

SECTION

SUBJECT

Bank Organizational Structure**Compensation Committee Charter****PURPOSE**

The Boards of Directors of Mid-State Bank & Trust and Mid-State Bancshares (collectively the “Company”) have delegated to the Compensation Committee strategic and administrative responsibility on a broad range of overall Company compensation, benefits and equity compensation issues. The Committee will serve as the Compensation Committee for both Mid-State Bank & Trust and Mid-State Bancshares.

The Compensation Committee is responsible for the review and reporting to the respective Boards of Directors on all executive compensation matters that impact the Company and its subsidiaries.

It is the Committee’s responsibility to ensure that the Chief Executive Officer and key management of the Company are compensated in a manner that will attract, motivate and retain the best possible management team for the shareholders of the Company.

It is the Committee’s responsibility to ensure that compensation paid is consistent with the strategic goals of the Company; is based on performance against predetermined goals; is internally equitable and competitive, and is consistent with all regulatory requirements.

The Committee is also responsible for the communication to shareholders regarding the Company’s compensation philosophy and the reasoning behind its compensation policies by producing an annual report on executive compensation for inclusion in the Company’s proxy statement in accordance with the rules and regulations of the Securities and Exchange Commission.

**COMMITTEE
MEMBERSHIP**

The Committee will be comprised of a minimum of three outside directors each of whom will be “independent” as such term is defined in Section 4200(a)(15) of the Nasdaq Rules; a copy of such Rule is attached hereto (Exhibit I) and by this reference incorporated herein. Members shall be appointed annually by the Board and shall serve at the pleasure of the Board and for such term or terms as the Board may determine.

EXHIBIT I

Rule 4200: Definitions Section 4200(a) (15) of the Nasdaq Rules

(a)(15) "Independent director" means a person other than an officer or employee of the company or its subsidiaries or any other individual having a relationship which, in the opinion of the company's board of directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. The following persons shall not be considered independent:

(A) a director who is, or at any time during the past three years was, employed by the company or by any parent or subsidiary of the company;

(B) a director who accepted or who has a Family Member who accepted any payments from the company or any parent or subsidiary of the company in excess of \$60,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:

- (i) compensation for board or board committee service;
- (ii) payments arising solely from investments in the company's securities;
- (iii) compensation paid to a Family Member who is a non-executive employee of the company or a parent or subsidiary of the company;
- (iv) benefits under a tax-qualified retirement plan, or non-discretionary compensation;
- (v) loans from a financial institution provided that the loans (1) were made in the ordinary course of business, (2) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public, (3) did not involve more than a normal degree of risk or other unfavorable factors, and (4) were not otherwise subject to the specific disclosure requirements of SEC Regulation S-K, Item 404;
- (vi) payments from a financial institution in connection with the deposit of funds or the financial institution acting in an agency capacity, provided such payments were (1) made in the ordinary course of business; (2) made on substantially the same terms as those prevailing at the time for comparable transactions with the general public; and (3) not otherwise subject to the disclosure requirements of SEC Regulation S-K, Item 404; or
- (vii) loans permitted under Section 13(k) of the Act.

Provided, however, that in addition to the requirements contained in this paragraph (B), audit committee members are also subject to additional, more stringent requirements under [Rule 4350\(d\)](#).

(C) a director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the company or by any parent or subsidiary of the company as an executive officer;

(D) a director who is, or has a Family Member who is, a partner in, or a controlling shareholder or an executive officer of, any organization to which the company made, or from which the company received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than the following:

- (i) payments arising solely from investments in the company's securities; or
- (ii) payments under non-discretionary charitable contribution matching programs.

(E) a director of the listed company who is, or has a Family Member who is, employed as an executive officer of another entity where at any time during the past three years any of the executive officers of the listed company serve on the compensation committee of such other entity; or

(F) a director who is, or has a Family Member who is, a current partner of the company's outside auditor, or was a partner or employee of the company's outside auditor who worked on the company's audit at any time during any of the past three years.

(G) in the case of an investment company, in lieu of paragraphs (A)-(F), a director who is an "interested person" of the company as defined in Section 2(a)(19) of the Investment Company Act of 1940, other than in his or her capacity as a member of the board of directors or any board committee.

MEETINGS AND STRUCTURE

The Committee will meet on a regular basis. Special meetings of the Committee may be called if warranted, and actions may be taken by unanimous written consent when deemed necessary or desirable by the Committee or its chairperson.

The Committee may invite, consistent with maintaining confidentiality of its discussions, any other person the Committee or its chairperson deems necessary or desirable to assist the Committee in its deliberations.

**COMMITTEE
RESPONSIBILITIES**

1. The Committee shall review the compensation strategy for the Company on an annual basis. The Committee shall have a strategy in place for base salary, bonus (short term incentive), equity (long term incentive) and benefits. The primary goal of the compensation strategy is to insure that the Company has the compensation programs in place to attract, retain and motivate the best possible workforce.
2. At the executive level the strategy should ensure that the Chief Executive Officer and the members of executive management are rewarded appropriately for their contributions to Company growth and profitability. The executive compensation strategy must support the Company's business strategy and be aligned in a manner that is in the best interest of shareholders.
3. The Committee will in executive session annually review and approve the individual elements of total compensation for the Chief Executive Officer, including corporate goals and objectives relevant to the CEO's compensation, evaluate the performance of the CEO in light of those goals and objectives, and set the CEO's compensation level based upon this evaluation.
4. The Committee will review the recommendations made by the Chief Executive Officer on all other officers of the Bank as defined in Section 16 of the Securities Exchange Act of 1934 as amended and Rule 16 a-1 promulgated thereunder (each a "Section 16 Officer") and will determine the elements of total compensation of Section 16 Officers. The Chief Executive Officer may be present during deliberations on these officers but may not vote.
5. The Committee will review and approve any severance or similar termination payments proposed to be made to any current or former Section 16 Officer.

6. The Committee will prepare and communicate in the annual Board Compensation Committee Report to shareholders the factors and criteria on which the compensation for the prior year for the CEO was based, including the relationship of the Company's performance to executive compensation.
7. The Committee will ensure that the annual executive incentive compensation plan is administered in a manner consistent with the Company's compensation strategy. The Committee will approve the following plan elements:
 - ◆ Participation
 - ◆ Target annual incentive awards.
 - ◆ Corporate financial goals.
 - ◆ Actual awards paid to the CEO and members of Executive Management
 - ◆ Total funds reserved for payment under the plan.
8. The Committee delegates to the CEO the responsibility for the design, administration and management of other incentive programs (not including the Executive Incentive Plan) for the company. The CEO will annually review with the Committee the plans in place other than the Executive Incentive Plan and the payouts associated with the plan(s) administration.
9. The Committee will approve for submission to the Board of Directors all new equity-related incentive plans, and administer the Company's long term incentive programs in a manner consistent with the terms of the plans as to the following:
 - ◆ Participation
 - ◆ Vesting Requirements
 - ◆ Awards to the CEO and members of Executive Management
 - ◆ Total shares reserved for awards
10. The Committee will review with the CEO matters relating to management succession, bench strength and organizational development.
11. The Committee will review and approve the Company's annual salary increase budget and any policy issues related to the administration of the Company's salary or benefit programs.
12. The Committee will prepare required reports for the Boards of Directors.

13. In consultation with management, the Committee will oversee regulatory compliance with respect to compensation matters, including overseeing the Company's policies on structuring compensation programs to preserve tax deductibility.
14. The Committee will consider and recommend to the Board for approval corporate title appointments of Senior Vice Presidents and above.
15. The Committee will be deemed the "Stock Option Committee" as such term is defined in the Company's 1996 Stock Option Plan as well as the Committee deemed to administer any other equity compensation plans adopted by the Company and will have the power and duties set forth therein.
16. The Committee may retain its own outside experts for advice on any matter under review, as the Committee may deem necessary or appropriate and without seeking approval of the Board or Management.
17. The Committee shall perform any other duties or responsibilities expressly delegated to the Committee by the Board from time to time relating to the Company's compensation programs.

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