

**THE SOUTH FINANCIAL GROUP, INC.  
401(K) PLAN  
INFORMATION REGARDING THE  
DIVIDEND PAYOUT ELECTION**

Dear The South Financial Group, Inc. Employee Stock Ownership Participant:

The South Financial Group, Inc. (“TSFG”) is able to offer you an *election* to receive a cash distribution of the dividends paid on The South Financial Group, Inc. Stock (“TSFG Stock”) held in your account under The South Financial Group, Inc. Employee Stock Ownership Plan (“Plan”). You may elect to continue to have dividends reinvested in TSFG Stock in your Plan account or to receive a quarterly cash distribution of these dividends.

1. **You do not need to take any action if you want to continue to have your dividends reinvested in TSFG Stock within the Plan.** Unless you complete and return the *Dividend Payout Election Form*, your dividends will continue to be reinvested within the Plan.
2. If you wish to receive cash distributions of your dividend amount, read the remainder of this document to understand the effect of your elections and simply complete the *Dividend Payout Election Form*, located at [www.TSFG401kAdvantage.com](http://www.TSFG401kAdvantage.com) and return it to the address listed on or before January 3rd.

The following Questions and Answers are intended to address many of your likely questions. If you have further questions or need assistance completing the form, call The South Financial Group Benefits Department at 864-255-3035.

**Q1. What is the Dividend Payout Election?**

Prior to 2004, when TSFG paid a quarterly cash dividend on the shares of TSFG Stock allocated to your Plan account, you did not have the option to receive those dividends directly in cash. Instead, the dividends were automatically retained in the Plan where they were reinvested in your account and used to purchase additional shares of TSFG Stock. The Dividend Payout Election will allow you to have TSFG dividends paid directly to you in cash. In addition, you will now be 100% vested in *dividends* on TSFG Stock held in your account under the Plan.

**Q2. Does the Dividend Payout Election apply to all Plan dividends?**

No. The Dividend Payout Election, in accordance with tax legislation, applies only to cash dividends paid on shares of TSFG Stock held in your account under the Plan. The Dividend Payout Election does not apply to dividends paid with respect to other securities or investments held in your account (for example, dividends relating to mutual fund investments).

**Q3. Why is this feature being added to the Plan?**

TSFG takes pride in its benefits programs and has designed all its retirement savings programs to encourage employees to save towards a comfortable retirement. TSFG is able to receive a

deduction for the dividends paid to the Plan simply by allowing you, the participants, to elect whether you want to receive a current distribution of your dividends or continue to have them reinvested in the Plan. The tax deduction available to TSFG more than pays for the additional administrative requirements of offering this election to you and these savings may positively affect company earnings and stock value. In short, the Dividend Payout Election may help the company to be more profitable while also offering you the opportunity to receive distributions of these dividends. In researching this plan feature, we found that many companies currently offer a Dividend Payout Election with respect to company stock in their retirement plans.

**Q4. Who is eligible to participate in the Dividend Payout Election?**

All Plan participants (including retirees, terminated employees, alternate payees and beneficiaries) under the Plan are eligible to participate in the Dividend Payout Election.

**Q5. When does the Dividend Payout Election take effect?**

The Dividend Payout Election is available for dividends declared for the first quarter of the calendar year and will continue to apply with respect to future quarterly dividends paid during the calendar year. Keep in mind that the TSFG Board of Directors determines whether a dividend will be paid, the amount of the dividend, and the dividend payment date.

**Q6. How do I elect to receive dividends under the Dividend Payout Election?**

You must complete the form entitled *The South Financial Group, Inc. Employee Stock Ownership Plan Dividend Election Form* and return the completed form to The South Financial Group Benefits Department at PO Box 1029, Greenville, SC 29602. The form must be received on or before January 3rd, in order for the election to be effective for that year.

**Q7. If I elect to receive dividends under the Dividend Payout Election, when will I receive payment?**

Dividends will be mailed to your address of record as soon as possible following the applicable quarterly dividend payment date.

**Q8. How can I estimate what my quarterly dividend cash payment may be?**

Quarterly dividend payments will be based on the number of TSFG shares in your Plan account as of the dividend record date. You can estimate the number of shares by dividing the amount you have invested in TSFG Stock on the dividend record date by the current TSFG Stock price on the dividend record date. Next, multiply the number of shares by the declared dividend rate to determine the approximate dividend amount on those shares.

**For example:**

TSFG Stock Balance = \$6,000.00

TSFG Stock Closing Price = \$30.00

Declared Dividend on TSFG Stock = \$0.21

$$\frac{\$6000.00}{\$30.00} = 200 \text{ shares}$$

$$200 \text{ shares} \times \$0.21 = \$42.00 \text{ (approximate dividend amount)}$$

**Q9. Can I elect to receive only a portion of the eligible dividends?**

No. Your election to receive dividends in cash under the Dividend Payout Election will apply to all eligible dividends. Partial distributions are not permitted.

**Q10. How do I elect to have dividends reinvested in my Plan account?**

If you would like to continue to have TSFG dividends reinvested in TSFG stock in your Plan account, no action is required. Unless you affirmatively elect to receive a cash payment, dividends will continue to be automatically reinvested in your Plan account.

**Q11. What is the deadline for making an election?**

If you would like to make an election to receive a cash payment of dividends for the calendar year, you must make your election before the deadline. The South Financial Group Benefits Department must receive the completed election form no later than January 3rd.

**Q12. How long does my election remain in effect?**

Your election will remain in effect for all future dividend payments for the calendar year. You will have the opportunity to change your election before the beginning of each calendar year, and if you make no election, your dividends will be reinvested in TSFG Stock. Therefore, even if you elect to receive dividends in one calendar year (e.g., 2005), you must still elect to receive them for the subsequent calendar year (e.g., 2006) during the open election period or your dividends will be reinvested in TSFG Stock in the subsequent calendar year.

**Q13: May I Change My Election Later?**

Each year you may make a new election. However, once the January 3<sup>rd</sup> deadline has passed your election becomes irrevocable for that particular calendar year, and you may not change your election until the following calendar year. You will receive an annual notice, similar to this one, at about this same time each year advising you of your ability to elect whether to receive your dividends in cash or have them reinvested in TSFG Stock for the upcoming calendar year.

**Q14: Do I Have to Make Any Changes?**

No. All dividends currently paid on TSFG Stock held in your Plan account are automatically reinvested in more TSFG Stock. Unless you complete the Dividend Payout Election Form notifying the Plan Administrator to do otherwise, your dividends will continue to be reinvested in more TSFG Stock within the Plan. If you decide you need to receive current dividend

distributions for the upcoming year (*e.g.*, to pay for an expected expense), you now have the additional flexibility to elect to do so.

**Q15. How does this change affect my taxes?**

Dividends that are reinvested in TSFG Stock in your Plan account are not subject to tax until you receive your distribution from the Plan. However, dividends that are paid to you under the Dividend Payout Election are subject to income tax (no 10% early withdrawal penalty). Note that dividends distributed under the Dividend Payout Election are not eligible for capital gains rates that are generally applicable to other dividends. Also, because these payments are not subject to withholding, you may wish to increase your tax withholding amounts (by completing a new Form W-4) or to make estimated tax payments.

Dividend payments made to you under the Dividend Payout Election will be reported on IRS Form 1099-DIV. Note that if you receive dividend income under the Dividend Payout Election, you will not be able to file a short federal tax form (*i.e.*, 1040EZ) since dividend income must be reported on long federal tax forms (*i.e.*, 1040 or 1040A, with applicable schedules).

In evaluating your Dividend Payout Election decisions, please seek advice from your tax advisor.

**Q16. What other changes are being made to the Plan?**

You will now be 100% vested in *dividends* on TSFG Stock allocated to your account under the Plan. TSFG was not required to offer you immediate 100% vesting in your TSFG dividends, but you would not have been permitted to make a Dividend Payout Election on any unvested dividends and TSFG would not have been able to take a tax deduction on any unvested dividends. Although you will now be 100% vested in any dividends on TSFG Stock held in your account under the Plan, you will not be 100% vested in all other shares of TSFG Stock held in the Plan unless you have completed the required vesting schedule. In other words, nothing has changed with respect to vesting for your account in the Plan except that you are now 100% vested in dividends paid on TSFG Stock allocated to your account under the Plan.

**Q17. Who should I contact with additional questions?**

The South Financial Group Benefits Department at 864-255-3035.