

**PALMETTO BANCSHARES, INC.**  
**COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS**

**CHARTER**  
**AS OF OCTOBER 20, 2009**

**I. PURPOSE**

The purpose of the Compensation Committee (the “Committee”) of the Board of Directors of Palmetto Bancshares, Inc. (the “Company”) is to discharge the Board of Director’s (the “Board”) responsibilities relating to Company’s compensation philosophy and practices. This responsibility includes the compensation and remuneration of the Company’s and Bank’s Chairman, Chief Executive Officer, Chief Operating Officer and other names executives; oversight of the Company’s officer incentive plans; reviews and recommendations related to the Company’s employee benefit plans; and recommendations related to compensation for the Board of Directors. The Committee is also responsible for producing in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”), applicable compensation information for inclusion in the Company’s annual proxy statement.

The Committee’s guiding philosophy is as follows, with a focus on ensuring compensation practices are aligned with sound risk management:

- Use its best efforts to develop compensation policies that create a direct relationship between pay levels, corporate performance and long-term return to shareholders; and
- Vigilantly monitor the results of such policies to assure that compensation payable to the Company’s senior executive officers provides overall competitive pay levels, creates proper incentives to enhance shareholder value, rewards superior performance, and is justified by the returns available to shareholders, particularly when compared to the returns received by the shareholders of the Company’s principal competitors.

**II. COMPOSITION AND MEETINGS**

The Committee shall consist of three or more members of the Board, each of whom the Board has determined has no material relationship with the Company and each of whom is otherwise “independent” under the rules of the Securities and Exchange Act of 1934, Internal Revenue Code, and any other applicable legal or regulatory standard. The members of the Committee shall be appointed and replaced by the Board on the recommendation of the Corporate Governance and Nominating Committee. Members shall serve at the pleasure of the Board and for such term, or terms, as the Board may determine.

The Board will designate one member of the Committee as its chairperson. The Committee will meet at least annually and otherwise as often as considered necessary by the Committee to carry out its duties as described herein. The Committee will meet at a place

determined by the Committee chairperson, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the Committee or its chairperson. In the event of a tie vote on any issue, the chairperson's vote shall decide the issue. The Committee may invite such members of management to its meetings as it may deem desirable or appropriate. The Company's or Bank's Chairman, Chief Executive Officer, and/or Chief Operating Officer should not be in attendance during any portion of a meeting where their individual performance or compensation is discussed, unless specifically invited by the Committee.

The Committee chair, in consultation with management, shall prepare and approve the agenda in advance of each Committee meeting.

### **III. RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties, the Committee shall, to the extent it deems necessary or appropriate:

1. Establish, in consultation with executive management, the Company's general compensation philosophy, and oversee the development and implementation of compensation programs.
2. Review and approve corporate and individual goals relevant to the Company's and the Bank's Chairman, Chief Executive Officer, and Chief Operating Officer (COO), administer an annual performance evaluation of these officers, and approve compensation for these officers based on their evaluations. In determining the long-term incentive component of such compensation, the Committee shall consider the Company's performance and relative shareholder return, the value of similar incentive awards to such individuals at comparable companies, and past awards.
3. Review at least annually the performance of the Company's and the Bank's Chairman, Chief Executive Officer, and Chief Operating Officer.
4. Approve the Company's officer incentive compensation plans and equity based plans, oversee the activities administering these plans and discharge any responsibilities imposed on the Committee by any of these plans. The Committee may also review other incentive compensation plans of the Company as it deems appropriate.
5. Approve, as applicable, the Company's and Bank's Chairman, Chief Executive Officer's, Chief Operating Officer's and other named executives named in the annual proxy statement for the annual meeting of shareholders: a) annual base salary levels, b) annual incentive plan, c) long-term incentive plan, d) employment agreements, severance arrangements, change in control or similar termination agreements, and e) other special or supplemental benefits. This information shall be reported to the Board prior to publication in the proxy statement.

6. In consultation with senior management, annually set percentage guidelines for overall employee compensation increases, if any.
7. Review annually the investment allocations and performance, and results of any required external audits or reviews related to the Company's benefit plans.
8. Review and recommend to the Board the compensation for directors and committee chairs.
9. Perform any other activity consistent with this Charter, the Company's Bylaws, and governing law, relating to the Company's compensation and benefit programs as the Committee or the Board deems necessary or appropriate.

With respect to the responsibilities listed above, the Committee shall:

10. Maintain minutes of its meetings and records relating to those meetings and the Committee's activities.

#### **IV. COMMITTEE REPORTING**

The Committee shall produce the following reports and provide them to the Board:

1. A written or oral summary of the pertinent actions taken at each Committee meeting, which shall be presented to the Board at the next Board meeting.
2. An annual written report of the Committee on executive compensation for inclusion in the Company's annual proxy statement in accordance with applicable SEC rules and regulations.
3. An annual performance evaluation of the Committee, which evaluation shall compare the performance of the Committee with the requirements of this charter. The performance evaluation shall also recommend to the Board any improvements to this charter deemed necessary or desirable by the Committee. The performance evaluation by the Committee shall be conducted in such manner as the Committee deems appropriate, including the use of an external consultant if desirable by the Committee.

#### **V. AUTHORITY**

In discharging its duties, the Committee is empowered to investigate any matter within the scope of its responsibilities.

The Committee shall have resources and authority appropriate to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of special counsel or other experts or consultants, as it deems appropriate without seeking approval of the Board or management. With respect to compensation consultants

retained to assist in the evaluation of the Chairman, Chief Executive Officer, Chief Operating Officer or named executive compensation, this authority shall be vested solely in the Committee.

Where legally permissible, the Committee shall have the authority to delegate such of its responsibilities, as the Committee may deem necessary or appropriate in its sole discretion.