

**PALMETTO BANCSHARES, INC. AND THE PALMETTO BANK  
CODE OF ETHICS FOR THE SENIOR LEADERSHIP TEAM,  
BOARD OF DIRECTORS AND SENIOR FINANCIAL OFFICERS  
(CODE OF BUSINESS CONDUCT AND ETHICS)**

The ultimate success of Palmetto Bancshares, Inc. and its primary operating subsidiary, The Palmetto Bank, depends upon many factors – the strength of our Board of Directors, Senior Leadership Team and Senior Financial Officers; the dedication and skill level of our officers and team members; the consistent delivery of quality service to our clients; and living the principles of The Palmetto Bank’s culture. These principles are:

- *Transparency* – we will be open, clear and direct in our communication;
- *Integrity* – we will be honest and truthful and treat others with respect;
- *Service* – we will be relationship focused and consider the interests of others in addition to our own;
- *Accountability* – we will take personal ownership and responsibility for our actions and the future success of the Bank; and
- *Pride* – we will take pride in our work and our Bank.

The Palmetto Bank’s principles reinforce our behavior and provide the foundation for this Code of Ethics.

## **1. PURPOSE**

The Board of Directors of Palmetto Bancshares, Inc. and The Palmetto Bank (collectively, the “Company”) has adopted the following Code of Ethics (the “Code”) which applies to the Senior Leadership Team, Board of Directors and Senior Financial Officers of the Company, which includes: President & Chief Executive Officer, Chief Operating and Chief Risk Officer, Commercial Banking Executive, Retail Banking Executive, Chief Credit Officer, Chief Financial Officer, Chief Information Officer, Chief Talent Officer, Director of Finance & Accounting, and Controller (collectively, “Covered Persons”). This Code is intended to: focus the Covered Persons on areas of ethical risk; provide guidance to help them recognize and address ethical issues; provide mechanisms to report unethical conduct; reinforce a culture of integrity and accountability; deter wrongdoing; and promote fair and accurate disclosure in our external financial reports.

No code or policy can anticipate every situation that may arise. Accordingly, this Code is intended to serve as a source of guiding principles. The Covered Persons are encouraged to bring questions about particular circumstances that may involve the provisions of this Code to the attention of the Chair of the Audit Committee, who may consult with legal counsel as appropriate. Any person engaged in activities found to be in conflict with and against applicable laws, rules and regulations or this Code could be subject to civil or criminal penalties or disciplinary measures, up to and including termination of employment.

This Code is intended to supplement the requirements of the general Code of Ethics that is applicable to all of the Company's directors, officers and team members.

## 2. INTRODUCTION

Each of the Covered Persons is expected to adhere to a high standard of ethical conduct. The reputation of the Company depends in part on the way these individuals conduct business and the way the public perceives that conduct. Unethical actions, or the appearance of unethical actions, are not acceptable. The Covered Persons are expected to be guided by the following principles of standard conduct in carrying out their corporate and financial responsibilities:

***Loyalty.*** The Covered Persons should not be, or appear to be, subject to influences or relationships that conflict with the best interests of the Company.

***Compliance with Applicable Laws.*** The Covered Persons are expected to comply with all laws, rules and regulations as prescribed by state and federal statutes applicable to the Company's activities.

***Observance of Ethical Standards.*** The Covered Persons are expected to deal openly and fairly with the Company's clients, business partners, competitors, officers and team members. No officer should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts or any other unfair practice.

## 3. INTEGRITY OF RECORDS AND FINANCIAL REPORTING

The Covered Persons are responsible for the accurate and reliable preparation and maintenance of the Company's financial records. Accurate and reliable preparation of the financial records is of critical importance to proper management decisions and the fulfillment of the Company's financial, legal and reporting obligations. Diligence in accurately preparing and maintaining the Company's records allows the Company to fulfill its reporting obligations and to provide stockholders, regulatory authorities and the general public with full, fair, accurate, timely and understandable disclosure. The Covered Persons are responsible for complying with generally accepted accounting principles, and establishing and maintaining adequate disclosure controls and procedures, and internal controls and procedures, including procedures that are designed to enable the Company to ensure: (a) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; (b) full, fair, accurate, timely, and understandable disclosure in reports and documents that the Company files with, or submits to, the Securities and Exchange Commission or other regulatory agency and in other public communications made by the Company; (c) compliance with applicable governmental laws, rules and regulations; (d) the prompt internal reporting to the Audit Committee Chair of violations of the Code; and (e) accountability for adherence to the Code. The Covered Persons shall bring to the attention of the Chair of the Audit Committee any information they may have concerning:

- (a) Defects, deficiencies, or discrepancies related to the design or operation of internal

controls which may affect the Company's ability to accurately record, process, summarize, report and disclose its financial data, or

- (b) Any fraud, whether or not material, that involves management or other team members who have roles in the Company's financial reporting, disclosures or internal controls.

No officer, director or team member should ask or encourage another individual to deviate from his or her commitment to provide truthful and accurate reporting of financial or other information. In addition, state and federal statutes and the Company's policies require that no officer, director or any other person acting under the direction thereof, take any action to fraudulently influence, coerce, manipulate, or mislead any independent registered public accounting firm or certified public accountant engaged in the performance of an audit of the financial statements of the Company for the purpose of rendering such financial statements materially misleading. Further, no officer, director or any other person acting under the direction thereof, shall alter, destroy mutilate, conceal, cover up, falsify, or make a false entry in any record, document, or tangible object with the intent to impede, obstruct, or influence the investigation or proper administration of any matter.

#### **4. CONFLICTS OF INTEREST**

The Covered Persons must avoid any conflicts of interest in their personal conduct and the execution of Company business. Any situation that involves, or may involve, a conflict of interest with the Company should be disclosed to the Chair of the Audit Committee, who may consult with legal counsel as appropriate.

A "conflict of interest" can occur when an individual's personal interest is adverse to – or may appear to be adverse to – the interests of the Company as a whole. Conflicts of interest also arise when an individual, or a member of his or her family, receives improper personal benefits as a result of his or her position with the Company.

This Code does not attempt to describe all possible conflicts of interest, which could develop. Some of the more common conflicts from which named individuals must refrain, however, are set forth below:

***Improper conduct and activities.*** The Covered Persons may not engage in any conduct or activities that are inconsistent with the Company's best interests or that disrupts or impairs the Company's relationship with any person or entity with which the Company has, or proposes to enter into, a business or contractual relationship.

***Compensation from non-Company sources.*** The Covered Persons may not accept compensation for services performed for the Company from any source other than the Company. Similarly, the Senior Leadership Team and Senior Financial Officers should not accept any other work-related outside compensation, whether or not related to the affairs of the Bank, unless approved in advance by the Audit Committee.

**Gifts.** The Covered Persons and members of their immediate families may not accept gifts of more than a nominal amount or that are not provided in the ordinary course of business from persons or entities where any such gift is being made in order to influence their actions in their position with the Company, or where acceptance of the gifts could create the appearance of a conflict of interest.

**Personal use of Company Assets.** The Covered Persons may not use Company assets, labor, or information for personal use (other than incidental personal use), unless approved by the Chair of the Audit Committee, or as part of a compensation or expense reimbursement program.

**Financial Interests in other Businesses.** The Covered Persons should avoid having an ownership interest in any other enterprises related to a client, business partner or competitor, if that interest compromises the individuals' loyalty to the Company.

## **5. CORPORATE OPPORTUNITIES**

The Covered Persons are prohibited from: (a) taking for themselves personal opportunities related to the Company's business without first presenting those opportunities to the Company and obtaining approval from the Board; (b) using the Company's property, information, or position for personal gain; or (c) competing with the Company for business opportunities.

## **6. CONFIDENTIALITY**

The Covered Persons should maintain the confidentiality of information entrusted to them by the Company and its team members and any other confidential information about the Company, its business or finances, clients, or business partners that is entrusted to them. For purposes of this Code, "confidential information" includes all material non-public information relating to the Company, its business or finances, clients or business partners.

## **7. COMPLIANCE WITH LAWS, RULES AND REGULATIONS**

The Covered Persons shall comply with all state and federal statutes, rules, and regulations applicable to the Company, including insider trading laws, and all other Company policies.

## **8. ENCOURAGING THE REPORTING OF ANY ILLEGAL OR UNETHICAL BEHAVIOR**

The Covered Persons must promote a culture of ethical behavior and compliance by fostering an environment in which the Company; (a) encourages team members to talk to leaders and other appropriate personnel when in doubt about the best course of action in a particular situation; (b) encourages team members to report violations of laws, rules and regulations to appropriate personnel; and (c) informs team members that the Company will not allow retaliation for reports made in good faith.

The Covered Persons should communicate any suspected violations of this Code to the Chair of the Audit Committee. The Audit Committee, or a person or persons designated by the Board, will investigate violations, and appropriate disciplinary action will be taken in the event of any violation of the Code, up to and including termination.

## **9. AMENDMENTS**

Amendments to this Code must be approved by the Audit Committee and the Board of Directors. Any amendment, including explicit or implicit waivers, will be disclosed as required by applicable regulations.

## **10. ADMINISTRATION**

Upon hiring or election to the Board, Covered Persons must read and certify in writing their understanding of, and intent to comply with, the Company's ethical standards described in this Code. On an annual basis, such individuals are required to reaffirm his or her agreement to adhere to such standard by signing the Certification that accompanies the Code.

The Audit Committee and the Company's entire Board of Directors, in conjunction with the Company's leadership, are responsible for interpreting the Code. In certain circumstances, it may be appropriate to grant a waiver of a provision of the Code. The Company's Board of Directors and/or its Audit Committee may grant waivers of the provisions of this Code. Any waiver of this Code granted will be publicly disclosed as required.

Reviewed and approved by the Company's Audit Committee this 19<sup>th</sup> day of December, 2013.