

HMN FINANCIAL, INC.
CORPORATE GOVERNANCE GUIDELINES
(as amended November 23, 2010)

The Board of Directors of HMN Financial, Inc. (the Company") has established the following Corporate Governance Guidelines to assist it in the exercise of its responsibilities.

I. BOARD ORGANIZATION AND COMPOSITION

A. Board Leadership

While the Board currently has had a practice of separating the offices of Chairman and Chief Executive Officer, the Board has no policy with respect to such separation. The Board believes that this issue is part of the succession planning process and that it is in the best interests of the Company for the Board to make a determination when it annually elects its Chairman for the upcoming fiscal year. The Board also believes that there is no current need to formally designate a "lead" Director since the offices are currently separated.

B. Size and Composition of the Board

The current size of the Board is nine members, the authorized number of Board members. The Board believes that this size fosters good communications and effective operation, and should remain at 9 members. At all times, a substantial majority of the Board shall be "independent directors", as that term is defined from time to time by relevant law and NASDAQ listing rules. Further, the Board shall certify as to the independence of directors in accordance with relevant law and NASDAQ listing rules. New factors, such as the availability of uniquely qualified outside Board member candidates or succession planning considerations for external or internal Board members, or strategic opportunities for the Company, may justify changes in the size of the Board from time to time. The Board, with the assistance of the Nominating and Governance Committee, shall select potential new Board members, based on its assessment and consideration of the qualifications, diversity, age, skills, geographic location, experience and independence of the candidates, in the context of the needs of the Board, and using such other criteria and priorities established from time to time. Because the Company is a holding company for

banks located in a variety of communities throughout Minnesota and Iowa, the Board deems important residency in a county where a full service branch bank is located. Recognizing that such a geographic restriction may limit the Board's ability to attract qualified Board candidates, the Board may, on a vote of a majority of its members, waive such geographic requirement.

The Board believes that individual Directors who change the responsibility they held when they were elected to the Board should volunteer to resign from the Board. It is not the sense of the Board that in every instance Directors who retire or change from the position they held when they came to the Board should necessarily leave the Board. However, there should be an opportunity for the Board through the Nominating and Governance Committee to review the continued appropriateness of Board membership under these circumstances.

The Board does not believe it should establish age limits, but have limited non-employee directors to term limits of four 3 year terms. Additionally, the Nominating and Governance Committee will review at the end of each Director's term his/her tenure on the Board. This will allow each Director the opportunity to conveniently confirm in writing his or her desire to continue as a member of the Board. As a general rule, Board members shall not serve on more than three other publicly-held company boards.

C. Committee Structure and Assignments

The Board will have at all times an Audit Committee, a Compensation Committee, a Nominating and Governance Committee, and an Oversight Committee as required by relevant regulation. All of the members of these committees will be independent directors under the criteria established by relevant law and NASDAQ listing rules. The current committee structure also includes an Executive Loan Committee, a committee of the Bank.

Committee members will be appointed by the Board upon recommendation of the Nominating and Governance Committee with consideration of the desires of individual directors. It is the sense of the Board that consideration should be given to rotating committee members periodically, but the Board does not feel that rotation should be mandated as policy.

The need for other committees may evolve over time and the Board will initiate discussion in this area as appropriate. Each committee of the Board will have a written charter that complies with relevant law and NASDAQ listing rules.

The charters will set forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure and operations and committee reporting to the Board. The charters will also provide that each committee will annually evaluate its performance.

D. Assessing the Board's Performance

The Board of Directors will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Nominating and Governance Committee will receive comments from all directors and report annually to the Board with an assessment of the Board's performance. This will be discussed with the full Board following the end of each fiscal year.

E. Director Orientation and Continuing Education

All new directors receive an orientation with respect to the duties and responsibilities of the Board. On an annual basis, the Board members participate in the Strategic Planning Retreat, which provides Board members an overview, with senior operating and financial management, of the Company's strategic business plans. Board members shall also participate in continuing education programs as necessary to maintain their qualifications and expertise.

During Board meetings, senior officers and other key employees present information to the Board for consideration. Periodically throughout the year, Board meetings are held off-site at branch bank locations, subsidiary headquarters, and major customer locations. At these meetings, in-depth presentations of the branch/subsidiary/customer operations are submitted to the Board, and the directors have an opportunity to ask questions and examine firsthand those operations.

II. OPERATION OF THE BOARD

A. Board Meeting Agendas and Practices

The Chairman will establish the agenda for each Board meeting. At the beginning of the year the Chairman will establish a schedule of standing agenda items to be discussed during the year (to the degree foreseeable). Each Board member is invited to suggest the inclusion of items on the agenda. Each Board member is encouraged to raise at any Board meeting subjects that are not on the agenda for that meeting. The Board will at least once each fiscal year review the Company's long-term strategic plans and the principal issues that the Company will face in the future, as appropriate, during Board meetings throughout the year.

B. Committee Meetings

The Chairman of each committee, in consultation with the committee members, will determine the frequency and length of committee meetings consistent with any requirements set forth in the committee's charter, consistent with relevant law and NASDAQ listing rules. The Chairman of each committee, in consultation with the appropriate members of the committee and management, will develop the committee's agenda. At the beginning of each fiscal year, each committee will establish a schedule of standing agenda items to be discussed during the year (to the degree necessary and foreseeable).

C. Information Prior to Meetings, Presentations and Attendance at Meetings

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Information and data that are important to the Board's understanding of the business to be conducted at a Board or committee meeting will be distributed in writing to the directors sufficiently in advance of the meeting to enable careful review by the directors, and directors are expected to review these materials carefully in advance of the meeting.

D. Executive Sessions of the Board

The independent directors will meet in executive session following each regularly scheduled board meeting.

E. CEO Evaluation

The Compensation Committee, consistent with its Charter, will evaluate the CEO's performance annually, based in part on written input from all Board members and on an annual self-evaluation by the CEO that is reviewed by all of the Directors. The evaluation will take into account the goals set for the CEO at the beginning of the year, and the CEO's performance measured against those goals. As part of this process, the Committee will review with the full Board its assessment of the CEO's performance, and recommended compensation. Following this meeting, the Committee will meet with the Chairman to review the CEO's performance, and obtain his or her feedback. After this process has been completed, the Committee will set the CEO's compensation.

F. Approval of Incentive Compensation and Equity-Based Compensation Plans

The Compensation Committee will make recommendations to the Board with respect to incentive compensation and equity-based compensation plans, and the Board will condition its approval of equity-based compensation plans on obtaining the approval of the plans by stockholders as required by relevant law and NASDAQ listing rules.

III. GENERAL MATTERS

A. Board Access to Senior Management

Directors have full and free access to officers and employees of the Company. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO or the Secretary or directly by the director.

B. Board Involvement in Corporate Governance Issues and Succession Planning

The Nominating and Governance Committee shall lead the Board in periodic discussions of major corporate governance issues which shall include succession planning. The Board will work with the Nominating and Governance Committee to nominate and evaluate potential successors to the CEO. The CEO will at all times have available his or her recommendation and evaluation of potential successors.

C. Director Responsibilities and Compensation

Directors are elected by the stockholders and represent the stockholders as owners of the Company. In this regard, the Directors have a responsibility to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its stockholders. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors. The directors shall also be entitled to have the Company purchase reasonable directors' and officers' liability insurance on their behalf, to the benefits of indemnification to the fullest extent permitted by law and the Company's charter, by-laws and any indemnification agreements, and to exculpation as provided by state law and the Company's charter.

The form and amount of director compensation will be determined by the Compensation Committee in accordance with the policies and principles set forth in its charter, and the Compensation Committee will periodically conduct a review of director compensation. The Compensation Committee will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

D. Code of Ethics

The Board will periodically assess the Company's Code of Ethical Business Conduct and Compliance Program to assure it addresses appropriate topics, contains compliance standards and procedures, and comports with relevant law and NASDAQ listing rules.

E. Other Board Matters

The Board and each committee have the power to hire independent legal, financial or other advisors as they may deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

F. Modifications to Corporate Governance Guidelines

Because the operation of a Board of Directors is a dynamic and evolving process, these Corporate Governance Guidelines are periodically reviewed and revised as appropriate. While no guidelines can cover each and every issue that may surface, the Board believes these principles will assist the Board in fulfilling its obligations to the stockholders of the Company.