

PALMETTO BANCSHARES, INC. WHISTLEBLOWER POLICY

Procedures for the Submission of Complaints or Concerns Regarding Financial Statement Disclosures, Accounting, Internal Accounting Controls, or Auditing Matters

Compliant with section 301 of the Sarbanes-Oxley Act of 2002 and applicable rules of the Securities and Exchange Commission, the Audit Committee (the “Committee”) of Palmetto Bancshares, Inc. (the “Company”) has formal procedures for: (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Company, of concerns regarding questionable accounting or auditing matters.

The Company is committed to achieving compliance with all applicable securities laws and regulations, accounting standards, accounting controls and audit practices. Accordingly, in order to facilitate the reporting of concerns and complaints, the Company’s Audit Committee has established the following procedures for (1) the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters, including concerns regarding questionable accounting or auditing matters (collectively, “Accounting Matters”), and (2) the confidential, anonymous submission by employees of the Company of concerns regarding Accounting Matters.

Scope of Matters Covered by These Procedures

The following procedures relate to concerns or complaints relating to any questionable accounting matters including, without limitation, the following:

- ◆ Fraud or deliberate error in the preparation, evaluation, review or audit of any financial statement of the Company;
- ◆ Fraud or deliberate error in the recording and maintaining of financial records of the Company;
- ◆ Deficiencies in or noncompliance with the Company’s internal accounting controls;
- ◆ Misrepresentation or false statement to or by a senior officer or accountant regarding a matter contained in the financial records, financial reports or audit reports of the Company; or
- ◆ Deviation from full and fair reporting of the Company’s financial condition.

Submission of Complaints

Any person, including employees, with a concern or complaint regarding Accounting Matters may submit their concern or complaint in writing to the Chairman of the Audit Committee of the Company at its corporate headquarters by regular mail as follows:

Chairman
Audit Committee

Palmetto Bancshares, Inc.
301 Hillcrest Drive
Laurens, South Carolina 29360

The person submitting a complaint should include a telephone number in the submission at which he or she may be contacted if the person requests contact or if the Audit Committee determines that contact is appropriate.

Any employee of the Company may submit a concern or complaint regarding Accounting Matters to the management of the Company without fear of dismissal or retaliation of any kind by following the procedures outlined in the Company's Employee Handbook. The Company will not discharge, demote, suspend, threaten, harass, or in any manner discriminate against any employee in the terms and conditions of employment based upon any lawful actions of an employee with respect to good faith reporting of concerns or complaints regarding Accounting Matters or otherwise as specified in Section 806 of the Sarbanes-Oxley Act of 2002.

Employees may forward concerns or complaints regarding Accounting Matters on a confidential and anonymous basis to the Chairman of the Audit Committee through an objective third party reporting option available 24 hours a day, 7 days a week by calling 877-888-0002. An interview specialist will conduct a detailed interview and generate actionable incident reports.

Treatment of Complaints

Upon receipt of a concern or complaint either through direct mail or hotline report dissemination, the Chairman of the Audit Committee will determine whether the concern or complaint actually pertains to Accounting Matters and when possible, acknowledge receipt of the concern or complaint to the submitter. Concerns or complaints relating to Accounting Matters will be reviewed under Audit Committee direction with the assistance of Legal Counsel, Audit Services or such other persons as the Audit Committee determines to be appropriate and / or necessary. Confidentiality will be maintained to the fullest extent possible, consistent with the need to conduct an adequate review. Prompt and appropriate corrective action will be taken when and as warranted in the judgment of the Audit Committee. When possible and when determined appropriate by the Audit Committee, notice of any corrective action taken will be given to the person who submitted the concern or complaint.

Reporting and Retention of Complaints and Investigations

The Company's Chief Auditor will maintain a log of all concerns or complaints (as reported by the Chairman of the Audit Committee) tracking their receipt, investigation, and resolution and shall prepare a periodic summary report thereof for the Audit Committee. Copies of complaints and the log will be maintained in accordance with the Company's document retention policy.

Revised by the Company's Audit Committee this 18th day of December, 2007.