

**PALMETTO BANCSHARES, INC.
CORPORATE GOVERNANCE AND NOMINATING COMMITTEE
OF THE BOARD OF DIRECTORS**

**CHARTER
AS OF OCTOBER 20, 2009**

I. PURPOSE

The primary function of the Corporate Governance and Nominating Committee (the “Committee”) of Palmetto Bancshares, Inc. (the “Company”) is to assist the Board of Directors (collectively the “Board,” individually a “Director”) in fulfilling its responsibilities with respect to Board and Board committee membership, shareholder proposals, and corporate governance practices consistent with the Company’s intention to voluntarily adopt various “best practices.”

The Committee’s primary duties and responsibilities are to:

- Establish criteria for Board and Board committee membership and recommend to the Board proposed nominees for election to the Board and for membership on committees of the Board;
- Make recommendations to the Board regarding proposals submitted to the Board and/or Corporate Governance and Nominating Committee and nominees for director proposed or recommended by shareholders of the Company;
- Make recommendations to the Board regarding corporate governance practices;
- Monitor the Board’s and the Company’s compliance with any commitments made to the Company’s regulators or otherwise regarding changes in corporate governance policies; and
- Lead the Board in its annual review of the Board’s performance.

II. COMPOSITION AND MEETINGS

The Committee shall be comprised of at least three or more directors as determined by the Board, the majority of whom the Board has determined to be independent under Section 303A of the New York Stock Exchange Company Manual.

The members of the Committee shall be elected and shall serve as outlined in the Company’s Bylaws. Unless the Board elects a Committee Chair, the members of the Committee may elect a Chairman by a majority vote of the full Committee membership. Vacancies occurring for any reason in the Committee shall be filled as outlined in the Company’s Bylaws.

The Committee shall meet at least once a year or more frequently as circumstances dictate. At its sole discretion the Committee may meet separately with members of management or with outside advisors to discuss any matters that the Committee believes are appropriate.

III. RESPONSIBILITIES AND DUTIES

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

Board Selection, Composition, and Evaluation

1. Establish criteria for Board membership, consistent with the Company's By-Laws as well as other governing documents and Board decisions, including criteria with respect to experience level, career specialization, leadership qualities, strength of character, diversity, and the extent to which a candidate would fill a present need on the Board.
2. Evaluate the performance of incumbent Directors in determining consideration for re-election and evaluate any changes in existing Director qualifications to ensure that changed roles are consistent with criteria for Board membership.
3. Determine and oversee the search process for candidates for Board membership, review shareholder recommendations for proposed nominees for election to the Board, identify candidates qualified to become Board members, evaluate candidates, and recommend nominees for election as Board members to the full Board of Directors (including both director nominees to be presented for shareholder approval at the annual meeting of shareholders and director nominees to be elected by the Board to fill vacancies).
4. Consider questions of independence and possible conflicts of interest of candidates and members of the Board and make recommendations to the Board regarding such issues.
5. Develop and oversee the operation of an orientation program for new Directors and determine whether and what form of continuing education is appropriate for incumbent Directors.
6. Consider and recommend changes in the size and composition of the Board, as the Committee or the Board deems necessary or appropriate.
7. Review Board processes for assessing the adequacy and completeness of their minutes, the process for the review and approval of such minutes, and the retention of such minutes.

Board Committee Selection and Composition

8. Review and assess the committee structure of the Board and make recommendations to the Board regarding committee structure, functions, and purposes, as the Committee or the Board deems necessary or appropriate.
9. In conjunction with input from the Company's or Bank's Chairman and/or Chief Executive Officer, recommend members of the Board to serve on Board committees, giving consideration to the criteria for service on each committee as set forth in the charter for each committee, as well as to any other factors the Committee deems relevant, and where appropriate, make recommendations regarding the removal of any member of any committee.
10. Confirm that the select standing committees of the Board each have a charter in effect and that its Committee reviews such Charter at least annually.
11. Review committee processes for assessing the adequacy and completeness of their respective minutes, the process for the review and approval of such minutes, and the retention of such minutes and any related materials presented to the Board or its committees for review.

Corporate Governance

12. Develop and recommend to the Board an annual self-evaluation process for the Board.
13. Oversee the Board's annual self-evaluations.
14. Make recommendations to the Board regarding policies and procedures to promote the effective functioning of the Board and sound corporate governance practices as the Committee or the Board deems necessary or appropriate.
15. Review shareholder proposals duly and properly submitted to the Company and recommend appropriate action to the Board.
16. Review any proposed amendments to the Company's Articles of Incorporation and Bylaws and recommend appropriate action to the Board.
17. Review and assess the Company's compliance with the corporate governance requirements and the requirements established under the Sarbanes-Oxley Act, by federal banking laws and regulations, or otherwise, as applicable to each of the Company and its subsidiary.
18. Perform any other activity consistent with this Charter, the Company's Bylaws, and governing law, as the Committee or the Board deems necessary or appropriate.

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

19. Maintain minutes of its meetings and records relating to those meetings and the Committee 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 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 the authority to obtain such data, engage such professionals and advisors, and use such other internal and external resources as it determines are necessary or desirable to fulfill its responsibilities and duties. Such authority shall include the authority to consult with the Company's management and employees, incur administrative expenses, obtain external reports and other materials, and to engage outside advisors, including search firms and independent counsel, as it determines are necessary or desirable to carry out its duties.

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.