

March 9, 2009

Mr. Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave., N.W., Suite 1064
Washington, D.C. 20220
Response via e-mail: SIGTARP.response@do.treas.gov

Re: The South Financial Group, Inc. UST No. 99

Dear Mr. Barofsky:

Enclosed are responses to your request for information regarding TARP recipients' use of funds and compliance with EESA's executive compensation requirements.

(1) A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds. In your response, please take into consideration your anticipated use of TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusions of TARP funds.

The South Financial Group, Inc. ("TSFG") is using our \$347 million of TARP proceeds to strengthen our balance sheet while supporting our lending activities. We believe that receipt of TARP funds favorably impacted customer perception of TSFG, which has enhanced our ability to maintain and attract depositors while continuing our strong record of lending activities to our targeted customers (small and middle market businesses and retail customers) within the communities we serve.

The TARP funds were not segregated from other institutional funds; however, we clearly understand the need to report on the general use of such funds. On December 5, 2008, TSFG received \$347 million from the U.S. Treasury Capital Purchase Program investment. Approximately \$260 million, or 75%, was immediately down-streamed via a capital contribution into its wholly-owned subsidiary, Carolina First Bank, to bolster capital and liquidity to support lending activities. The remaining \$87 million, or 25%, was retained at the parent company to cover at least 5 years of dividends at five percent annually (i.e., 25% in the aggregate) on the TARP funds. The parent company has other

forms of liquidity to cover existing non-TARP related dividends and expense commitments; therefore, none of the TARP proceeds will be used to pay other dividends.

Upon receipt of the \$260 million, Carolina First Bank invested approximately \$100 million in liquid assets (primarily cash equivalents), which could be liquidated on short notice to fund new loans. The remaining funds were used to temporarily replace higher cost wholesale borrowings (non-customer obligations) until additional lending opportunities arise over time from customer demand. In short, these proceeds have not been invested in other assets of a long-term nature, but remain available to fund new loans as demand from our customers dictates.

(b) (4)

(b) (4) In the fourth quarter 2008, TSFG originated approximately \$1 billion, absorbing approximately \$100 million of total regulatory capital, in new commercial and consumer loans to new and existing customers.

b(4), b(8)

At end of 2008, we separated our loans into core loans, which are loans to banking customers in our markets that are more in line with our strategic focus, and non-core loans, which are loans to customers with no banking relationship, such as indirect auto loans, lot loans, and shared national credits. (In second quarter 2008, we started limiting our activities with respect to certain non-core loans.) (b) (4)

(b) (4) As of the end of February 2009, TSFG's 2009 operating budget shows a decline in period-end loans of 3.9% (decrease of \$398 million) for 2009. However, this budgeted decline reflects a 19.4% decline (\$522 million) in non-core loans and a 1.6% (\$124 million) increase in core loans. (b) (4)

(b) (4) However, we have the liquidity and capital through the CPP investment to take advantage of loan demand in advance of this time, should it improve.

For the first two months of 2009, TSFG's period-end **core** loans increased \$55 million (a 4.5% annualized growth rate), which reflects our emphasis on building core banking relationships in our markets. TSFG's period-end non-core loans (as described above) decreased \$116 million. Combined, TSFG's net loans declined \$61 million.

At the end of January 2009, to illustrate TSFG's use of proceeds from the U.S. Treasury's Capital Purchase Program, TSFG management prepared the attached Fact Sheet, which was e-mailed to all TSFG employees, made available for use in response to customer

questions, and posted on our corporate web site (www.thesouthgroup.com). Additionally, we have communicated our willingness to extend credit to customers through customer "road shows", advertising (see attached open letter published in various media outlets), and media interviews.

We continue to analyze the recent mortgage foreclosure initiatives presented by various parties and are evaluating ways to utilize such payments for our mortgage and lot loan portfolios, which total approximately \$600 million, or 6% of our total portfolio.

Additionally, we are in the process of developing new mortgage and other loan products to improve lending in our markets. These products could be maintained on our balance sheet rather than sold to agencies, such as FHLMC and GNMA.

As one of the nation's leaders in the U.S. Treasury's New Markets Tax Credit Program, TSFG is also committed to supporting community development in low-income areas. We closed approximately \$25 million in new financings during 2008, approximately \$29 million in 2009 YTD, (b) (4)

(b) (4)

In summary, we take our acceptance of the TARP investment seriously, which in our determination is to establish and reinforce the customers' view of Carolina First Bank as a safe place to do business. This allows us to continue lending activities in the markets we serve. Carolina First Bank remains well-capitalized at December 31, 2008 and would have been considered "well-capitalized" without the TARP investment; however, the additional capital as noted above has strengthened our balance sheet and allows us to continue to support our markets and customers in this environment rather than hoarding capital given the uncertainty of the economic environment. The strengthening of our balance sheet and the resultant favorable impact on customer confidence has allowed us to maintain core deposits, which serve as the primary raw material needed for extending credit.

(2) Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implemented in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.

In order to ensure compliance with the limitations on executive compensation set forth in the TARP Capital Purchase Program (the "TARP Limitations"), TSFG took the following actions:

1. It procured from each of its executive officers (not merely its senior executive officers) an agreement (in the form attached hereto as Exhibit A) in which the

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executive agrees that he/she will not receive any compensation which is prohibited under the TARP Limitations.

2. TSFG amended its compensation plans (via an agreement attached hereto as Exhibit B), to provide that no compensation will be paid in violation of the TARP Limitations.
3. TSFG has a procedure that no person will be appointed as an executive officer without executing the necessary amendment.

TSFG believes that the preceding structure is sufficient to ensure compliance with existing TARP Limitations and any applicable future limitations as may be implemented.

Executive officers received no merit increases during 2008 or 2009, and no incentive compensation was paid for 2008. This is consistent with the Board's "pay for performance" philosophy.

TSFG's Chief Risk Officer conducted a risk assessment to determine whether TSFG's incentive compensation plans encouraged executive officers to take unnecessary and excessive risks that threaten the value of the financial institution. The conclusion was that these plans do not encourage excessive risk taking, as set forth in Exhibit C.

(b) (4)

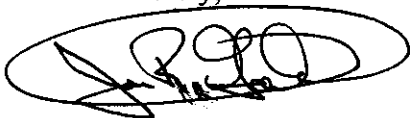
At this time, the Compensation Committee of the Board has not offset executive compensation limitations with other forms of other compensation.

Certification

I, James R. Gordon, certify that: I have reviewed this response and supporting documentations, and, based on my knowledge, this response and the supporting documents do 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.

Please feel free to contact me at (b) (6) with any additional questions or comments.

Sincerely,



James R. Gordon
Senior EVP, Chief Financial Officer
The South Financial Group, Inc. and Carolina First Bank

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Enclosures:

Exhibit A – Consent to Limitations

Exhibit B – Master Plan Amendment

Exhibit C – Risk Assessment

Exhibit D – Amendments to Relationship Manager Incentive Plan

TSFG U.S. Treasury's Capital Purchase Program – Fact Sheet (current as of 1/30/2009)

Letter Ad for Carolina First Bank

Exhibit A – Consent to Limitations

CONSENT

The undersigned do hereby consent to the adoption of the amendments to the “Benefit Plans” as defined in and as described in the attached “Resolution and Amendment” adopted as of December 3, 2008 by the Board of Directors, as and to the extent, and for the period, required by the provisions of Section 111 of the Emergency Economic Stabilization Act of 2008 (“EESA”) applicable to participants in the Capital Purchase Program under EESA and the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

Agreed to and acknowledged as of December 5, 2008:

Signed by the following persons:

H. Lynn Harton
Interim President and CEO

James R. Gordon
Senior EVP and Chief Financial Officer

Christopher T. Holmes
Senior EVP

William P. Crawford, Jr.
Executive Vice President

Mary A. Jeffrey
Executive Vice President

Robert Edwards
Executive Vice President

Scott Frierson
Executive Vice President

Christopher Speaks
Executive Vice President

Kendall L. Spencer
Executive Vice President

Exhibit B – Master Plan Amendment

THE SOUTH FINANCIAL GROUP, INC.

Action: Amend Benefit Plans to Comply with Emergency Economic Stabilization Act

WHEREAS The South Financial Group, Inc. (the “Company”) has entered or will enter into a Securities Purchase Agreement with the United States Department of Treasury (the “Agreement”) as part of the Capital Purchase Program under the Emergency Economic Stabilization Act of 2008 (“EESA”); and

WHEREAS pursuant to Section 1.2(d)(iv) of the Agreement, the Company is required to amend its “Benefit Plans” with respect to its “Senior Executive Officers” (as such terms are defined in the Agreement) to the extent necessary to comply with Section 111 of EESA; and

WHEREAS the applicable “Benefit Plans” are the plans in which any Senior Executive Officer participates, or is eligible to participate, and the agreements to which any Senior Executive Officer is a party, that either: (i) provide for incentive or bonus compensation based on the achievement of performance goals tied to or affected by the Company’s financial results (“Financial Performance Plans”) or (ii) provide for payments or benefits upon an “applicable severance from employment” within the meaning of EESA (“Involuntary Separation Pay Arrangements”);

RESOLVED that each Financial Performance Plan and Involuntary Separation Pay Arrangement is hereby amended effective as of the date of entry into the Agreement as follows:

1. Compliance With Section 111 of EESA. Each Financial Performance Plan and Involuntary Separation Pay Arrangement is hereby amended by adding the following provision as a final section to such arrangement:

“Compliance With Section 111 of EESA. Solely to the extent, and for the period, required by the provisions of Section 111 of the Emergency Economic Stabilization Act of 2008 (“EESA”) applicable to participants in the Capital Purchase Program under EESA and the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008: (a) each “Senior Executive Officer” within the meaning of Section 111 of EESA and the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008 who participates in this plan or is a party to this agreement shall be ineligible to receive compensation hereunder to the extent that the Compensation Committee of the Board of Directors of the Company determines this plan or agreement includes incentives for the Senior Executive Officer to take unnecessary and excessive risks that threaten the value of the financial institution; (b) each Senior Executive Officer who participates in this plan or is a party to this agreement shall be required to forfeit any bonus or incentive compensation paid to the Senior Executive Officer hereunder during the period that the Department of the Treasury holds a debt or equity position in the Company based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate; and (c) the Company shall be prohibited from making to each Senior Executive Officer who participates in this plan or is a party to this agreement, and each such Senior Executive Officer shall be ineligible to receive hereunder, any “golden parachute payment” in connection with the Senior Executive Officer’s “applicable severance from employment,” in each case, within the meaning of Section 111 of EESA and the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.”

2. Continuation of Affected Plans. Except as expressly or by necessary implication amended hereby, each Financial Performance Plan and Involuntary Separation Pay Arrangement shall continue in full force and effect.

VIII. Conclusions and Recommendations

Based on the analysis set forth above, I conclude that TSFG's incentive compensation arrangements for its SEOs do not encourage the SEOs to take unnecessary and excessive risks that threaten the value of the financial institution. This conclusion is based on a holistic view TSFG's compensation arrangements, and is not necessarily a commentary on any particular component. Certain components of compensation (options, for example) motivate executives to take risks (not necessarily unreasonable risks, but risks nonetheless) in order to increase TSFG common stock price. Nevertheless, when viewed in the context of the entire compensation system (including the inter-relationship of all compensation components, the Company's risk management functions and the other design features of the compensation system which serve to mitigate the risk), items such as options and other incentive compensation do not serve to create a situation where SEOs are encouraged to take unnecessary and excessive risks.

Directors should be mindful that while an overall compensation plan may be *designed* properly, the plan, as designed, must be *applied* properly to ensure appropriate outcomes. In other words, while compensation plans are designed to eliminate excessive risk taking, directors must nonetheless use their discretion and make proper decisions; otherwise, an effective design can be thwarted by poor decisions and the failure to exercise the discretion inherent in such plans.

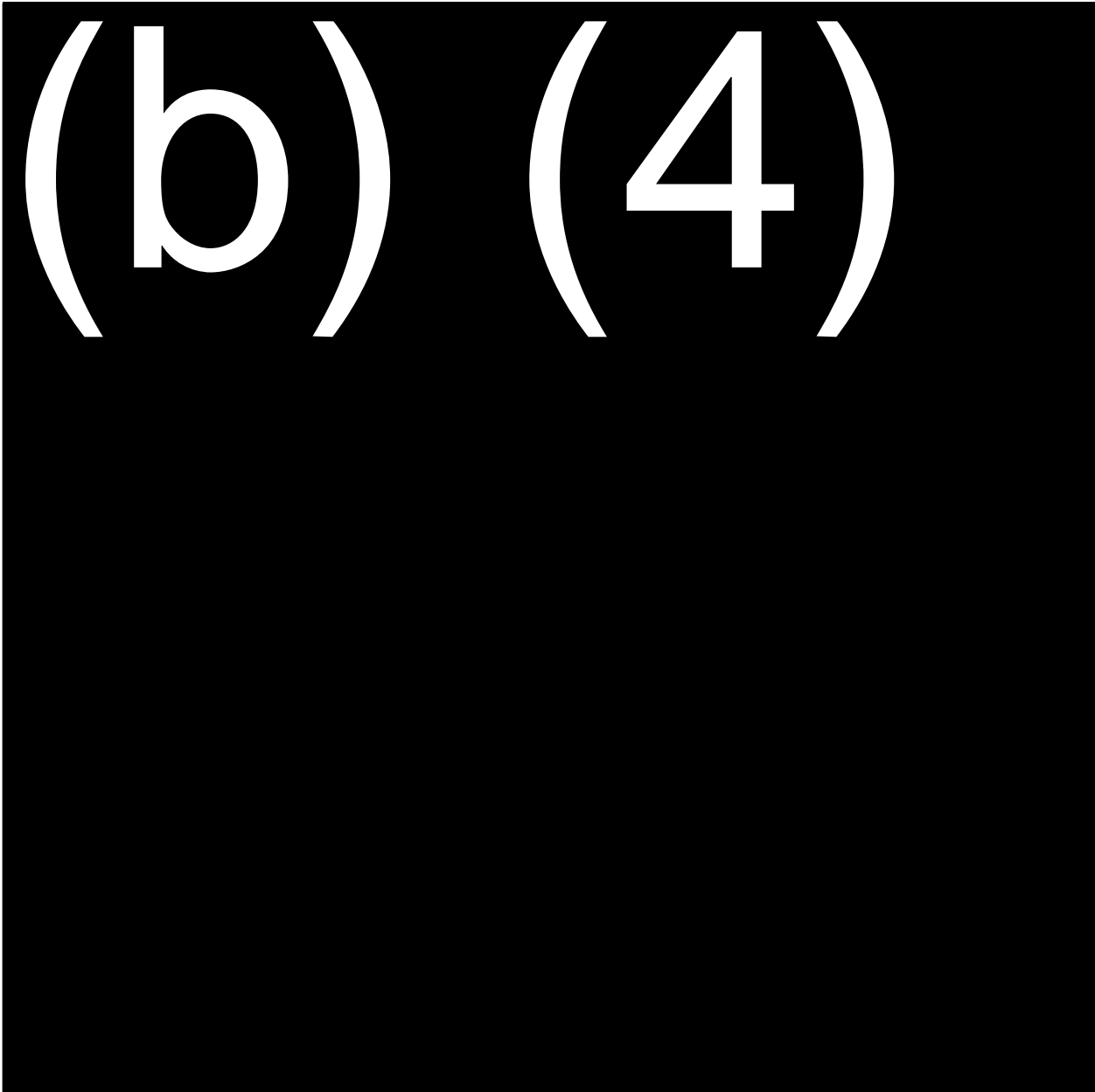
This Risk Assessment should be reviewed by the Compensation Committee, and assuming that it is satisfactory, the Compensation Committee should provide a report to the Board of Directors as to its completion and its conclusions.

Respectfully submitted,

William P. Crawford, Jr.
Chief Risk Officer, The South Financial Group, Inc.

Exhibit D – Amendments to Relationship Manager Incentive Plan

(b) (4)



THE SOUTH FINANCIAL GROUP

U.S. Treasury's Capital Purchase Program – Fact Sheet

Investment

- On December 5, 2008, the U.S. Treasury invested \$347 million in The South Financial Group (TSFG) under the Treasury's Capital Purchase Program aimed at healthy financial institutions. The investment was made in the form of preferred stock and common stock warrants.
- TSFG will pay cumulative annual dividends of 5% for the first five years and thereafter at 9%, unless the shares are redeemed. In addition to dividends and return of principal, the Treasury also received warrants to purchase approximately 10.1 million shares of TSFG common stock at a price of \$5.15.
- The Treasury's investment has a higher priority in our capital structure than our common stock. This means that common shareholders of TSFG, rather than the Treasury, bear the first risk of any loss that TSFG might suffer.

Use of Proceeds

- Upon receipt of the funds, we invested up to approximately \$100 million in liquid assets (primarily cash equivalents) which could be sold on short notice to fund new loans. The remaining funds were used to temporarily replace higher cost wholesale borrowings (non-customer obligations) until additional lending opportunities arise over time. In a broad sense, we plan to use the Capital Purchase Program investment in the following ways:
 - **To increase our support of local economic activity by providing economically productive business and retail loans to customers in our markets.** In the fourth quarter of 2008, TSFG originated approximately \$1 billion in new commercial and consumer loans to new and existing customers. Additionally, the Treasury investment assisted us in continuing to work with our customers who are in financial difficulty to keep their homes when their financial circumstances will allow. As one of the nation's leaders in the U.S. Treasury's New Markets Tax Credit Program, TSFG is also committed to supporting community development in low-income areas. We extended approximately \$25 million in new financing during 2008 and have \$30 million committed and expected to be completed early in 2009 under this program.
 - **To increase the confidence of our depositors in the banking system in general and in TSFG in particular.** Before banks can fully support economic growth via expansion of lending activity, deposits in the industry must be stable and growing. Deposits are the raw material of lending - banks lend back into the community the money that depositors place with them. Recovery in the economy begins with depositors having confidence in their bank and the banking system. The Capital Purchase Program investment strengthened our capital and liquidity ratios, making our local depositors feel more secure. Since receiving the investment, we have experienced improved deposit growth. And as our local customer deposits grow, we will have even more funding available for local lending.

Our Strategies and Our Commitments

- Importantly, we intend to manage our business prudently so that we will be able to repay the Treasury (which is ultimately the taxpayers) investment in due course. We will not knowingly engage in poor or high risk lending practices, and understand that poor lending practices by many financial institutions contributed to our current economic recession. Additionally, we will have a clear strategy that focuses on customer relationships - we bank people who bank with us. As a part of that strategy, we will keep our capital invested locally - lending within our local market communities to support local economic growth.
- In recognition of financial performance that is not up to our expectations, and in recognition of our obligations to our shareholders, we will not pay bonuses to any Executive Management Team member for 2008. As a team, we are committed to managing through the current environment and emerging from the recession as a stronger, more focused and higher performing institution. We recognize the challenges of today, but we are optimistic about the future - for our customers and for TSFG.

Most banks call this part of South Carolina "the Upstate."
We call it home.



CAROLINA FIRST BANK
P.O. Box 1028, Greenville, SC 29602
www.carolinafirst.com

Since 1986, Carolina First has had one mission: to be the best relationship bank in each of our markets by putting our customers first, taking their banking personally, and doing everything in our power to help them achieve their goals.

It's no secret that during the past 18 months, the banking industry has been rocked by some of the toughest financial conditions in our country's history. While Carolina First has not been immune, we've kept our ability to do the things that make a difference for our customers and our communities. We're still here. We're still strong. And we are wiser for the experience.

That's why we're recommitting ourselves to doing the things we do best. Things like lending to local businesses, supporting local community organizations, safeguarding our customers' deposits, and providing premier financial planning and wealth management services to our customers – and delivering all of this with a unique level of personal service. That's the way Carolina First became one of the nation's 50 largest financial institutions, and it's the way we plan on securing a bright future for our customers, our employees, our shareholders and our communities.

On behalf of the more than 1,500 employees of Carolina First, and the nearly 2,500 employees of The South Financial Group, we invite you to visit your nearest Carolina First office, meet the people who make our bank so special, and discover the difference it makes when a bank is committed top to bottom to doing whatever it takes to help you succeed.

Sincerely,

Handwritten signature of H. Lynn Harton.

H. Lynn Harton
Interim President & CEO
The South Financial Group

Handwritten signature of Scott M. Frierson.

Scott M. Frierson
President
Carolina First

Handwritten signature of Michael J. Spitzmiller.

Michael J. Spitzmiller
Upstate Market President
Carolina First

CAROLINA FIRST

Whatever it takes.