

HMN FINANCIAL, INC.
Compensation Committee Charter
(readopted by the Committee March 8, 2011)
(Readopted by the Board March 15, 2011)

Purpose

The Compensation Committee is appointed by the Board of Directors (the “Board”) of HMN Financial, Inc. (the “Company”) to discharge the Board’s responsibilities relating to compensation of the Company’s employees, including executives.

Committee Membership

The Committee will be composed of at least three directors, all of whom satisfy the definition of “independent” under the listing standards of the NASDAQ Stock Market. All Committee members shall also be “non-employee directors” as defined by Rule 16b-3 under the Securities Exchange Act of 1934 and “outside directors” as defined by Section 162(m) of the Internal Revenue Code. The Committee members will be appointed by the Board and may be removed by the Board in its discretion.

Meetings

The Committee shall meet as often as its members deem necessary to perform the Committee’s responsibilities.

Committee Authority and Responsibilities

The Committee will have the authority, to the extent it deems necessary or appropriate, to retain a compensation consultant to assist in the evaluation of director, Chief Executive Officer (CEO) or senior executive compensation. The Committee shall have sole authority to retain and terminate any such consulting firm, including sole authority to approve the firm’s fees and other retention terms. The Committee shall also have authority, to the extent it deems necessary or appropriate, to retain other advisors. The Company will provide for appropriate funding, as determined by the Committee, for payment of compensation to any consulting firm or other advisors employed by the Committee.

The Committee will make regular reports to the Board and will propose any necessary action to the Board. The Committee will review and reassess the adequacy of this charter annually and recommend any proposed changes to the Board for approval. The Committee will annually evaluate the Committee’s own performance.

The Committee shall:

- Review and approve the Company’s goals and objectives relevant to CEO compensation, evaluate the CEO’s performance in light of those goals and objectives, and determine and approve the CEO’s compensation level based on this evaluation.

- Monitor and ensure compliance with all applicable regulatory requirements relating to compensation.

The Committee, to the extent it deems necessary or appropriate, will:

- Consider the Company's performance and relative shareholder return, the value of similar incentive awards to CEOs at comparable companies, and the awards given to the Company's CEO in past years when determining the long-term component of the CEO's compensation.
- Approve, or make recommendations to the Board, with respect to non-CEO compensation plans, incentive-compensation plans, equity-based plans and written employment agreements and change in control agreements.
- Review and make recommendation to the Board with respect to Board of Directors compensation.
- Employ a risk review process that addresses and analyzes compensation policies and practices in the context of assessing risk pertaining to incentive compensation. Compensation Plans are intended to be crafted that do not encourage unnecessary or excessive risk, including behavior focused on short-term results rather than long-term value creation, that would threaten the value of the Company. This process is also consistent with the requirements of the Department of Treasury's Capital Purchase Program.
- Review and make recommendations to the Board relative to compensation "clawbacks".