

HMN FINANCIAL, INC.
EXCESSIVE OR LUXURY EXPENDITURES POLICY

This Excessive or Luxury Expenditures Policy was readopted by the Board of Directors of HMN Financial, Inc. (the “Company”) as of November 22, 2011 (the “Effective Date”).

Where used below, “Company” shall mean HMN Financial, Inc. and its wholly owned subsidiary, Home Federal Savings Bank.

Purpose

This Policy is intended to satisfy the obligations of the Company as of the Effective Date under Section 111(d) of the Emergency Economic Stabilization Act of 2008 (as amended by the American Recovery and Reinvestment Act of 2009) (“EESA”), and the applicable regulations and guidance issued thereunder, by setting forth written standards applicable to the Company and its employees with the purpose of eliminating excessive and luxury expenditures by the Company.

General Philosophy Regarding Company Expenditures

The Company expects all of its employees to exercise reasonable care and prudence in determining the appropriateness of any Company expenditure. In general, every expenditure incurred by an employee on behalf of the Company should serve a legitimate business purpose of the Company, and the amount of the expenditure should be reasonable and proportionate to the anticipated benefit to the Company. Any expenditure that fails to satisfy that standard would be considered excessive and impermissible under this Policy. A legitimate business purpose of the Company includes, but is not limited to, staff development, reasonable performance incentives, or other similar reasonable measures conducted in the normal course of the Company’s business operations. Employees are encouraged to consult with their supervisor in advance of making any expenditure or entering into any commitment on behalf of the Company in any case where the employee is uncertain whether the expenditure or commitment is inconsistent with this Policy.

Travel

Automobile. The Company may provide a vehicle for use by certain officers of the Company. For any vehicle provided, the Company will pay the operational, insurance and maintenance costs associated with the officer’s use of the vehicle. Unless otherwise approved by the Compensation Committee, the purchase price of such a vehicle shall not exceed \$40,000.

Expenses for employee or director use of personal vehicles for Company business will be reimbursed at a rate that does not exceed the published IRS mileage rate. Documentation in support of such use must be provided in accordance with applicable Company policies and procedures.

Air. Employees and directors using air travel on Company business shall use reasonable efforts to minimize the cost to the Company of such travel. Air travel will be by commercial carrier, coach class, unless otherwise approved in advance by the principal executive officer or the principal financial officer.

Other Travel-Related Expenses When traveling for Company business, employees and directors are encouraged to avoid overnight stays when reasonably possible. Expenses such as spa treatments, fitness facilities, in-room movies, etc., must be paid personally by the employee or director and will not be reimbursed. The Company will reimburse directors and employees for reasonable meal expenses that

are incurred in connection with business-related travel. Documentation in support of travel expenditures must be provided in accordance with applicable Company policies and procedures.

Entertainment

The Company recognizes that Company-paid entertainment serves a legitimate business purpose in fostering the Company's relationships with existing or potential clients, the community and other persons, entities or businesses with which the Company has a business relationship. Such events may include dining; sporting events; golf outings; theatre or concerts; and similar events.

Employees shall exercise reasonable judgment in determining the appropriateness of an entertainment expense to be paid by the Company. Such determination should take into account, among other relevant considerations, the nature and amount of the expense; the significance of the relationship or potential relationship to the Company of the persons being entertained; how recently the persons being entertained have been guests of the Company at other events; and whether the entertainment creates the appearance or possible appearance of impropriety or abuse. Any Company-paid entertainment expense that is reasonably anticipated to exceed \$200 per person must be approved in advance by the principal executive officer or principal financial officer. Company-paid entertainment expenses should be documented in accordance with applicable Company policies and procedures.

Employee Events

The Company believes that it is appropriate and in the best interests of the Company for the Company from time to time to host or sponsor certain employee events for the purpose of recognizing and rewarding employees, promoting collegiality and team-building among employees; providing individual and team training; and business planning and strategy development. Such events may include off-site sessions or retreats, employee recognition ceremonies and awards; and holiday or seasonal parties. Efforts should be made to conduct such events on-site when practicable and consistent with the business purpose of such event. Events that are conducted off-site, such as at a hotel, restaurant, conference center or banquet facility, shall be held locally, unless otherwise approved in advance by the principal executive officer or the principal financial officer.

Office and Facility Renovations

Office and facility renovations will be scheduled and performed as part of an overall Company strategic plan for maintaining and upgrading the Company's premises. Renovation expenses that occur in the normal course of operations shall be included in the Company's annual operating budget. The Company may undertake special office or facility renovations in the case of weather, catastrophic or other extraordinary events or acts of God that may occur from time to time and which, in the approving officer's judgment, justify the Company's undertaking of such renovations.

Regular office and facility renovations must be approved by the principal financial officer as part of the annual budget approval process. Special office and facility renovations must be approved by the principal financial officer on an as-needed basis. A determination of the appropriateness of an office or facility renovation should consider whether such renovation serves a legitimate business purpose, which may include enhancement of operational efficiency; compliance with applicable code, statutory or regulatory requirements (e.g., OSHA requirements; fire and other safety codes; ADA accessibility standards, etc.); presentation of a positive Company image to the public; and the provision of a clean, safe, pleasant and comfortable environment for employees, customers and guests of the Company. Such determination also should consider the reasonableness of the anticipated cost of such renovation.

Approval should be denied for any office or facility renovation expenditure which the officer determines to be inconsistent with the purpose of this Policy.

Policy Administration

Authority. The Board of Directors of the Company shall be responsible for maintaining and updating the Policy as necessary in order to comply with the Company's obligations under the applicable provisions of EESA . The principal financial officer is responsible for the day-to-day administration of the Policy. The principal executive officer is accountable for overall adherence to this Policy and must approve any exceptions.

Distribution; Posting. The terms of this Policy apply to all employees of the Company. Accordingly, a copy of this Policy shall be distributed to all employees and included in the Company's employee handbook. A copy of this Policy, including any material amendments to the Policy, shall be filed with the Department of the Treasury, the Federal Reserve Bank of Minneapolis and the Office of the Comptroller of the Currency and be posted on the Company's website in accordance with applicable governmental regulations and guidance. The principal executive officer shall be responsible for ensuring that such posting is made.

Violations. Any violation of this policy must be promptly reported to the Compensation Committee of the Board of Directors. Violations of this policy may result in disciplinary action against those accountable for adherence to the policy, up to and including termination of employment.

Certification. The principal executive officer and the principal financial officer of the Company shall certify to the Department of the Treasury at least annually, in accordance with applicable government regulations and guidance, that the Company and its employees have complied with the foregoing policy during the applicable period and that all expenses requiring approval pursuant to this Policy have been properly approved in accordance with the requirements. Appropriate documentation and records to substantiate such certifications shall be retained for six years after the date of each such certification (the most recent two years in an easily accessible place) in accordance with applicable government regulations and guidance.

Amendment and Termination. The Board of Directors has the full authority to amend the Policy from time to time, in its discretion, without the consent of any affected employee. The Policy will remain in effect until the effective date of its termination as determined by the Board of Directors. The Board of Directors may terminate the Policy at any time, provided that it has received the advice of counsel that such termination does not cause the Company to fail to comply with any its obligations as a participation in the Capital Purchase Program under the Troubled Assets Relief Program.