Portfolio Credit Risk Profile

(dollars in thousands)

	September 30, 2008		December 31, 2007	
	Balance	**% of Total**	**Balance**	**% of Total**
Government and agency				
U.S. Treasury	$ 28,084	1.4%	$ 27,592	1.4%
U.S. Government agencies (1)	327,933	16.2	503,571	24.9
Agency mortgage-backed securities (MBS) (1)(2)	1,312,116	64.9	1,088,427	53.7
Federal Home Loan Bank Stock	38,478	1.9	35,333	1.7
Total government and agency	1,706,611	84.4	1,654,923	81.7
State and municipal (3)(4)(5)				
Pre-funded with collateral or AAA-rated backed by Texas Permanent School Fund	187,635	9.3	214,675	10.6
Underlying issuer or collateral rated A or better (including South Carolina State Aid)	80,740	4.0	102,187	5.1
Underlying issuer or collateral rated BBB	7,331	0.4	12,930	0.6
Non-rated	9,244	0.4	12,245	0.6
Total state and municipal	284,950	14.1	342,037	16.9
Corporate bonds				
AA or A-rated	9,855	0.5	17,068	0.8
BBB-rated	-	-	3,312	0.2
Total corporate bonds	9,855	0.5	20,380	1.0
Private label mortgage-backed securities AAA-rated (2)	15,152	0.8	-	-
Community bank stocks and other	3,631	0.2	8,563	0.4
Total securities	$ 2,020,199	100.0%	$ 2,025,903	100.0%
Percent of total securities: (4)				
Rated A or higher		99.0%		98.2%
Investment grade		99.4		99.0

(1) At September 30, 2008, these numbers include, in the aggregate, $169.7 million and $1.3 billion related to senior debt and MBS, respectively, issued by FNMA and FHLMC.

(2) 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.

(3) At September 30, 2008 and December 31, 2007, state and municipal securities include $24.4 million and $39.5 million, respectively, of securities held to maturity at amortized cost.

(4) Ratings shown above do not reflect the benefit of guarantees by bond insurers. At September 30, 2008, $34.5 million of municipal bonds are guaranteed by bond insurers. At December 31, 2007, $43.5 million of municipal bonds are guaranteed by bond insurers.

(5) At September 30, 2008, the breakdown by current bond rating is as follows: $187.6 million pre-funded with collateral or AAA-rated backed by Texas Permanent School Fund, $8.9 million AAA-rated, $83.5 million AA or A-rated, $600,000 BBB-rated, and $4.3 million non-rated.

Note: Within each category, securities are ordered based on risk assessment from lowest to highest. TSFG holds no collateralized debt obligations, or subordinated debt or equity investments in FNMA or FHLMC.

Investments Included in Other Assets. TSFG also invests in limited partnerships, limited liability companies (LLCs") and other privately held companies. These investments are included in other assets. During the first nine months of 2008, TSFG sold $1.9 million of such investments for a net gain of $4.1 million and recorded $589,000 in other-than-temporary impairment on these investments. At September 30, 2008, TSFG's investment in these entities totaled $16.9 million, of which $4.5 million were accounted for under the cost method and $12.4 million were accounted for under the equity method.

Goodwill

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets" (SFAS 142"), TSFG evaluates its goodwill annually for each reporting unit as of June 30th. However, the acceleration of credit deterioration in Florida prompted TSFG to perform an interim impairment evaluation of a significant portion of the recorded goodwill as of March 31, 2008. As a result of this evaluation, during first quarter 2008, TSFG recognized goodwill impairment in the Florida banking segment primarily due to increased projected credit costs and a related decrease in projected loan growth. In addition, during first quarter 2008, TSFG refined its methodology for allocating certain previously unallocated noninterest expenses to its banking segments, which resulted in higher allocated expenses to each of those segments; such costs were then utilized in the discounted cash flow analysis to determine the fair value of the Florida banking segment. The goodwill impairment charge of $188.4 million was recorded in noninterest expense in the consolidated statements of income. The fair value of the Florida reporting unit tested for impairment was determined primarily using discounted cash flow models based on internal forecasts and, to a lesser extent, market-based trading and transaction multiples. Internal forecasts include certain assumptions made by management, including expectations about growth in earning assets, credit losses, and expenses.

The goodwill impairment analysis is performed on the Company's reporting units and closely follows its operating segments. These reporting units, as well as the assumptions and forecasts used in the discounted cash flow model and the market approach, have varying degrees of subjectivity and may not be comparable to the reporting units, assumptions, and forecasts used by other companies in evaluating their goodwill for impairment.

The annual impairment evaluation as of June 30, 2008 and a subsequent interim evaluation as of September 30, 2008 indicated that no additional impairment charge was required, and there have been no events or circumstances since quarter-end indicating impairment. Management will continue to update its analysis as circumstances change, and as market conditions continue to be volatile and unpredictable. Additional impairment charges could result in the future if continued credit deterioration occurs, if fair values continue to decline in the current environment, or if management reduces its expectations for segment cash flows.

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. See Note 9 to the Consolidated Financial Statements for disclosure of 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 the table in Note 9.

In the three and nine months ended September 30, 2008, noninterest income included a loss of $199,000 and a gain of $49,000, respectively, for derivative activities. These amounts 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.

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 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. Institutional counterparties must have an investment grade credit rating and be approved by TSFG's Asset/Liability Management Committee and Executive Credit Committee.

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.

During third quarter 2008, TSFG terminated swaps with a counterparty that was experiencing financial difficulty and replaced those swaps with a different counterparty. In addition, credit deterioration of another swap counterparty negatively affected the valuation of certain swaps during third quarter 2008, and moved the value of these swaps from Level 2 to Level 3 in the SFAS 157 hierarchy (see Note 14 to the Consolidated Financial Statements).

Deposits

Deposits remain TSFG's primary source of funds. Average customer deposits equaled 62.0% of average total funding in the first nine months of 2008. 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, Federal Reserve borrowings, 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.

Table 15

Type of Deposits

(dollars in thousands)

	September 30, 2008	September 30, 2007	December 31, 2007
Noninterest-bearing demand deposits	$ 1,022,632	$ 1,164,312	$ 1,127,657
Interest-bearing checking	1,090,874	1,100,428	1,117,850
Money market accounts	1,806,143	2,184,822	2,188,261
Savings accounts	150,150	169,091	158,092
Time deposits under $100,000	1,840,363	1,384,094	1,442,030
Time deposits of $100,000 or more	1,524,813	1,515,417	1,496,270
Customer deposits [1]	7,434,975	7,518,164	7,530,160
Brokered deposits	2,573,833	1,983,505	2,258,408
Total deposits	$ 10,008,808	$ 9,501,669	$ 9,788,568
Percentage of Deposits			
Noninterest-bearing demand deposits	10.2%	12.2%	11.5%
Interest-bearing checking	10.9	11.6	11.4
Money market accounts	18.1	23.0	22.4
Savings accounts	1.5	1.8	1.6
Time deposits under $100,000	18.4	14.6	14.7
Time deposits of $100,000 or more	15.2	15.9	15.3
Customer deposits [1]	74.3	79.1	76.9
Brokered deposits	25.7	20.9	23.1
Total deposits	100.0%	100.0%	100.0%

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

Table 16

Type of Customer Funding

(dollars in thousands)

	September 30, 2008	September 30, 2007	December 31, 2007
Customer deposits [1]	$ 7,434,975	$ 7,518,164	$ 7,530,160
Customer sweep accounts[2]	551,559	599,021	648,311
Customer funding	$ 7,986,534	$ 8,117,185	$ 8,178,471

(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.

At September 30, 2008, period-end customer funding decreased $191.9 million, or 2.3%, from December 31, 2007, as increases in time deposits due to several promotions during the quarter were more than offset by decreases in all other customer deposit categories and customer sweeps. Public deposits totaled approximately $627 million at September 30, 2008, compared to $582 million at December 31, 2007. This increase was more than offset by a decrease in commercial deposits at September 30, 2008 relative to December 31, 2007 due in part to lower overall liquidity from commercial customers and customers seeking diversification among banks to avoid deposit levels in excess of FDIC insurance limits (which increased to $250,000 in October 2008).

TSFG plans to participate in the Temporary Liquidity Guarantee Program's full coverage of noninterest-bearing deposit transaction accounts regardless of dollar amount through December 31, 2009 (see Recent Market Developments"). In addition, subsequent to quarter-end, TSFG began participating in Certificate of Deposit Account Registry Services (CDARS"), a program that allows TSFG's customers the ability to benefit from full FDIC insurance on CD investments of up to $50 million.

While reported in short-term borrowings on the consolidated balance sheet, customer sweep accounts represent excess overnight cash 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 ($468.4 million at September 30, 2008) and 2) uninsured Eurodollar deposits ($83.1 million at September 30, 2008). These balances are tied directly to commercial customer checking accounts, and these sweep accounts generate treasury services noninterest income.

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, 2007 as TSFG replaced certain customer funding and other wholesale funding sources with brokered deposits.

Table 19 in Earnings Review - Net Interest Income" details average balances for the deposit portfolio for the three and nine months ended September 30, 2008 and 2007. Comparing the nine months ended September 30, 2008 and 2007, average customer funding decreased $155.3 million, or 1.9%. Within customer funding, the mix continues to shift toward higher cost products, with increases in average time deposits and customer sweep accounts more than offset by a decrease in noninterest-bearing deposits, interest checking, savings and money markets. Average brokered deposits increased $189.3 million, or 9.4%.

Average customer funding equaled 66.9% of average total funding in the first nine months of 2008 compared to 67.1% in the first nine months of 2007. 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.

Borrowed Funds

Table 17 shows the breakdown of borrowed funds by type.

Table 17

Type of Borrowed Funds

(dollars in thousands)

	September 30, 2008	September 30, 2007	December 31, 2007
Short-Term Borrowings			
Federal funds purchased and repurchase agreements	$ 137,927	$ 595,272	$ 206,216
Customer sweep accounts	551,559	599,021	648,311
Federal Reserve borrowings	30,000	-	-
FHLB advances	-	175,000	-
Commercial paper	19,068	32,601	30,828
Treasury, tax and loan note	450,375	668,687	752,195
Total short-term borrowings	1,188,929	2,070,581	1,637,550
Long-Term Borrowings			
Repurchase agreements	200,000	200,000	200,000
FHLB advances	298,119	223,093	223,087
Subordinated notes	216,704	242,478	216,704
Mandatorily redeemable preferred stock of subsidiary	56,800	64,800	56,800
Note payable	779	797	786
Employee stock ownership plan note payable	-	-	-
Purchase accounting premiums, net of amortization	707	1,035	963
Total long term borrowings	773,109	732,203	698,340
Total borrowings	1,962,038	2,802,784	2,335,890
Less: Customer sweep accounts	(551,559)	(599,021)	(648,311)
Add: Brokered deposits [1]	2,573,833	1,983,505	2,258,408
Total wholesale borrowings	$ 3,984,312	$ 4,187,268	$ 3,945,987
Wholesale borrowings as a % of total assets	29.1%	29.7%	28.4%

(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 the first nine months of 2008, average borrowings totaled $2.4 billion, compared with $2.5 billion for the same period in 2007.

Period-end wholesale borrowings increased to $4.0 billion at September 30, 2008, compared to $3.9 billion at December 31, 2007 as TSFG replaced certain customer funding with brokered deposits. Average wholesale borrowings totaled $4.0 billion in the first nine months of 2008 and 2007. TSFG plans to continue efforts to lower its reliance on wholesale borrowings, principally by growth in customer funding.

Daily funding needs are met through federal funds purchased and short-term brokered CDs, term treasury, tax and loan notes (TT&L”), repurchase agreements, Federal Reserve borrowings, and FHLB advances. Balances in these accounts can fluctuate on a day-to-day basis based on availability and overall funding needs.

In December 2007, the Federal Reserve announced the establishment of a temporary Term Auction Facility (TAF”) in which the Federal Reserve would auction term funds to depository institutions. The program is similar to term TT&L auctions in that institutions place bids for the borrowing and the rate on the awarded amount is based on the results of the auction. The collateral used to secure the borrowings is the same that is currently held at the Discount Window (see Liquidity”).

FHLB advances are a source of funding that TSFG uses depending on the current level of deposits and the availability of collateral to secure FHLB borrowings. At September 30, 2008, TSFG had $633.3 million of unused borrowing capacity from the FHLB. See Liquidity” for further discussion.

During the first nine months of 2008, TSFG recognized a net loss on early extinguishment of debt of $339,000, primarily due to prepayment penalties for FHLB advances partially offset by gains on calls of interest rate swaps hedging brokered CDs.

Capital Resources and Dividends

Total shareholders' equity totaled $1.5 billion, or 11.2% of total assets, at September 30, 2008 and December 31, 2007. Shareholders' equity remained basically flat as the net loss for the first nine months of 2008 (which includes the $188.4 million goodwill impairment charge) and cash dividends paid were largely offset by the net proceeds from the issuance of Preferred Stock.

On May 8, 2008, TSFG issued $250.0 million of mandatory convertible non-cumulative preferred stock, with net proceeds of $239.0 million. The preferred securities pay dividends at an annual rate of 10%, have a conversion price of $6.50 per common share, and the remaining outstanding shares (249,000 at September 30, 2008) will convert into approximately 38.3 million common shares by May 1, 2011. Although this issuance strengthened TSFG's overall capital and liquidity position and regulatory capital ratios, it had a dilutive effect on book value per share and tangible book value per share and will have a dilutive effect on earnings per share. (For the three and nine months ended September 30, 2008, the Preferred Stock is antidilutive and, as such, is excluded from the calculation of earnings per share.)

During third quarter 2008, 1,000 shares of Preferred Stock were converted into approximately 154,000 common shares. Subsequent to quarter-end, 5,750 shares of Preferred Stock were converted into approximately 885,000 common shares.

Common book value per common share at September 30, 2008 (assuming conversion of the Preferred Stock) and December 31, 2007 was $13.78 and $21.40, respectively. Common tangible book value per common share at September 30, 2008 (assuming conversion of the Preferred Stock) and December 31, 2007 was $9.42 and $12.04, 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. Since TSFG's net loss for the nine months ended September 30, 2008 was largely due to the $188.4 million goodwill impairment charge which was reported in first quarter 2008, book value per share decreased much more than tangible book value per share. At September 30, 2008, goodwill totaled $461.5 million, or $6.32 per share ($4.15 per share assuming conversion of the Preferred Stock), and is not being amortized, while other intangibles totaled $23.1 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 September 30, 2008. 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 18 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 September 30, 2008, trust preferred securities included in tier 1 capital totaled $200.5 million.

Table 18

Capital Ratios

	September 30, 2008	Well Capitalized Requirement
TSFG		
Total risk-based capital	12.68%	n/a
Tier 1 risk-based capital	11.18	n/a
Leverage ratio	9.70	n/a
Carolina First Bank		
Total risk-based capital	11.59%	10.00%
Tier 1 risk-based capital	9.86	6.00
Leverage ratio	8.54	5.00

The regulatory agencies have proposed rules to reduce the risk-weighting for FNMA and FHLMC securities (excluding preferred or common stock) from 20% to 10%, and to reduce the amount of the goodwill deducted from tier 1 capital by any associated deferred tax liability. If approved, management expects TSFG's tier 1 and total capital ratios to improve. In addition, TSFG has decided to pursue capital under the TARP Capital Purchase Program (see "Recent Market Developments"), which based on the program guidelines, would range from $115 to $347 million; however, no assurance can be given that TSFG will be approved under those guidelines.

At September 30, 2008, TSFG's tangible equity to tangible asset ratio totaled 7.94%, an increase from 6.61% at December 31, 2007, due primarily to the issuance of Preferred Stock.

Carolina First Bank is subject to certain regulatory restrictions on the amount of dividends it is permitted to pay. Currently, Carolina First Bank may not pay a dividend to TSFG without regulatory approval. TSFG presently intends to pay a quarterly cash dividend on its common stock; however, future dividends will depend upon a number of factors, including payment of the Preferred Stock dividend, financial performance, capital requirements and assessment of capital needs. On May 2, 2008, TSFG announced a reduction in its quarterly common stock cash dividend to $0.01 per share.

TSFG, through a real estate investment trust subsidiary, had 568 mandatorily redeemable preferred shares outstanding at September 30, 2008 with a stated value of $100,000 per share. At September 30, 2008, 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 $18.3 million qualified as tier 2 capital. The terms for the preferred shares include certain asset coverage and cash flow tests, which if not satisfied, may prohibit its real estate trust subsidiary from paying dividends to Carolina First Bank, which in turn may limit its ability to pay dividends to TSFG.

Earnings Review

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 incurred 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 19 presents average balance sheets and a net interest income analysis on a tax-equivalent basis for the three and nine months ended September 30, 2008 and 2007.

Table 19

Comparative Average Balances - Yields and Costs

(dollars in thousands)

	Three Months Ended September 30,					
	2008			2007		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Earning assets						
Loans [1]	$ 10,458,765	$ 155,433	5.91%	$ 10,065,454	$ 195,393	7.70%
Investment securities, taxable [2]	1,768,461	20,186	4.57	2,121,044	25,390	4.79
Investment securities, nontaxable [2] [3]	290,431	3,726	5.13	351,584	4,394	5.00
Total investment securities	2,058,892	23,912	4.65	2,472,628	29,784	4.82
Federal funds sold and interest-bearing bank balances	37,149	197	2.11	6,574	100	6.03
Total earning assets	12,554,806	$ 179,542	5.69	12,544,656	$ 225,277	7.13
Non-earning assets	1,281,130			1,477,862		
Total assets	$ 13,835,936			$ 14,022,518		
Liabilities and Shareholders' Equity						
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits						
Interest-bearing checking	$ 1,130,079	$ 2,481	0.87	$ 1,122,793	$ 5,571	1.97
Savings	143,014	255	0.71	172,110	697	1.61
Money market	1,949,001	11,293	2.31	2,236,493	22,390	3.97
Time deposits, excluding brokered deposits	3,259,783	30,522	3.72	2,905,426	36,594	5.00
Brokered deposits	2,574,430	24,520	3.79	2,208,381	29,245	5.25
Total interest-bearing deposits	9,056,307	69,071	3.03	8,645,203	94,497	4.34
Customer sweep accounts	536,526	2,251	1.67	559,906	6,237	4.42
Other borrowings [4]	1,453,196	11,297	3.09	1,858,800	26,231	5.60
Total interest-bearing liabilities	11,046,029	$ 82,619	2.98	11,063,909	$ 126,965	4.55
Noninterest-bearing liabilities						
Noninterest-bearing deposits	1,059,565			1,198,350		
Other noninterest-bearing liabilities	177,735			240,771		
Total liabilities	12,283,329			12,503,030		
Shareholders' equity	1,552,607			1,519,488		
Total liabilities and shareholders' equity	$ 13,835,936			$ 14,022,518		
Net interest income (tax-equivalent)		$ 96,923	3.08%		$ 98,312	3.12%
Less: tax-equivalent adjustment [3]		1,304			1,538	
Net interest income		$ 95,619			$ 96,774	

Supplemental data:										
Customer funding [5]	$	8,077,968	$	46,802	2.30%	$	8,195,078	$	71,489	3.46%
Wholesale borrowings [6]		4,027,626		35,817	3.54		4,067,181		55,476	5.41
Total funding [7]	$	12,105,594	$	82,619	2.72%	$	12,262,259	$	126,965	4.11%

(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 three months ended September 30, 2008 and 2007, TSFG capitalized $424,000 and $188,000, respectively, 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.

Table 19 (continued)

Comparative Average Balances - Yields and Costs

(dollars in thousands)

	Nine Months Ended September 30,					
	2008			2007		
	Average Balance	Income/ Expense	Yield/ Rate	Average Balance	Income/ Expense	Yield/ Rate
Assets						
Earning assets						
Loans [1]	$ 10,384,557	$ 484,677	6.23%	$ 9,955,125	$ 573,982	7.71%
Investment securities, taxable [2]	1,772,581	61,169	4.60	2,259,935	81,094	4.79
Investment securities, nontaxable [2] [3]	305,312	11,683	5.10	364,692	13,526	4.95
Total investment securities	2,077,893	72,852	4.67	2,624,627	94,620	4.81
Federal funds sold and interest-bearing bank balances	22,095	375	2.27	7,087	338	6.38
Total earning assets	12,484,545	$ 557,904	5.97	12,586,839	$ 668,940	7.10
Non-earning assets	1,365,056			1,500,585		
Total assets	$ 13,849,601			$ 14,087,424		
Liabilities and Shareholders' Equity						
Liabilities						
Interest-bearing liabilities						
Interest-bearing deposits						
Interest-bearing checking	$ 1,135,385	$ 9,817	1.15	$ 1,161,835	$ 17,535	2.02
Savings	150,600	986	0.87	177,381	2,139	1.61
Money market	2,081,789	39,748	2.55	2,302,298	68,455	3.98
Time deposits, excluding brokered deposits	3,070,785	93,345	4.06	2,903,159	108,582	5.00
Brokered deposits	2,198,237	65,461	3.98	2,008,977	78,331	5.21
Total interest-bearing deposits	8,636,796	209,357	3.24	8,553,650	275,042	4.30
Customer sweep accounts	598,186	10,344	2.31	503,676	16,746	4.45
Other borrowings [4]	1,816,963	45,584	3.35	2,037,836	84,585	5.55
Total interest-bearing liabilities	11,051,945	$ 265,285	3.21	11,095,162	$ 376,373	4.54
Noninterest-bearing liabilities						
Noninterest-bearing deposits	1,074,100			1,217,798		
Other noninterest-bearing liabilities	185,846			235,366		
Total liabilities	12,311,891			12,548,326		
Shareholders' equity	1,537,710			1,539,098		
Total liabilities and shareholders' equity	$ 13,849,601			$ 14,087,424		
Net interest income (tax-equivalent)		$ 292,619	3.13%		$ 292,567	3.11%
Less: tax-equivalent adjustment [3]		4,089			4,734	
Net interest income		$ 288,530			$ 287,833	

Supplemental data:						
Customer funding (5)	$ 8,110,845	$ 154,240	2.54%	$ 8,266,147	$ 213,457	3.45%
Wholesale borrowings (6)	4,015,200	111,045	3.69	4,046,813	162,916	5.38
Total funding (7)	$ 12,126,045	$ 265,285	2.92%	$ 12,312,960	$ 376,373	4.09%

(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 nine months ended September 30, 2008 and 2007, TSFG capitalized $1.1 million and $188,000, respectively, 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.

Fully tax-equivalent net interest income remained constant at $292.6 million for both the first nine months of 2008 and 2007. TSFG's average earning assets declined 0.8% to $12.5 billion for the first nine months of 2008 from $12.6 billion for the first nine months of 2007 due primarily to the planned reduction of securities which exceeded loan growth. At September 30, 2008, approximately 61% 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. Certain of these swaps with a notional amount of $300 million mature in fourth quarter 2008. TSFG also has an interest rate floor that is designated as a hedge of variable rate commercial loans and is intended to mitigate earnings exposure to falling interest rates.

The net interest margin for the first nine months of 2008 was 3.13%, compared with 3.11% for the first nine months of 2007, partly due to the net proceeds from the Preferred Stock issuance. The yield on average earning assets decreased 113 basis points, primarily due to decreased loan yields, which were down 148 basis points. The decrease in earning asset yields was more than offset by a decrease in the average cost of funding of 117 basis points. The Federal Reserve has decreased the federal funds target rate by 275 basis points through September 30, 2008 since September 30, 2007.

Fully tax-equivalent net interest income for third quarter 2008 totaled $96.9 million, a decrease of $4.6 million from $101.5 million for second quarter 2008 and $1.4 million from $98.3 million for third quarter 2007. The net interest margin for third quarter 2008 was 3.08%, compared to 3.24% for second quarter 2008, and 3.12% for third quarter 2007. This linked-quarter decrease was primarily due to higher funding costs driven by a change in our funding mix (a shift towards longer-term, but more expensive, funding sources) and increased reversals of interest income on loans moving to nonaccrual status. Continued actions by the Federal Reserve to reduce interest rates (together with the fact that the competitive environment may not allow TSFG to lower rates on customer deposits) and the maturity of interest rate swaps on the loan portfolio could negatively affect our net interest margin in fourth quarter 2008. Subsequent to quarter-end, the Federal Reserve has decreased the federal funds target rate by 100 basis points.

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 $221.7 million in the first nine months of 2008, compared to $36.6 million in the first nine months of 2007. The higher provision largely reflected credit deterioration due to continued weakness in housing markets, particularly in Florida, and additional specific reserves for nonperforming loans and the land development portfolios in Florida.

For third quarter 2008, the provision for credit losses totaled $84.6 million, compared to $63.8 million for second quarter 2008 and $10.5 million for third quarter 2007. Third quarter provision exceeded net loan charge-offs by $9.2 million. Management expects the level of charge-offs and provision expense to remain elevated relative to historical trends due to the current credit environment.

Net loan charge-offs were $147.4 million, or 1.90% of average loans held for investment, for the first nine months of 2008, compared with $28.9 million, or 0.39% of average loans held for investment, for the first nine months of 2007. The allowance for credit losses equaled 1.97% of loans held for investment as of September 30, 2008, compared to 1.26% for December 31, 2007 and 1.18% for September 30, 2007. See Loans," Credit Quality," and Allowance for Loan Losses and Reserve for Unfunded Lending Commitments."

Noninterest Income

Table 20 shows the components of noninterest income.

Table 20

Components of Noninterest Income

(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Service charges on deposit accounts	$ 11,376	$ 11,213	$ 32,791	$ 33,049
Debit card income, net	2,006	1,838	5,938	5,244
Customer service fee income	1,425	1,533	4,114	4,226
Total customer fee income	14,807	14,584	42,843	42,519
Insurance income	2,368	2,839	7,816	9,123
Retail investment services, net	2,294	2,064	5,960	5,799
Trust and investment management income	1,728	1,642	5,251	4,970
Benefits administration fees	813	889	2,303	2,380
Total wealth management income	7,203	7,434	21,330	22,272
Bank-owned life insurance income	2,881	2,974	8,938	10,279
Mortgage banking income	879	834	4,222	4,780
Gain (loss) on securities	(725)	287	1,547	(3,335)
Gain on Visa IPO share redemption	-	-	1,904	-
Merchant processing income, net	916	928	2,582	2,434
Gain (loss) on certain derivative activities	(199)	198	49	(1,202)
Other	2,138	2,678	7,591	6,823
Total noninterest income	$ 27,900	$ 29,917	$ 91,006	$ 84,570

Noninterest income increased 7.6% to $91.0 million in the first nine months of 2008 due primarily to a gain on mandatory partial redemption of shares received in the Visa IPO of $1.9 million and a net gain on securities of $1.5 million in the first nine months of 2008 compared to a $3.3 million net loss on securities in the first nine months of 2007. The 2008 gain includes other-than-temporary impairment recorded on corporate bonds, community bank-related stock, and other investments (see Securities"), which was more than offset by other gains on sales. In addition, for the first nine months of 2008, gain on certain derivative activities totaled $49,000 versus a loss of $1.2 million for the first nine months of 2007.

Total customer fee income increased slightly in the first nine months of 2008 compared to the same period in 2007, primarily due to increased debit card usage, and merchant processing income (net of direct processing costs) increased 6.1% in the first nine months of 2008 compared to the same period in 2007 as a result of increased transactions. Bank-owned life insurance decreased in the first nine months of 2008 relative to 2007 due to the receipt of fewer life insurance proceeds.

Mortgage banking income decreased 11.7% in the first nine months of 2008 when compared to the same period in 2007. Mortgage loans originated by TSFG originators totaled $229.7 million and $412.0 million in the first nine months of 2008 and 2007, respectively. The decrease in mortgage banking income was principally the result of lower origination volumes in response to industry conditions.

For third quarter 2008, noninterest income totaled $27.9 million, compared to $32.2 million in second quarter 2008 and $29.9 million in third quarter 2007. The decrease from second quarter 2008 to third quarter 2008 was largely attributable to the swing in gains/losses on securities and lower mortgage banking income, partly offset by modest increases in service charges on deposit accounts (in keeping with seasonal trends), retail investment services, and merchant processing. The increase from third quarter 2007 to third quarter 2008 was primarily due to the swing in gains/losses on securities, derivative activities, and loss on sales of other real estate owned.

Noninterest Expenses

Table 21 shows the components of noninterest expenses.

Table 21

Components of Noninterest Expenses

(dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
Salaries and wages, excluding contracts and severance	$ 37,700	$ 34,535	$ 108,689	$ 103,865
Employee benefits	9,252	8,862	27,663	27,866
Occupancy	9,770	8,723	27,365	25,876
Furniture and equipment	6,991	6,543	20,107	19,491
Professional services	4,573	4,278	11,679	13,295
Advertising and business development	2,114	1,443	7,316	5,347
Regulatory assessments	3,020	300	7,471	1,164
Loan collection and monitoring	4,112	710	7,249	1,889
Amortization of intangibles	1,474	1,907	4,721	6,044
Telecommunications	1,628	1,404	4,527	4,215
Employment contracts and severance	4,621	-	6,920	2,306
Branch acquisition and conversion costs	-	-	731	-
(Gain) loss on early extinguishment of debt	(125)	1,299	339	1,530
Goodwill impairment	-	-	188,431	-
Visa-related litigation	-	-	(863)	-
Other	8,262	8,735	26,846	27,479
Total noninterest expenses	$ 93,392	$ 78,739	$ 449,191	$ 240,367

During first quarter 2008, the acceleration of credit deterioration in Florida prompted TSFG to perform an interim evaluation of the goodwill associated with its Florida banking segment. The evaluation reflected decreases in projected cash flows for the Florida banking segment, and accordingly the estimated fair value of the segment declined. This decline resulted in the recognition of a goodwill impairment charge of $188.4 million. See Goodwill."

Salaries and wages (excluding contracts and severance) and employee benefits increased $4.6 million, in the first nine months of 2008 compared with the same period in 2007, partially due to normal salary increases and lower loan origination salary deferrals. In addition, the number of full-time equivalent employees increased to 2,535 at September 30, 2008 from 2,457 at September 30, 2007, partly due to the acquisition of five branch offices in Orlando and three de-novo branch openings.

Employment contracts and severance increased as a result of expenses related to the retirement of Mack Whittle (see Overview"). The incremental expense related to Whittle's retirement benefits is approximately $12 million, of which $4.6 million was recognized in third quarter 2008, with the remaining expense to be recognized in fourth quarter 2008.

Advertising and business development increased 36.8% for the first nine months of 2008 compared with the first nine months of 2007, primarily due to costs related to customer funding initiatives. In addition, regulatory assessments increased as the credit which had been offsetting FDIC premiums for all of 2006 and the first three quarters of 2007 was fully utilized in fourth quarter 2007. FDIC insurance premiums are expected to increase based on TSFG's decision to proceed with the Temporary Liquidity Guarantee Program related to noninterest-bearing deposit accounts (see Recent Market Developments") and across-the-board rate increases beginning in 2009 (designed to replenish the FDIC's Deposit Insurance Fund). Loan collection and monitoring expense increased $5.4 million for the first nine months of 2008 compared with the first nine months of 2007 due to the current credit environment, and may continue to increase.

Professional services decreased by 12.2% for the first nine months of 2008 compared with the first nine months of 2007, primarily due to a decrease in legal fees and expenses related to development of TSFG's strategic initiatives.

During the first nine months of 2008, TSFG recognized a loss on early extinguishment of debt of $339,000, which reflects prepayment penalties on FHLB advances, offset by calls of interest rate swaps hedging brokered CDs, versus a loss of $1.5 million in the first nine months of 2007. See Borrowed Funds."

TSFG incurred branch acquisition and conversion costs during the first half of 2008 related to the June 6, 2008 purchase of five retail branch offices in the Orlando area. This transaction also contributed to higher occupancy expense.

Third quarter 2008 noninterest expenses increased $5.8 million from second quarter 2008 and $14.7 million from third quarter 2007 due primarily to salaries and wages, loan collection and monitoring, regulatory assessments, occupancy, and expenses related to Whittle's retirement.

Income Taxes

The effective income tax rate as a percentage of pretax income was 18.6% for the first nine months of 2008 and 32.6% for the first nine months of 2007. The 2008 tax rate was driven by the impact of the nondeductible goodwill impairment, other nontaxable and nondeductible items, and management's projections. The effective income tax rate for fourth quarter 2008 could be significantly impacted by variances between management's projections and actual results. The statutory U.S. federal income tax rate was 35% for both 2008 and 2007.

On an ongoing basis, TSFG evaluates its deferred tax assets for realizability (see Critical Accounting Policies and Estimates - Income Taxes"). As of September 30, 2008, management determined that no additional valuation allowance against deferred tax assets was required.

In October 2008, 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 is in addition to the $100 million allocation which TSFG received in fourth quarter 2007. The program is designed to attract private-sector investment to help finance community development projects, stimulate economic growth and create jobs in lower 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 portion of the value gained via the tax credits must be used to benefit the respective projects.

Enterprise Risk Management

Pages 51 through 54 of TSFG's Annual Report on Form 10-K for the year ended December 31, 2007 provides a discussion of overall Enterprise Risk Management, Derivatives and Hedging Activities, Economic Risk, Operational Risk, and Compliance and Litigation Risks.

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," Credit Quality," and Derivative Financial Instruments" for updated credit risk disclosures.

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" for updated liquidity disclosures.

Market Risk and Asset/Liability Management

There has been no significant change to the market risk and asset/liability management methodology as disclosed in TSFG's 2007 Form 10-K. The interest sensitivity analysis which follows has been updated for September 30, 2008 numbers.

Interest Sensitivity Analysis. As discussed on pages 51 and 52 of TSFG's 2007 Form 10-K, TSFG uses a simulation model to analyze various interest rate scenarios in order to monitor interest rate risk. The information presented in Tables 22 and 23 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 22 and 23. These include, but are not limited to, the following:

- a static balance sheet for net interest 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 22 reflects the sensitivity of net interest income to changes in interest rates. It shows the effect that the indicated changes in interest rates would have on net interest 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 September 30, 2008 and 2007 levels, respectively.

Estimated impacts of interest rate movements are based on sensitivity over the next 12 months assuming a static balance sheet. For shorter periods, the earnings impact may be higher or lower than shown due to timing differences in repricing of assets versus liabilities or differences in timing of new asset versus liability originations.

During October, the Federal Reserve lowered the federal funds target rate by 100 basis points, to a level of 1%. As shown below, we have exposure to declining interest rates, with a 100 gradual rate decline adversely impacting net interest income by an estimated 1.2% over the next year, relative to our base case. The impact of October's rate reductions could be more adverse to the extent the competitive environment does not allow TSFG to lower rates paid on customer deposits as assumed, in response to decline in wholesale interest rates.

Near-term, the adverse impact of lower rates may be offset by the positive impact of recent widening of spreads between two key short-term market benchmark rates. As a result of volatility in financial markets, short-term LIBOR rates rose sharply in September, with the spread between 1 month LIBOR and the federal funds target rate widening by 250 basis points. Though this spread narrowed by more than 100 basis points in recent weeks, the spread remains wider than normal, which positively impacts TSFG's net interest income, as we have approximately $2 billion of assets for which pricing is tied to LIBOR versus only $1 billion of funding and interest rate swaps tied to LIBOR.

Table 22

Net Interest Income at Risk Analysis

Interest Rate Scenario [(1)]	Annualized Hypothetical Percentage Change in Net Interest Income September 30,	
	2008	**2007**
2.00%	2.0%	(1.4)%
1.00	1.0	(0.7)
Flat	-	-
(1.00)	(1.2)	0.3
(2.00)	n/a	0.7

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

Table 23 reflects the sensitivity of the economic value of equity (EVE") to changes in interest rates. EVE is a measurement of the inherent, long-term balance sheet-related 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 23 shows the effect that the indicated changes in interest rates would have on the fair value of net assets at September 30, 2008 and 2007, respectively, compared with the base case or flat interest rate scenario. The base case or flat scenario assumes interest rates stay at September 30, 2008 and 2007 levels, respectively.

Table 23

Economic Value of Equity Risk Analysis

Interest Rate Scenario [(1)]	Annualized Hypothetical Percentage Change in Economic Value of Equity September 30,	
	2008	**2007**
2.00%	(7.6)%	(10.2)%
1.00	(2.8)	(4.3)
Flat	-	-
(1.00)	2.4	1.4
(2.00)	n/a	(2.1)

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

There are material limitations with TSFG's models presented in Tables 22 and 23, 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 interest income or the fair value of net assets, but rather the risk to net interest 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 (e.g., 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.

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.

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. See Note 10 to the Consolidated Financial Statements for disclosure of the amounts of lending commitments.

Derivatives. In accordance with SFAS 133, TSFG records derivatives at fair value, as either assets or liabilities, on the consolidated balance sheets. Derivative transactions are measured in terms of the notional amount, but this amount is not recorded on the balance sheets 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" and Note 9 to the Consolidated Financial Statements 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.

Liquidity is managed at two levels. The first is the liquidity of the parent company, which is the holding company that owns Carolina First Bank, the banking subsidiary. The second is the liquidity of the banking subsidiary. The management of liquidity at both levels is essential because the parent company and banking subsidiary each have different funding needs and sources, and each are subject to certain regulatory guidelines and requirements. Through the Asset Liability Committee (ALCO"), Corporate Treasury is responsible for planning and executing the funding activities and strategy.

TSFG's liquidity policy strives to ensure a diverse funding base, with limits established by wholesale funding source as well as aggregate wholesale funding. Daily and short-term liquidity needs are principally met with deposits from customers, payments on loans, maturities and paydowns of investment securities, and wholesale borrowings, including brokered CDs, federal funds purchased (as available), repurchase agreements, and, depending on the availability of collateral, treasury tax and loan notes, and borrowings from the Federal Reserve and FHLB. In light of current market conditions, TSFG has reduced its usage of short-term unsecured wholesale borrowings. TSFG is focusing additional efforts aimed at acquiring new deposits from its customer base 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.

Longer term funding needs are typically met through a variety of wholesale sources, which have a broader range of maturities than customer deposits and add flexibility in liquidity planning and management. These wholesale sources include advances from the FHLB with longer maturities, brokered CDs, and instruments that qualify as regulatory capital, including trust preferred securities and subordinated debt. In addition, the Company may also issue equity capital to address liquidity or capital needs.

Under normal business conditions, the sources above are adequate to meet both the short-term and longer-term funding needs of the Company; however, TSFG's contingency funding plan establishes early warning triggers to alert management to potentially negative liquidity trends. The plan provides a framework to manage through various scenarios - including identification of alternative actions and an executive management team to navigate through a crisis. Limits ensure that liquidity is sufficient to manage through crises of various degrees of severity, triggered by TSFG-specific events, such as significant adverse changes to earnings, credit quality or credit ratings, or general industry or market events, such as market instability or rapid adverse changes in the economy. We have no debt for which a downgrade of our credit ratings would trigger additional collateral requirements or early termination. As of September 30, 2008, we had more than $4 billion of secured liquidity reserves in the form of borrowing capacity from the Federal Reserve ($3.6 billion), FHLB ($633.3 million) and unpledged investment securities ($453.1 million), which represent ample liquidity to manage through a severe liquidity scenario. Following a severe liquidity scenario, we would consider various actions to replenish liquidity, including potential asset sales.

In addition to the primary funding sources discussed above, secondary sources of liquidity include sales of investment securities which are not held for pledging purposes and other classes of assets. Securities classified as available for sale which are not pledged may be sold or pledged against new borrowings 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, although $453.1 million was unpledged as of September 30, 2008..

Management believes that TSFG's available borrowing capacity and efforts to grow deposits are sufficient to provide the necessary funding for the remainder of 2008 and 2009. However, management is prepared to take other actions if needed to manage through adverse liquidity conditions.

Regarding the Temporary Liquidity Guarantee Programs offered by the FDIC, TSFG will participate in the program providing full coverage of noninterest-bearing deposit transaction accounts regardless of dollar amount through December 31, 2009, and TSFG is considering participation in the program whereby the FDIC will guarantee new senior unsecured debt issued by the end of June 2009. These programs will further stabilize and strengthen our liquidity position.

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 our needs. Table 24 summarizes future contractual obligations based on maturity dates as of September 30, 2008. Table 24 does not include payments which may be required under employment and deferred compensation agreements. In addition, Table 24 does not include payments required for interest and income taxes (see Item 1, Consolidated Statements of Cash Flows for details on interest and income taxes paid for the nine months ended September 30, 2008).

Table 24

Contractual Obligations

(dollars in thousands)

	Payments Due by Period				
	Total	**Remainder of 2008**	**2009 and 2010**	**2011 and 2012**	**After 2012**
Time deposits	$ 5,939,009	$ 1,464,569	$ 3,956,765	$ 277,463	$ 240,212
Short-term borrowings	1,188,929	1,188,929	-	-	-
Long-term debt	772,402	41	69,948	256,416	445,997
Operating leases	193,347	4,831	37,813	33,599	117,104
Expanded corporate facilities contracts	37,252	9,173	28,079	-	-
Total contractual obligations	$ 8,130,939	$ 2,667,543	$ 4,092,605	$ 567,478	$ 803,313

TSFG has the ability to borrow from the FHLB and maintain short-term lines of credit from unrelated banks. FHLB advances outstanding as of September 30, 2008 totaled $298.1 million. At September 30, 2008, TSFG had $633.3 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, Federal Reserve borrowings, treasury tax and loan notes, and the principal run-off of investment securities. At September 30, 2008, TSFG had unused short-term lines of credit totaling $194.2 million (which may be canceled at the lender's option and which are subject to funds availability at the lender), compared to $1.9 billion at December 31, 2007.

A collateralized borrowing relationship with the Federal Reserve Bank of Richmond is in place for Carolina First Bank. At September 30, 2008, TSFG had qualifying collateral to secure advances up to $3.6 billion, of which $30.0 million was outstanding.

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 September 30, 2008, 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.

Typically, the primary sources of funding for the parent company include dividends received from its banking subsidiary, proceeds from the issuance of subordinated debt, equity, and commercial paper. Currently, dividends are not payable from Carolina First Bank to the parent without regulatory approval. The primary uses of funds for the parent company include repayment of maturing debt and commercial paper, share repurchases, dividends paid to common and preferred shareholders, and capital contributions to subsidiaries. At September 30, 2008, the parent company had one $10.0 million short-term unused line of credit. During the first nine months of 2008, two of its lines of credit totaling $25.0 million were cancelled.

During second quarter 2008, TSFG issued $250 million of mandatory convertible non-cumulative Preferred Stock (with net proceeds of $239.0 million) and reduced its quarterly common stock cash dividend to $0.01 per share in an effort to strengthen its capital and liquidity position. The parent company contributed $125 million of the preferred capital proceeds to Carolina First Bank during second quarter 2008.

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 3. *Quantitative and Qualitative Disclosures about Market Risk*

See Enterprise Risk Management" in Item 2, Management Discussion and Analysis of Financial Condition and Results of Operations for quantitative and qualitative disclosures about market risk, which information is incorporated herein by reference.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

At September 30, 2008, TSFG's management, under the supervision and with the participation of its 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 September 30, 2008, 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.

Changes in Internal Controls 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 its assessment during the quarter ended September 30, 2008 or through the date of this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, TSFG's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

See Note 10 to the Consolidated Financial Statements for a discussion of legal proceedings.

Item 1A. ***Risk Factors***

The following are additional risk factors for TSFG, to be read in conjunction with Item 1A (pages 9-11) of TSFG's Annual Report on Form 10-K for the year ended December 31, 2007.

TSFG may be adversely affected by the soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty, or other relationships. TSFG has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial services industry, including commercial banks, brokers and dealers, investment banks, and other institutional clients. Many of these transactions expose TSFG to credit risk in the event of a default by a counterparty or client. In addition, TSFG's credit risk may be exacerbated when the collateral held by the Company cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the credit or derivative exposure due to the Company. Any such losses could have a material adverse affect on TSFG's financial condition and results of operations.

Recent government actions in response to market conditions may affect TSFG. It is not clear at this time what impact EESA, the TARP Capital Purchase Program, the Temporary Liquidity Guarantee Program, or other liquidity and funding initiatives (or TSFG's participation or non-participation in any of these) will have on TSFG. There can also be no assurance as to the impact that the above measures will have on the financial markets, including the high levels of volatility and limited credit availability currently being experienced, or on the U.S. banking and financial industries and the broader U.S. and global economies. The failure of EESA to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit, or the trading price of our common stock.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

TSFG has repurchased shares of our common stock in private transactions and open-market purchases, as authorized by our Board. The amount and timing of stock repurchases will be based on factors, including but not limited to, management's assessment of TSFG's capital structure and liquidity, the market price of TSFG's common stock compared to management's assessment of the stock's underlying value, and applicable regulatory, legal, and accounting matters. The following table presents information about our stock repurchases for the three months ended September 30, 2008.

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 (in thousands)
July 1, 2008 to July 31, 2008	-	$ -	-	$ -
August 1, 2008 to August 31, 2008	204 (1)	6.84	-	-
September 1, 2008 to September 30, 2008	-	-	-	-
Total	204	$ 6.84	-	$ -

(1) These shares were 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.

Item 3. ***Defaults upon Senior Securities***

None.

Item 4. ***Submission of Matters to a Vote of Securities Holders***

On July 18, 2008, TSFG held a Special Meeting of Shareholders. The results of the Special Meeting of Shareholders follow.

Proposal #1 - Approve conversion terms and general voting rights of our Mandatory Convertible Non-cumulative Preferred Stock. This Proposal was approved with 40,742,129 shares, or 95.2%, voting in favor, 2,039,554 shares voting against, and 398,388 shares abstaining.

Proposal #2 - Approve adjournment of the special meeting to solicit additional proxies if there are insufficient votes at the time of the Special Meeting to adopt Proposal #1 or a quorum is not present at the time of the Special Meeting. This Proposal was approved with 37,832,623 shares, or 87.6%, voting in favor, 4,859,378 shares voting against, and 488,070 shares abstaining.

Item 5. ***Other Information***

Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year

On November 3, 2008, the Board of Directors of The South Financial Group, Inc. amended its bylaws to consolidate into a single Chairman" position, the rights and responsibilities of the positions of Lead Independent Director" and Chairman" set forth in its Bylaws immediately prior to such amendment.

Upon amending its Bylaws, the Board named John C. B. Smith, Jr. as Chairman, and William R. Timmons III as Vice Chairman.

Appointment of Principal Executive Officers

Solely for purposes of the Company's filings under the Exchange Act, the Audit Committee of the Board of Directors has designated James R. Gordon, H. Lynn Harton and Christopher T. Holmes as the principal executive officers.

Item 6. ***Exhibits***

3.1 Bylaws of TSFG

31.1 Certificate of the Principal Executive Officers 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 Certificate of the 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+ Certificate of Principal Executive Officers pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2+ Certificate of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

+ This exhibit shall not be deemed filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

<u>Note for non-filed versions of this Form 10-Q</u>

The above exhibits may be found on TSFG's electronic filing of its September 30, 2008 Quarterly Report on Form 10-Q with the Securities and Exchange Commission (SEC") and is accessible at no cost on TSFG's web site, www.thesouthgroup.com, through the Investor Relations link. TSFG's SEC filings are also available through the SEC's web site at www.sec.gov.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, TSFG has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The South Financial Group, Inc.

Date: November 6, 2008

/s/ James R. Gordon

James R. Gordon
Senior Executive Vice President and
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)

AMENDED AND RESTATED BYLAWS OF
THE SOUTH FINANCIAL GROUP, INC.

Amended and Restated as of November 3, 2008

ARTICLE I.
OFFICES

Section 1.1 Business Office.

The original principal office of the corporation shall be within the State of South Carolina and shall be located in Greenville, County of Greenville. The board of directors may change the location of the principal office. The corporation shall maintain at its principal office a copy of certain records, as specified in Section 2.15 of Article II. The corporation may have such other offices, either within or without the State of South Carolina, as the board of directors may designate or as the business of the corporation may require.

Section 1.2 Registered Office.

The registered office of the corporation, required by Section 33-5-101, of the South Carolina Business Corporation Act of 1988 (hereinafter "the Act") may be, but need not be, identical with the principal office in the state of South Carolina, and the address of the registered office may be changed from time to time.

ARTICLE II.
SHAREHOLDERS

Section 2.1 Annual Meeting.

The annual meeting of the shareholders shall be held on such date as may be designated by the board of directors for the purpose of electing directors and for the transaction of such other business as may come before the meeting. No other matters may be brought before the meeting by any shareholder unless written notice of such matters, together with an adequate description thereof, shall have been provided to the corporation in compliance with Section 2.13 or Section 2.14.

Section 2.2 Special Meetings.

(a) Special meetings of the shareholders, for any purpose or purposes, described in the meeting notice (which may be limited to one or more specific purpose), may be called by the president, or by the board of directors, and shall be called by the president at the request of the holders of not less than one-tenth of all outstanding votes of the corporation entitled to be cast on any issue at the meeting. Only such business shall be conducted at a special shareholder meeting as shall have been brought before such meeting pursuant to the corporation's notice of meeting given in accordance with Section 2.4.

(b) In order that any demand or request of a shareholder or shareholders for a special meeting of shareholders contemplated by Section 2.2(a) be validly and effectively made, such shareholder or shareholders and such demand or request must comply with the following procedures:

(1) Any shareholder seeking to request or demand, or to have the shareholders request or demand, a special meeting shall first, by written notice to the Secretary of the corporation, request the board of directors to fix a record date, pursuant to Section 2.5 hereof, for the purpose of determining the shareholders entitled to request the special meeting. The board of directors shall promptly, but in all events within 10 days after the date upon which such a request is received, fix such a record date. Every request to fix a record date for determining the stockholders entitled to request a special meeting shall be in writing and shall set forth the purpose or purposes for which the special meeting is requested, the name and address, as they appear in the corporation's books, of each shareholder making the request and the class and number of shares of the corporation which are owned of record by each such shareholder, and shall bear the signature and date of signature of each such shareholder.

In the event of the delivery to the corporation of any request(s) or demand(s) by shareholders with respect to a special meeting, and/or any related revocation or revocations, the corporation shall engage nationally recognized independent inspectors of elections for the purpose of performing a prompt ministerial review of the validity of the request(s), demand(s) and/or revocation(s).

(2) No request or demand with respect to calling a special meeting of shareholders shall constitute a valid and effective shareholder request or demand for a special meeting (i) unless (A) within 60 days of the record date established in accordance with Section 2.2(b)(1), written requests or demands signed by stockholders of record representing a sufficient number of shares as of such record date to request or demand a special meeting pursuant to Section 2(a) are delivered to the Secretary of the corporation and (B) each request or demand is made in accordance with and contains the information required by Section 2.14(b)(2) as if such request or demand were a proposal to conduct business at an annual meeting of the corporation as provided for therein and (ii) until such date as the independent inspectors engaged in accordance with this Section 2.2(b)(2) certify to the corporation that the requests or demands delivered to the corporation in accordance with clause (i) of this Section 2.2 (b)(2) represent at least the minimum number of shares that would be necessary to request such a meeting pursuant to Section 2.2(a).

(c) If the corporation determines that a shareholder or shareholders have satisfied the notice, information and other requirements specified in Section 2.2(b)(2)(i), then the board of directors shall adopt a resolution calling a special meeting of the shareholders and fixing the record date therefor for the purpose of determining the shareholders entitled to notice of and to vote at such special meeting. Notice of such special meeting shall be provided in accordance with Section 2.4(a), provided that such notice shall be given within 30 days (or such longer period as from time to time may be permitted by law) after the date valid and effective request(s) or demand(s) for such special meeting is (or are) delivered to the corporation in accordance with Section 2.2(b)(2)(i).

(d) In fixing a meeting date for the special meeting of shareholders, the board of directors may consider such factors as it deems relevant within the good faith exercise of its business judgment, including, without limitation, the nature of the action proposed to be taken, the facts and circumstances surrounding the request, and any plan of the board of directors to call a special or annual meeting of shareholders for the conduct of related business, provided that such date shall be determined in accordance with Section 2.4(a) hereof.

(e) Nothing contained in this Section 2.2(b) shall in any way be construed to suggest or imply that the board of directors or any shareholder shall not be entitled to contest the validity of any request or demand or revocation thereof, or to take any other action (including, without limitation, the commencement, prosecution or defense of any litigation with respect thereto).

Section 2.3 Place of Meeting; Conduct of Meeting.

The board of directors may designate any place as the place of meeting for any annual or special meeting of the shareholders, which may be either within or without the State of South Carolina. If no designation is made, the place of meeting shall be the principal office of the corporation. Every meeting of shareholders shall be chaired by the Chairman of the board of directors, the Vice Chairman, or, in the absence thereof, such person as the Chairman of the board of directors shall appoint, or, in the absence thereof or in the event that the Chairman of the board of directors shall fail to make such appointment, such person as shall be appointed by vote of the Nominating Committee of the board of directors, or, in the absence thereof or in the event that such Committee fails to make such appointment, any officer of the corporation elected by the board of directors.

Section 2.4 Notice of Meeting.

(a) Required Notice.

Written notice stating the place, day and hour of any annual or special shareholder meeting shall be delivered not less than ten nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the president or the board of directors. Only the president or the board of directors shall have the authority to set the place, day and hour of any special meeting. Such notice shall be given to each shareholder of record entitled to vote at such meeting and to any other shareholder entitled by the Act or the articles of incorporation to receive notice of the meeting.

Notice shall be deemed to be effective at the earlier of: (1) when deposited in the United States mail, addressed to the shareholder at his address as it appears on the stock transfer books of the corporation, with postage thereon prepaid, (2) on the date shown on the return receipt if sent by registered or certified mail, return receipt requested, and the receipt is signed by or on behalf of the addressee, (3) when received, or (4) 5 days after deposit in the United States mail, if mailed postpaid and correctly addressed, to an address other than that shown in the corporation's current record of shareholders.

Any previously scheduled meeting of the shareholders may be postponed, and any special meeting of the shareholders may be canceled, by resolution of the board of directors upon public notice given prior to the date previously scheduled for such meeting of shareholders.

(b) Adjourned Meeting.

If any shareholder meeting is adjourned to a different date, time, or place, notice need not be given of the new date, time or place, if the new date, time and place are announced at the meeting before adjournment. If a new record date for the adjourned meeting is, or must be, fixed (see Section 2.5 of this Article II) then notice must be given pursuant to the requirements of paragraph (a) of this Section 2.4, to those persons who are shareholders as of the new record date.

(c) Waiver of Notice.

The shareholder may waive notice of the meeting (or any notice required by the Act, articles of incorporation, or bylaws), by a writing signed by the shareholder entitled to the notice, which is delivered to the corporation (either before or after the date and time stated in the notice) for inclusion in the minutes or filing with the corporate records.

A shareholder's attendance at a meeting:

(1) waives objection to lack of notice or defective notice of the meeting, unless the shareholder at the beginning of the meeting objects to holding the meeting or transacting business at the meeting;
(2) waives objection to consideration of a particular matter at the meeting that is not within the purpose or purposes described in the meeting notice, unless the shareholder objects to considering the matter when it is presented.

(d) Contents of Notice.

The notice of each special shareholder meeting shall include a description of the purpose or purposes for which the meeting is called. Except as provided in this Section 2.4(d), or as provided in the corporation's articles, or otherwise in the Act, the notice of an annual shareholder meeting need not include a description of the purpose or purposes for which the meeting is called.

If a purpose of any shareholder meeting is to consider either: (1) a proposed amendment to the articles of incorporation (including any restated articles requiring shareholder approval); (2) a plan of merger or share exchange; (3) the sale, lease, exchange or other disposition of all or substantially all of the corporation's property; (4) the adoption, amendment or repeal of a bylaw; (5) dissolution of the corporation; or, (6) removal of a director, the notice must so state and be accompanied by respectively a copy or summary of the: (1) articles of amendment; (2) plan of merger or share exchange; (3) transaction for disposition of all the corporation's property; or (4) bylaw proposal. If the proposed corporation action creates dissenter's rights, the notice must state that shareholders are, or may be entitled to assert dissenter's rights, and must be accompanied by a copy of Chapter 13 of the Act. If the corporation issues, or authorizes the issuance of shares for promissory notes or for promises to render services in the future, the corporation shall report in writing to all the shareholders the number of shares authorized or issued, and the consideration received with or before the notice of the next shareholder meeting. Likewise, if the corporation indemnifies or advances expenses to a director (pursuant to Section 33-16-210 of the Act) this shall be reported to all the shareholders with or before notice of the next shareholder's meeting.

Section 2.5 Fixing of Record Date.

For the purpose of determining shareholders of any voting group entitled to notice of or to vote at any meeting of shareholders, or shareholders entitled to receive payment of any distribution or dividend, or in order to make a determination of shareholders for any other proper purpose, the board of directors may fix in advance a date as the record date. Such record date shall not be more than seventy days prior to the date on which the particular action, requiring such determination of shareholders, is to be taken. If no record date is so fixed by the board for the determination of shareholders entitled to notice of, or to vote at a meeting of shareholders, or shareholders entitled to receive a share dividend or distribution, the record date for determination of such shareholders shall be at the close of business on:

(a) With respect to an annual shareholder meeting or any special shareholder meeting called by the board or any person specifically authorized by the board or these bylaws to call a meeting, the day before the first notice is delivered to shareholders;

(b) With respect to a special shareholder's meeting demanded by the shareholders, the date the first shareholder signs the demand;

(c) With respect to the payment of a share dividend, the date the board authorizes the share dividend;

(d) With respect to actions taken in writing without a meeting, the date the first shareholder signs a consent;

(e) And with respect to a distribution to shareholders (other than one involving purchase or reacquisition of shares), the date the board authorizes the distribution. When a determination of shareholders entitled to vote at any meeting of shareholders has been made as provided in this section, such determination shall apply to any adjournment thereof unless the board of directors fixes a new record date which it must do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

Section 2.6 Shareholder List.

The officer or agent having charge of the stock transfer books for shares of the corporation shall make a complete record of the shareholders entitled to vote at each meeting of shareholders thereof, arranged in alphabetical order, with the address of and the number of shares held by each. The list must be arranged by voting group, if such exists, and within each voting group by class or series of shares. The shareholder's list must be available for inspection by any shareholder, beginning on the date on which notice of the meeting is given for which the list was prepared and continuing through the meeting. The list shall be available at the corporation's principal office or at a place identified in the meeting notice in the city where the meeting is to be held. A shareholder, his agent or attorney is entitled on written demand to inspect, and subject to the requirements of Section 2.15 of this Article II, to copy the list at his expense during regular business hours, and during the period it is available for inspection. The corporation shall maintain the shareholder list in written form or in another form capable of conversion into written form within a reasonable time.

Section 2.7 Quorum and Voting Requirements.

(a) General. Unless the articles of incorporation, a bylaw adopted pursuant to Section 2.8 of this Article II, or the Act provide otherwise, the presence at any meeting, in person or by proxy, of the holders of record of a majority of the shares then issued and outstanding and entitled to vote shall be necessary and sufficient to constitute a quorum for the transaction of business.

(b) Voting Groups. If the articles of incorporation or the Act provides for voting by a single voting group on a matter, action on that matter is taken when voted upon by that voting group. Shares entitled to vote as a separate voting group may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. Unless the articles of incorporation, a bylaw adopted pursuant to Section 2.8 of this Article II, or the Act provide otherwise, the presence at any meeting, in person or by proxy, of the holders of record of a majority of the shares of such separate voting group then issued and outstanding and entitled to vote shall be necessary and sufficient to constitute a quorum for the transaction of business.

If the articles of incorporation or the Act provide for voting by two or more voting groups on a matter, action on that matter is taken only when voted upon by each of those voting groups counted separately. Action may be taken by one voting group on a matter even though no action is taken by another voting group entitled to vote on the matter.

(c) Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and for any adjournment of the meeting unless a new record date is or must be set under the Act for the adjourned meeting. If a quorum exists, action on a matter (other than the election of directors) is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the articles of incorporation, a bylaw adopted pursuant to Section 2.8 of this Article II, or the Act require a greater number of affirmative votes.

(d) Adjournment. The Chairman of the meeting or a majority of the shares represented at the meeting in person or by proxy and entitled to vote thereat may adjourn the meeting from time to time, whether or not there is a quorum, unless otherwise proscribed by law. The shareholders present at a duly called meeting at which a quorum is present, and at any adjournment thereof, may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 2.8 Increasing Either Quorum or Voting Requirements.

For purposes of this Section 2.8 a "supermajority" quorum is a requirement that more than a majority of the votes of the voting group be present to constitute a quorum; and a "supermajority" voting requirement is any requirement that requires the vote of more than a majority of the affirmative votes of a voting group at a meeting.

The shareholders, but only if specifically authorized to do so by the articles of incorporation, may adopt, amend or delete a bylaw which fixes a "supermajority" quorum or "supermajority" voting requirement.

The adoption or amendment of a bylaw that adds, changes, or deletes a "supermajority" quorum or voting requirement for shareholders must meet the same quorum requirement and be adopted by the same vote and voting groups required to take action under the quorum and voting requirement then in effect or proposed to be adopted, whichever is greater.

A bylaw that fixes a "supermajority" quorum or voting requirement for shareholders may not be adopted, amended, or repealed by the board of directors.

Section 2.9 Proxies.

At all meetings of shareholders, a shareholder may vote in person, or vote by proxy which is executed in writing by the shareholder or which is executed by his duly authorized attorney-in-fact. Such proxy shall be dated and filed with the secretary of the corporation or other person authorized to tabulate votes before or at the time of the meeting. Unless a time of expiration is otherwise specified, a proxy is valid for eleven months. A proxy is revocable unless executed in compliance with Section 33-7-220(d) of the Act, or any succeeding statute of like tenor and effect.

Section 2.10 Voting of Shares; Polls.

Unless otherwise provided in the articles of incorporation, each outstanding share entitled to vote shall be entitled to one vote upon each matter submitted to a vote at a meeting of shareholders.

Absent special circumstances, outstanding shares of the corporation are not entitled to vote if they are owned directly or indirectly by another corporation in which this corporation owns a majority of the shares entitled to vote for the election of directors of the other corporation; provided, however, this provision shall not limit the power of this corporation to vote its own shares held by it in a fiduciary capacity.

Redeemable shares are not entitled to vote after notice of redemption is mailed to the holders and a sum sufficient to redeem the shares has been deposited with a bank, trust company, or other financial institution under an irrevocable obligation to pay the holders the redemption price on surrender of the shares.

At any meeting of shareholders, the Chairman of the meeting shall fix and announce at the meeting the date and time of the opening and closing of the polls for each matter upon which the stockholders will vote at the meeting.

Section 2.11 Corporation's Acceptance of Votes.

(a) If the name signed on a vote, consent, waiver, or proxy appointment corresponds to the name of a shareholder, the corporation if acting in good faith is entitled to accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the shareholders.

(b) If the name signed on a vote, consent, waiver, or proxy appointment does not correspond to the name of its shareholder, the corporation if acting in good faith is nevertheless entitled to accept the vote, consent, waiver, or proxy appointment and give it effect as the act of the shareholder if:

(1) the shareholder is an entity as defined in the Act and the name signed purports to be that of an officer or agent of the entity;

(2) the name signed purports to be that of an administrator, executor, guardian, or conservator representing the shareholder and, if the corporation requests, evidence of fiduciary status acceptable to the corporation has been presented with respect to the vote, consent, waiver, or proxy appointment;

(3) the name signed purports to be that of a receiver or trustee in bankruptcy of the shareholder and, if the corporation requests, evidence of this status acceptable to the corporation has been presented with respect to the vote, consent, waiver, or proxy appointment;

(4) the name signed purports to be that of a pledgee, beneficial owner, or attorney-in-fact of the shareholder and, if the corporation requests, evidence acceptable to the corporation of the signatory's authority to sign for the shareholder has been presented with respect to the vote, consent, waiver, or proxy appointment;

(5) two or more persons are the shareholder as co-tenants or fiduciaries and the name signed purports to be the name of at least one of the co-owners and the person signing appears to be acting on behalf of all the co-owners.

(c) The corporation is entitled to reject a vote, consent, waiver, or proxy appointment if the secretary or other officer or agent authorized to tabulate votes, acting in good faith, has reasonable basis for doubt about the validity of the signature on it or about the signatory's authority to sign for the shareholder.

(d) The corporation and its officer or agent who accepts or rejects a vote, consent, waiver, or proxy appointment in good faith and in accordance with the standards of this section are not liable in damages to the shareholder for the consequences of the acceptance or rejection.

(e) Corporate action based on the acceptance or rejection of a vote, consent, waiver, or proxy appointment under this section is valid unless a court of competent jurisdiction determines otherwise.

Section 2.12 Informal Action by Shareholders. Any action required or permitted to be taken at a meeting of the shareholders may be taken without a meeting if one or more consents in writing, setting forth the action so taken, shall be signed by all of the shareholders entitled to vote with respect to the subject matter thereof and are delivered to the corporation for inclusion in the minute book. If the act to be taken requires that notice be given to non-voting shareholders, the corporation shall give the non-voting shareholders written notice of the proposed action at least 10 days before the action is taken, which notice shall contain or be accompanied by the same material that would have been required if a formal meeting had been called to consider the action. A consent signed under this section has the effect of a meeting vote and may be described as such in any document. Every written consent shall bear the date of signature of each shareholder who signs the consent and no written consent shall be effective to take the corporate action referred to therein unless, within sixty (60) days of the earliest dated written consent received by the corporation, a written consent or consents signed by all the shareholders entitled to vote on such corporate action are delivered to the corporation.

Section 2.13 Notice of Shareholder Nominations. (a) Only persons who are nominated in accordance with the procedures set forth in this Section 2.13 shall be eligible for election as directors of the corporation. Nomination of persons for election to the board of directors of the corporation may be made at a meeting of shareholders (i) by or at the direction of the board of directors or (ii) by any shareholder of the corporation entitled to vote for the election of directors at such meeting who complies with the procedures set forth in this Section 2.13.

(b) All nominations by shareholders shall be made pursuant to timely notice in proper written form to the Secretary of the corporation.

(1) To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the corporation not later than the close of business on the 30th day nor earlier than the close of business on the 60th day prior to the annual meeting of shareholders at which directors are to be elected, unless such requirement is expressly waived in advance of the meeting by formal action of the board of directors. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a shareholder's notice as described above. For purposes of this Section 2.13, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the corporation with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

(2) To be in proper written form, such shareholder's notice shall set forth in writing (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to such Person that is required to be disclosed in solicitations of proxies for election of

directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act, including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; and (b) as to the shareholder giving the notice and the beneficial owner, if any, on whose behalf the nomination is made (i) the name and address, as they appear on the corporation's books, of such shareholder and such beneficial owner and (ii) the class and number of shares of the corporation which are owned beneficially and of record by such shareholder and such beneficial owner.

(c) At the request of the board of directors, any person nominated by the board of directors for election as a director shall furnish to the Secretary of the corporation that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee.

(d) In the event that a shareholder seeks to nominate one or more directors, the Secretary shall appoint two inspectors, who shall not be affiliated with the corporation, to determine whether a shareholder has complied with this Section 2.13. If the inspectors shall determine that a shareholder has not complied with this Section 2.13, the inspectors shall direct the chairman of the meeting to declare to the meeting that the nomination was not made in accordance with the procedures prescribed by the By-Laws of the corporation, and the chairman shall so declare to the meeting and the defective nomination shall be disregarded.

(e) Notwithstanding the foregoing provisions of this Section 2.13, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this 2.13.

(f) Nothing in this Section 2.13 shall be deemed to affect any rights of holders of any series of Preferred Stock to elect directors under specified circumstances.

Section 2.14 Procedures for Submission of Shareholder Proposals at Annual Meeting.

(a) At any annual meeting of the shareholders of the corporation, only such business shall be conducted as shall have been brought before the meeting (i) by or at the direction of the board of directors or (ii) by any shareholder of the corporation entitled to vote for the election of directors at such meeting who complies with the procedures set forth in this Section 2.14.

(b) For business properly to be brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in proper written form to the Secretary of the corporation and such other business must otherwise be a proper matter for shareholder action.

(1) To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not later than the close of business on the 60th day nor earlier than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the 10th day following the day on which public announcement of the date of such meeting is first made by the corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a shareholder's notice as described above. For purposes of this Section 2.14, "Public announcement" shall have the same meaning as set forth in Section 2.13.

(2) To be in proper written form, a shareholder's notice to the Secretary shall set forth in writing as to each matter the shareholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (ii) the name and address, as they appear on the corporation's books, of the shareholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (iii)

the class and number of shares of the corporation which are owned beneficially and of record by the shareholder and such beneficial owner and (iv) any material interest of the shareholder and such beneficial owner in such business.

(c) Notwithstanding anything in these By-Laws to the contrary, no business shall be conducted at an annual meeting except in accordance with the procedures set forth in this Section 2.14. The chairman of an annual meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting in accordance with the provisions of this Section 2.14, and, if he should so determine, he shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

(d) Notwithstanding the foregoing provisions of this Section 2.14, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.14. Nothing in this Section 2.14 shall be deemed to affect any rights of shareholders to request inclusion of proposals in the corporation's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

Section 2.15 Shareholder's Rights to Inspect Corporate Records.

(a) Minutes and Accounting Records.

The corporation shall keep as permanent records minutes of all meetings of its shareholders and board of directors, a record of all actions taken by the shareholders or board of directors without a meeting, and a record of all actions taken by a committee of the board of directors in place of the board of directors on behalf of the corporation. The corporation shall maintain appropriate accounting records.

(b) Absolute Inspection Rights of Records Required at Principal Office.

If he gives the corporation written notice of his demand at least five business days before the date on which he wishes to inspect and copy, a shareholder (or his agent or attorney) has the right to inspect and copy, during regular business hours any of the following records, all of which the corporation is required to keep at its principal office:

(1) its articles or restated articles of incorporation and all amendments to them currently in effect;

(2) its bylaws or restated bylaws and all amendments to them currently in effect;

(3) resolutions adopted by its board of directors creating one or more classes or series of shares, and fixing their relative rights, preferences, and limitations, if shares issued pursuant to those resolutions are outstanding;

(4) the minutes of all shareholders' meetings, and records of all action taken by shareholders without a meeting, for the past 10 years;

(5) all written communications to shareholders generally within the past three years, including the financial statement furnished for the past three years to the shareholders;

(6) a list of the names and business addresses of its current directors and officers;

(7) its most recent annual report delivered to the South Carolina Tax Commission; and

(8) if the shareholder owns at least one percent of any class of shares, he may inspect and

copy its federal and state income tax returns for the last 10 years.

(c) Conditional Inspection Right.

In addition, if he gives the corporation a written demand made in good faith and for a proper purpose at least five business days before the date on which he wishes to inspect and copy, he describes with reasonable particularity his purpose and the records he desires to inspect, and the records are directly connected with his purpose, a shareholder of a corporation (or his agent or attorney) is entitled to inspect and copy, during regular business hours at a reasonable location specified by the corporation, any of the following records of the corporation:

(1) excerpts from minutes of any meeting of the board of directors, records of any action of a committee of the board of directors on behalf of the corporation, minutes of any meeting of the shareholders, and records of action taken by the shareholders or board of directors without a meeting, to the extent not subject to inspection under paragraph (a) of this Section 2.14;

(2) accounting records of the corporation; and

(3) the record of shareholders (compiled no earlier than the date of the shareholder's demand).

(d) Copy Costs.

The right to copy records includes, if reasonable, the right to receive copies made by photographic, xerographic, or other means. The corporation may impose a reasonable charge, covering the costs of labor and material, for copies of any documents provided to the shareholder. The charge may not exceed the estimated cost of production or reproduction of the records.

Section 2.16 Financial Statements Shall Be Furnished to the Shareholders.

(a) The corporation shall furnish its shareholders annual financial statements, which may be consolidated or combined statements of the corporation and one or more of its subsidiaries, as appropriate, that include a balance sheet as of the end of the fiscal year, an income statement for that year, and a statement of changes in shareholders' equity for the year unless that information appears elsewhere in the financial statements. If financial statements are prepared for the corporation on the basis of generally accepted accounting principles, the annual financial statements for the shareholders also must be prepared on that basis.

(b) If the annual financial statements are reported upon by a public accountant, his report must accompany them. If not, the statements must be accompanied by a statement of the president or the person responsible for the corporation's accounting records:

(1) stating his reasonable belief whether the statements were prepared on the basis of generally accepted accounting principles and, if not, describing the basis of preparation; and

(2) describing any respects in which the statements were not prepared on a basis of accounting consistent with the statements prepared for the preceding year.

(c) A corporation shall mail the annual financial statements to each shareholder within 120 days after the close of each fiscal year. Thereafter, on written request from a shareholder who was not mailed the statements, the corporation shall mail him the latest financial statements.

Section 2.17 Dissenter's Rights.

Each shareholder shall have the right to dissent from, and obtain payment for his shares when so authorized by the Act, articles of incorporation, these bylaws, or in a resolution of the board of directors.

ARTICLE III.
BOARD OF DIRECTORS

Section 3.1 General Powers.

Unless the articles of incorporation have dispensed with or limited the authority of the board of directors by describing who will perform some or all of the duties of a board of directors, all corporate powers shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of the board of directors.

Section 3.2 Number, Tenure and Qualifications of Directors.

The number of directors of the corporation shall be the number designated by the directors at their initial or organizational meeting. Thereafter, the number of directors may be increased or decreased by action of the board or shareholders at any board meeting or annual meeting of shareholders. Each director shall hold office until the next annual meeting of shareholders or until removed. However, if his term expires, he shall continue to serve until his successor shall have been elected and qualified or until there is a decrease in the number of directors. Directors need not be residents of the State of South Carolina or shareholders of the corporation unless so required by the articles of incorporation. Notwithstanding the foregoing, a director who is first elected to the board after January 1, 1994 may serve on the board until the corporation's annual meeting immediately following his 72nd birthday, at which time he must retire from the board. A director who was first elected to the board prior to January 1, 1994 shall not be subject to the limitation set forth in the preceding sentence.

Section 3.3 Regular Meetings.

A regular meeting of the board of directors shall be held without other notice than this bylaw immediately after, and at the same place as, the annual meeting of shareholders. The board of directors may provide, by resolution, the time and place for the holding of additional regular meetings without other notice than such resolution.

Section 3.4 Special Meetings.

Unless otherwise provided in the articles, special meetings of the board of directors may be called by or at the request of the Chairman of the board of directors, the president or a majority of the board of directors. The person authorized to call special meetings of the board of directors may fix any place as the place for holding any special meeting of the board of directors.

Section 3.5 Notice of Special Meeting.

Notice of any special meeting of directors shall be given to each director at his business or residence in writing by hand delivery, first-class or overnight mail or courier service, telegram, email or facsimile or similar transmission, or orally by telephone. If mailed by first-class mail, such notice shall be deemed adequately delivered when deposited in the United States mails so addressed, with postage thereon prepaid, at least 72 hours before such meeting. If by telegram, overnight mail or courier service, such notice shall be deemed adequately delivered when the telegram is delivered to the telegraph company or the notice is delivered to the overnight mail or courier service company at least twenty-four (24) hours before such meeting. If by facsimile, email or similar transmission, such notice shall be deemed adequately delivered when the notice is transmitted at least twenty-four

(24) hours before such meeting. If by telephone or by hand delivery, the notice shall be given at least twenty-four (24) hours prior to the time set for the meeting. Any director may waive notice of any meeting. Except as provided in the next sentence, the waiver must be in writing, signed by the director entitled to the notice, and filed with the minutes or corporate records. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business and at the beginning of the meeting (or promptly upon his arrival) objects to holding the meeting or transacting business at the meeting, and does not thereafter vote for or assent to action taken at the meeting.

Section 3.6 Director Quorum.

A majority of the number of directors in office immediately before the meeting begins shall constitute a quorum for the transaction of business at any meeting of the board of directors. Any amendment to this quorum requirement is subject to the provisions of Section 3.8 of this Article III.

Section 3.7 Manner of Acting.

(a) Required Vote.

The act of the majority of the directors present at a meeting at which a quorum is present when the vote is taken shall be the act of the board of directors unless the articles of incorporation require a greater percentage. Any amendment which changes the number of directors needed to take action, is subject to the provisions of Section 3.8 of this Article III.

(b) Telephone Meeting.

Any or all directors may participate in a regular or special meeting by, or conduct the meeting through the use of, any means of communication by which all directors participating may simultaneously hear each other during the meeting. A director participating in a meeting by this means is deemed to be present in person at the meeting.

(c) Failure to Object to Action.

A director who is present at a meeting of the board of directors or a committee of the board of directors when corporate action is taken is deemed to have assented to the action taken unless: (1) he objects at the beginning of the meeting (or promptly upon his arrival) to holding it or transacting business at the meeting; or (2) his dissent or abstention from the action taken is entered in the minutes of the meeting; or (3) he delivers written notice of his dissent or abstention to the presiding officer of the meeting before its adjournment or to the corporation immediately after adjournment of the meeting. The right of dissent or abstention is not available to a director who votes in favor of the action taken.

Section 3.8 Establishing a "Supermajority" Quorum or Voting Requirement.

For purposes of this Section 3.8, a "supermajority" quorum is a requirement that more than a majority of the directors in office constitute a quorum; and a "supermajority" voting requirement is any requirement that requires the vote of more than a majority of those directors present at a meeting at which a quorum is present to be the act of the directors.

A bylaw that fixes a supermajority quorum or supermajority voting requirement may be amended or repealed:

(1) if originally adopted by the shareholders, only by the shareholders (unless otherwise provided by the shareholders);

(2) if originally adopted by the board of directors, either by the shareholders or by the board of directors.

A bylaw adopted or amended by the shareholders that forms a supermajority quorum or supermajority voting requirement for the board of directors may provide that it may be amended or repealed only by a specified vote of either the shareholders or the board of directors.

Subject to the provisions of the preceding paragraph, action by the board of directors to adopt, amend, or repeal a bylaw that changes the quorum or voting requirement for the board of directors must meet the same quorum requirement and be adopted by the same vote required to take action under the quorum and voting requirement then in effect or proposed to be adopted, whichever is greater.

Section 3.9 Action Without a Meeting.

Action required or permitted by the Act to be taken at a board of directors' meeting may be taken without a meeting if the action is assented to by all members of the board.

The action may be evidenced by one or more written consents describing the action taken, signed by each director, and included in the minutes or filed with the corporate records reflecting the action taken. Action evidenced by written consents under this section is effective when the last director signs the consent, unless the consent specifies a different effective date. A consent signed under this section has the effect of a meeting vote and may be described as such in any document.

Section 3.10 Removal of a Director.

The shareholders may remove one or more directors at a meeting called for that purpose if notice has been given that a purpose of the meeting is such removal. The removal may be with or without cause, provided that such removal without cause shall be subject to the voting requirement set forth in the articles of incorporation. If a director is elected by a voting group of shareholders, only the shareholders of that voting group may participate in the vote to remove him. A director may be removed for cause only if the number of votes cast to remove him exceeds the number of votes cast not to remove him.

Section 3.11 Vacancies.

Unless the articles of incorporation provide otherwise, if a vacancy occurs on a board of directors, including a vacancy resulting from an increase in the number of directors, the shareholders may fill the vacancy. During such time that the shareholders fail or are unable to fill such vacancies then and until the shareholders act:

(a) the board of directors may fill the vacancy; or

(b) if the directors remaining in office constitute fewer than a quorum of the board, they may fill the vacancy by the affirmative vote of a majority of all the directors remaining in office

If the vacant office was held by a director elected by a voting group of shareholders, only the holders of shares of that voting group are entitled to vote to fill the vacancy if it is filled by the shareholders.

A vacancy that will occur at a specific later date (by reason of a resignation effective at a later date) may be filled before the vacancy occurs but the new director may not take office until the vacancy occurs.

The term of a director elected to fill a vacancy expires at the next shareholders' meeting at which directors are elected. However, if his term expires, he shall continue to serve until his successor is elected and qualifies or until there is a decrease in the number of directors.

Section 3.12 Compensation.

Unless otherwise provided in the articles, by resolution of the board of directors, each director may be paid his expenses, if any, of attendance at each meeting of the board of directors, and may be paid a stated salary as director or a fixed sum for attendance at each meeting of the board of directors or both. No such payment shall preclude any director from serving the corporation in any capacity and receiving compensation therefor.

Section 3.13 Committees.

(a) Creation of Committees.

Unless the articles of incorporation provide otherwise, the board of directors may create one or more committees and appoint members of the board of directors to serve on them or the president, if so delegated by the board, may appoint members to serve on committees created by the board. Each committee must have two or more members, who serve at the pleasure of the board of directors.

(b) Selection of Members.

The creation of a committee and appointment of members to it must be approved by the greater of (1) a majority of all the directors in office when the action is taken or (2) the number of directors required by the articles of incorporation to take such action (or, if not specified in the articles, the numbers required by, Section 3.7 of this Article III to take action).

(c) Required Procedures.

Section 3.4, 3.5, 3.6, 3.7, 3.8 and 3.9 of this Article III, which govern meetings, action without meetings, notice and waiver of notice, quorum and voting requirements of the board of directors, apply to committees and their members.

(d) Authority.

Unless limited by the articles of incorporation, each committee may exercise those aspects of the authority of the board of directors which the board of directors confers upon such committee in the resolution creating the committee. Provided, however, a committee may not:

(1) authorize distributions;

(2) approve or propose to shareholders action that the Act requires be approved by shareholders;

(3) fill vacancies on the board of directors or on any of its committees;

(4) amend the articles of incorporation pursuant to the authority of directors;

(5) adopt, amend, or repeal bylaws;

(6) approve a plan of merger not requiring shareholder approval;

(7) authorize or approve reacquisition of shares, except according to a formula or method prescribed by the board of directors; or

(8) authorize or approve the issuance or sale or contract for sale of shares or determine the designation and relative rights, preferences, and limitations of a class or series of shares, except that the board of directors may authorize a committee (or a senior executive officer of the corporation) to do so within limits specifically prescribed by the board of directors.

Section 3.14 Board Leadership.

(a) Chairman.

The Board of Directors shall elect a Chairman from among those directors who are independent directors" within the meaning of applicable SEC proxy regulations, who shall preside over Board meetings and shareholder meetings, and shall otherwise discharge duties specifically set forth herein and such other duties as are typical of a chairman position, including without limitation:

(1) Consult and meet with any or all outside directors as required, and represent such directors in discussions with management of the Corporation on corporate governance issues and other matters;
(2) Ensure that the Board, committees of the Board, individual directors and senior management of the Corporation understand and discharge their duties and obligations under the Corporation's system of corporate governance;
(3) Mentor and counsel new members of the Board to assist them in becoming active and effective directors;
(4) conduct director evaluations;
(5) lead executive sessions on CEO evaluation and conduct conversations with the CEO;
(6) perform such other duties and responsibilities as may be delegated to the Chairman by the Board from time to time.

(b) Vice Chairman.

The Board of Directors shall appoint a Vice Chairman who shall discharge all duties otherwise accorded the Chairman under these Bylaws, subject to Section 3.14(a) above, upon request of the Chairman.

ARTICLE IV. OFFICERS

Section 4.1 Number.

The officers of the corporation shall be a president, a secretary, and a treasurer, each of whom shall be appointed by the board of directors. Such other officers and assistant officers as may be deemed necessary, including any vice-presidents, may be appointed by the board of directors. If specifically authorized by the board of directors, an officer may appoint one or more officers or assistant officers. The same individual may simultaneously hold more than one office in the corporation.

Section 4.2 Appointment and Term of Office.

The officers of the corporation shall be appointed by the board of directors for a term as determined by the board of directors. (The designation of a specified term grants to the officer no contract rights, and the board can remove the officer at any time prior to the termination of such term.) If no term is specified, they shall hold office until they resign, die, or until they are removed in the manner provided in Section 4.3 of this Article IV.

Section 4.3 Removal.

Unless appointed by the shareholders, any officer or agent may be removed by the board of directors at any time, with or without cause. Any officer or agent appointed by the shareholders may be removed by the shareholders with or without cause. Such removal shall be without prejudice to the contract rights, if any, of the person so removed. Appointment of an officer or agent shall not of itself create contract rights.

Section 4.4 The President.

The president shall be the principal executive officer of the corporation and, subject to the control of the board of directors, shall in general supervise and control all of the business and affairs of the corporation. He shall, when present, preside at all meetings of the shareholders and of the board of directors, unless a Chairman of the board of directors shall have been designated by the board. He may sign, with the secretary or any other proper officer of the corporation thereunto authorized by the board of directors, certificates for shares of the corporation and deeds, mortgages, bonds, contracts or other instruments which the board of directors has authorized to be executed, except in cases where the signing and execution thereof shall be expressly delegated by the board of directors or by these bylaws to some other officer or agent of the corporation, or shall be required by law to be otherwise signed or executed; and in general shall perform all duties incident to the office of president and such other duties as may be prescribed by the board of directors from time to time.

Section 4.5 The Vice-Presidents.

If appointed, in the absence of the president or in the event of his death, inability or refusal to act, the vice president (or, in the event there be more than one vice-president, the vice-presidents in the order designated at the time of their election, or in the absence of any designation, then in the order of their appointment) shall perform the duties of the president, and when so acting, shall have all the powers of and be subject to all the restrictions upon the president. (If there is no vice-president, then the treasurer shall perform such duties of the president.) Any vice-president may sign, with the secretary or an assistant secretary, certificates for shares of the corporation the issuance of which have been authorized by resolution of the board of directors; and shall perform such other duties as from time to time may be assigned to him by the president or by the board of directors.

Section 4.6 The Secretary.

The secretary shall: (a) keep the minutes of the proceedings of the shareholders and of the board of directors in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these bylaws or as required by law; (c) be custodian of the corporate records and of any seal of the corporation and if there is a seal of the corporation, see that it is affixed to all documents the execution of which on behalf of the corporation under its seal is duly authorized; (d) when requested or required, authenticate any records of the corporation; (e) keep a register of the post office address of each shareholder which shall be furnished to the secretary by such shareholder; (f) sign with the president, or a vice-president, certificates for shares of the corporation, the issuance of which shall have been authorized by resolution of the board of directors; (g) have general charge of the stock transfer books of the corporation; and (h) in general perform all duties incident to the office of secretary and such other duties as from time to time may be assigned to him by the president or by the board of directors.

Section 4.7 The Treasurer.

The treasurer shall: (a) have charge and custody of and be responsible for all funds and securities of the corporation; (b) receive and give receipts for moneys due and payable to the corporation from any source whatsoever, and deposit all such moneys in the name of the corporation in such banks, trust companies or other depositories as shall be selected by the board of directors and (c) in general perform all of the duties incident to the office of treasurer and such duties as from time to time may be assigned to him by the president or by the board of directors. If required by the board of directors, the treasurer shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the board of directors shall determine.

Section 4.8 Assistant Secretaries and Assistant Treasurers.

The assistant secretaries, when authorized by the board of directors, may sign with the president or a vice-president certificates for shares of the corporation the issuance of which shall have been authorized by a resolution of the board of directors. The assistant treasurers shall respectively, if required by the board of directors, give bonds for the faithful discharge of their duties in such sums and with such sureties as the board of directors shall determine. The assistant secretaries and assistant treasurers, in general, shall perform such duties as shall be assigned to them by the secretary or the treasurer, respectively, or by the president or the board of directors.

Section 4.9 Salaries.

The salaries of the officers shall be fixed from time to time by the board of directors, or by the Chief Executive Officer if so directed by the board of directors.

ARTICLE V.
INDEMNIFICATION OF DIRECTORS, OFFICERS, AGENTS, AND EMPLOYEES

Section 5.1 Indemnification of Directors.

The corporation shall indemnify any individual made a party to a proceeding because he is or was a director of the corporation against liability incurred in the proceeding to the fullest extent permitted by law.

Section 5.2 Advance Expenses for Directors.

The corporation shall pay for or reimburse the reasonable expenses incurred by a director who is a party to a proceeding in advance of final disposition of the proceeding to the fullest extent permitted by law.

Section 5.3 Other Employees and Agents. In addition to any indemnification required by law, the corporation may, to the extent authorized from time to time by the board of directors, grant rights to indemnification, and rights to be paid by the corporation the expenses incurred in defending any proceeding in advance of its final disposition, to any employee or agent of the corporation to the fullest extent of the provisions of this By-Law with respect to the indemnification and advancement of expenses of directors and officers of the corporation.

Section 5.4 Nature of Right to Indemnification. The right to indemnification conferred in this By-Law shall be a contract right and shall include the right to be paid by the corporation the expenses incurred in defending any such proceeding in advance of its final disposition, such advances to be paid by the corporation within 30 days after the receipt by the corporation of a statement or statements from the claimant requesting such advances from time to time; provided, however, that the payment of such expenses, incurred by a person to whom indemnification is or may be available under this By-Law, in advance of the final disposition of a proceeding shall be made only pursuant to Section 33-8-530 of the Act, or such successor provision as may be in effect from time to time.

Section 5.5 Request for Indemnification; Determination of Entitlement Thereto; When Paid. To obtain indemnification under this By-Law, a claimant shall submit to the corporation a written request, including therein or therewith such documentation and information as is reasonably available to the claimant and is reasonably necessary to determine whether and to what extent the claimant is entitled to indemnification. Upon written request by a claimant for indemnification pursuant to the first sentence of this Section 5.5, a determination with respect to the claimant's entitlement thereto shall be made in accordance with Section 33-8-550 of the Act, or such successor provision as may be in effect from time to time. If it is so determined that the claimant is entitled to indemnification, payment to the claimant shall be made within 10 days after such determination.

Section 5.6 Right of Action; No Presumption. If a claim under Section 5.1, 5.2 or 5.3 of this By-Law is not paid in full by the corporation within thirty days after a written claim pursuant to Section 5.5 of this By-Law has been received by the corporation, the claimant may at any time thereafter bring suit against the corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim to the extent permitted by law. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the requirements of Section 33-8-530 of the Act, or any successor provision thereto that may be in effect from time to time, have been complied with) that the claimant has not met the standard of conduct which makes it permissible under the Act for the corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the corporation. Neither the failure of the corporation (including its board of directors, special counsel or shareholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the Act, nor an actual determination by the corporation (including its board of directors, special counsel or shareholders) that the claimant has not met such applicable standard of conduct, shall create a presumption that the claimant has not met the applicable standard of conduct.

Section 5.7 Binding Effect on the Corporation. If a determination shall have been made pursuant to Section 5.5 of this By-Law that the claimant is entitled to indemnification, the corporation shall be bound by such determination in any judicial proceeding commenced pursuant to Section 5.6 of this By-Law.

Section 5.8 No Challenge to Validity. The corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to Section 5.6 of this By-Law that the procedures and presumptions of this By-Law are not valid, binding and enforceable and shall stipulate in such proceeding that the corporation is bound by all the provisions of this By-Law.

Section 5.9 Nonexclusivity. The right to indemnification and the payment of expenses incurred in defending a proceeding in advance of its final disposition conferred in this By-Law shall not be exclusive of any other right which any person may have or hereafter acquire under any statute, provision of the articles of incorporation, By-Laws, agreement, vote of stockholders or directors or otherwise. No repeal or modification of this By-Law shall in any way diminish or adversely affect the rights of any director, officer, employee or agent of the corporation hereunder in respect of any occurrence or matter arising prior to any such repeal or modification.

Section 5.10 Severability. If any provision or provisions of this By-Law shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (1) the validity, legality and enforceability of the remaining provisions of this By-Law (including, without limitation, each portion of any Section of this By-Law containing any such provision held to be invalid, illegal or unenforceable, that is not itself held to be invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (2) to the fullest extent possible, the provisions of this By-Law (including, without limitation, each such portion of any Section of this By-Law containing any such provision held to be invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 5.11 Notices. Any notice, request or other communication required or permitted to be given to the corporation under this By-Law shall be in writing and either delivered in person or sent by telecopy, telex, telegram, overnight mail or courier service, or certified or registered mail, postage prepaid, return receipt requested, to the Secretary of the corporation and shall be effective only upon receipt by the Secretary.

ARTICLE VI.
CERTIFICATES FOR SHARES AND THEIR TRANSFER

Section 6.1 Certificates for Shares.

(a) Content.

The Board of Directors may authorize the issuance of some or all of the shares of the corporation's classes or series without issuing certificates to represent such shares. If shares are represented by certificates, the certificates shall at minimum, state on their face the name of the issuing corporation and that it is formed under the laws of South Carolina; the name of the person to whom issued; and the number and class of shares and the designation of the series, if any, the certificate represents; and be in such form as determined by the board of directors. Such certificates shall be signed (either manually or by facsimile) by the president or a vice-president and by the secretary or an assistant secretary and may be sealed with a corporate seal or a facsimile thereof. Each certificate for shares shall be consecutively numbered or otherwise identified.

(b) Legend as to Class or Series.

If the corporation is authorized to issue different classes of shares or different series within a class, the designations, relative rights, preferences, and limitations applicable to each class and the variations in rights, preferences, and limitations determined for each series (and the authority of the board of directors to determine variations for future series) must be summarized on the front or back of each certificate. Alternatively, each certificate may state conspicuously on its front or back that the corporation will furnish the shareholder this information on request in writing and without charge.

(c) Shareholder List.

The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the corporation.

(d) Transferring Shares.

All certificates surrendered to the corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except that in case of a lost, destroyed or mutilated certificate a new one may be issued therefor upon such terms and indemnity to the corporation as the board of directors may prescribe.

Section 6.2 Registration of the Transfer of Shares.

Registration of the transfer of shares of the corporation shall be made only on the stock transfer books of the corporation. In order to register a transfer, the record owner shall surrender the shares to the corporation for cancellation, properly endorsed by the appropriate person or persons with reasonable assurances that the endorsements are genuine and effective. Subject to the provisions of Section 33-7-300(d) of the Act (relating to shares held in a voting trust), and unless the corporation has established a procedure by which a beneficial owner of shares held by a nominee is to be recognized by the corporation as the owner, the person in whose name shares stand on the books of the corporation shall be deemed by the corporation to be the owner thereof for all purposes.

Section 6.3 Restrictions on Transfer of Shares Permitted.

The board of directors (or shareholders) may impose restrictions on the transfer or registration of transfer of shares (including any security convertible into, or carrying a right to subscribe for or acquire shares). A restriction does not affect shares issued before the restriction was adopted unless the holders of the shares are parties to the restriction agreement or voted in favor of the restriction.

A restriction on the transfer or registration of transfer of shares may be authorized:

(a) to maintain the corporation's status when it is dependent on the number or identity of its shareholders;

(b) to preserve exemptions under federal or state securities law;

(c) for any other reasonable purpose.

A restriction on the transfer or registration of transfer of shares may:

(a) obligate the shareholder first to offer the corporation or other persons (separately, consecutively, or simultaneously) an opportunity to acquire the restricted shares;

(b) obligate the corporation or other persons (separately, consecutively, or simultaneously) to acquire the restricted shares;

(c) require the corporation, the holders or any class of its shares, or another person to approve the transfer of the restricted shares, if the requirement is not manifestly unreasonable;

(d) prohibit the transfer of the restricted shares to designated persons or classes of persons, if the prohibition is not manifestly unreasonable.

A restriction on the transfer or registration of transfer of shares is valid and enforceable against the holder or a transferee of the holder if the restriction is authorized by this section and its existence is noted conspicuously on the front or back of the certificate. Unless so noted, a restriction is not enforceable against a person without knowledge of the restriction.

Section 6.4 <u>Acquisition of Shares</u>.

The corporation may acquire its own shares and unless otherwise provided in the articles of incorporation, the shares so acquired constitute authorized but unissued shares.

If the articles of incorporation prohibit the reissue of acquired shares, the number of authorized shares is reduced by the number of shares acquired, effective upon amendment of the articles of incorporation, which amendment shall be adopted by the shareholders or the board of directors without shareholder action. The article of amendment must be delivered to the Secretary of State and must set forth:

(a) the name of the corporation;

(b) the reduction in the number of authorized shares, itemized by class and series; and

(c) the total number of authorized shares, itemized by class and series, remaining after reduction of the shares.

ARTICLE VII.
DISTRIBUTIONS

Section 7.1 <u>Distributions</u>.

The board of directors may authorize, and the corporation may make, distributions (including dividends on its outstanding shares) in the manner and upon the terms and conditions provided by law and in the corporation's articles of incorporation.

ARTICLE VIII.

CORPORATE SEAL

Section 8.1 Corporate Seal.

The board of directors may provide a corporate seal which may be circular in form and have inscribed thereon any designation including the name of the corporation, South Carolina as the state of incorporation, and the words "Corporate Seal."

ARTICLE IX.
EMERGENCY BYLAWS

Section 9.1 Emergency Bylaws.

Unless the articles of incorporation provide otherwise, the following provisions of this Article IX, Section 9.1 "Emergency Bylaws" shall be effective during an emergency which is defined as when a quorum of the corporation's directors cannot be readily assembled because of some catastrophic event.

During such emergency:

(a) Notice of Board Meetings.

Any one member of the board of directors or any one of the following officers: president, any vice-president, secretary, or treasurer, may call a meeting of the board of directors. Notice of such meeting need be given only to those directors whom it is practicable to reach, and may be given in any practical manner, including by publication and radio. Such notice shall be given at least six hours prior to commencement of the meeting.

(b) Temporary Directors and Quorum.

One or more officers of the corporation present at the emergency board meeting, as is necessary to achieve a quorum, shall be considered to be directors for the meeting, and shall so serve in order of rank, and within the same rank, in order of seniority. In the event that less than a quorum (as determined by Article III Section 3.6) of the directors are present (including any officers who are to serve as directors for the meeting), those directors present (including the officers serving as directors) shall constitute a quorum.

(c) Actions Permitted to Be Taken.

The board may as constituted in paragraph (b), and after notice as set forth in paragraph (a):

(1) Officer's Powers.

Prescribe emergency powers to any officer of the corporation;

(2) Delegation of any Power.

Delegate to any officer or director, any of the powers of the board of directors;

(3) Lines of succession.

Designate lines of succession of officers and agents, in the event that any of them are unable to discharge their duties;

(4) Relocate Principal place of business.

Relocate the principal place of business, or designate successive or simultaneous principal places of business;

(5) All Other Action.

Take any other action, convenient, helpful, or necessary to carry on the business of the corporation.

ARTICLE X.
AMENDMENTS

Section 10.1 Amendments.

The corporation's board of directors may amend or repeal any of the corporation's bylaws unless:

(a) the articles of incorporation or the Act reserve this power exclusively to the shareholders in whole or in part; or

(b) the shareholders in adopting, amending, or repealing a particular bylaw provide expressly that the board of directors may not amend or repeal that bylaw; or

(c) the bylaw either establishes, amends, or deletes, a supermajority shareholder quorum or voting requirement (as defined in Section 2.8 of Article II).

Any amendments to these bylaws by the board of directors shall be made in accordance with applicable law.

Any amendment which changes the voting or quorum requirement for the board must comply with Article III Section 3.8, and for the shareholders, must comply with Article II Section 2.8.

The corporation's shareholders may amend or repeal the corporation's bylaws even though the bylaws may also be amended or repealed by its board of directors. Any notice of a meeting of shareholders at which bylaws are to be adopted, amended, or repealed shall state that the purpose, or one of the purposes, of the meeting is to consider the adoption, amendment or repeal of bylaws and contain or be accompanied by a copy or summary of the proposal.

Amended and Restated as of November 3, 2008

CERTIFICATION

I, Christopher T. Holmes, H. Lynn Harton and James R. Gordon., certify on my individual behalf that:

1. I have reviewed this quarterly report on Form 10-Q 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 officers 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 officers 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: November 6, 2008

Acting Principal Executive Officers

/s/Christopher T. Holmes	*/s/H. Lynn Harton*	*/s/James R. Gordon*
Christopher T. Holmes	H. Lynn Harton	James R. Gordon

CERTIFICATION

I, James R. Gordon, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 officers 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 officers 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: November 6, 2008

/s/ James R. Gordon
James R. Gordon
Senior Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

Certification of the Principal Executive Officers
Pursuant to 18 U.S.C. 1350
(Section 906 of the Sarbanes-Oxley Act of 2002)

I, Christopher T. Holmes, H. Lynn Harton, and James R. Gordon, acting principal executive officers of The South Financial Group, Inc. (TSFG"), certify on my individual behalf, that to the best of my knowledge, based upon a review of the quarterly report on Form 10-Q for the period ended September 30, 2008 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.

Acting Principal Executive Officers

/s/ Christopher T. Holmes	*/s/ H. Lynn Harton*	*/s/ James R. Gordon*
Christopher T. Holmes	H. Lynn Harton	James R. Gordon

The South Financial Group, Inc.
November 6, 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.

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 Senior Executive Vice President and Chief Financial Officer of The South Financial Group, Inc. (TSFG"), certify that to the best of my knowledge, based upon a review of the quarterly report on Form 10-Q for the period ended September 30, 2008 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
Senior Executive Vice President and Chief Financial Officer
The South Financial Group, Inc.
November 6, 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.