

HMN FINANCIAL, INC.
AUDIT COMMITTEE CHARTER
(approved by Audit Committee March 7, 2017)
(adopted by the Board April 25, 2017)

Purpose

There shall be an Audit Committee of the Board of Directors (the “Board”) of HMN Financial, Inc. (the “Company”).

The Audit Committee’s purpose is to oversee accounting and financial reporting processes of the Company and audits of the financial statements of the Company. The Committee also has oversight of the Company’s compliance with legal and regulatory requirements relating to financial reporting, financial statements, financial information, and audit and accounting matters, the qualifications and independence of the Company’s registered public accounting firm, the performance of the Company’s internal audit function and registered public accounting firm and the Company’s transactions with related persons.

Organization

The Audit Committee shall consist of at least three directors. The members of the Audit Committee and the Chair of the Audit Committee shall be appointed by the Board. Each director appointed to the Audit Committee shall:

1. Satisfy the requirements of the Marketplace Rules of The NASDAQ Stock Market (the “Marketplace Rules”) relating to Audit Committee members, including (a) the independence requirements, (b) the requirement that Audit Committee members have not participated in the preparation of the financial statements of the Company or any current subsidiary of the Company at any time during the past three years and (c) the requirement that the Audit Committee members be able to read and understand financial statements, including the Company’s balance sheet, income statement and cash flow statement;
2. Satisfy the independence requirements of the Federal Deposit Insurance Corporation rules and regulations; and
3. Satisfy the independence requirements of Section 10A(m)(3) of the Securities Exchange Act of 1934 (the “Exchange Act”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”).

At least one member of the Audit Committee must have accounting or financial management expertise as required by the Marketplace Rules. In addition, the Audit Committee shall endeavor to have at least one member who satisfies the definition of an “audit committee financial expert” as defined by the SEC on the Audit Committee at all times.

Compliance with the foregoing requirements shall be determined by the Board in its business judgment and in accordance with applicable rules, regulations and standards in effect from time to time.

Responsibilities

The Audit Committee recognizes that preparation of the Company's financial statements and other financial information is the responsibility of the Company's management and that the auditing, or conducting reviews, of those financial statements and other financial information is the responsibility of the Company's registered public accounting firm. The Audit Committee's responsibility is to oversee management and the outside auditors in regard to the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company.

The Company's management, and its registered public accounting firm, in the exercise of their responsibilities, acquire greater knowledge and more detailed information about the Company and its financial affairs than members of the Audit Committee. Consequently, the Audit Committee is not responsible for providing any expert or special assurance as to the Company's financial statements and other financial information or any professional certification as to the registered public accounting firm's work, including without limitation its reports on and reviews of the Company's financial statements and other financial information.

Oversight of Registered Public Accounting Firm

1. The Audit Committee shall be directly responsible, subject to stockholder ratification, for the appointment, retention, compensation, evaluation, termination and oversight of the work of the registered public accounting firm (including resolution of disagreements between management and the registered public accounting firm regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee shall have sole authority to approve all audit engagement fees and terms and any non-audit engagements of the registered public accounting firm, subject to the provisions of any policy regarding pre-approval of non-audit services. The registered public accounting firm shall report directly to the Audit Committee. The Company shall provide appropriate funding, as determined by the Audit Committee, for payment of compensation to any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company.
2. The Audit Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its registered public accounting firm, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act. The Audit Committee may delegate authority to one or more members of the Audit Committee, who are independent directors of the Board, the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such member(s) shall be presented to the full Audit Committee at its next scheduled meeting. The Audit Committee may establish policies and procedures regarding the engagement of the

registered public accounting firm to render services to the Company, provided the policies and procedures are detailed as to the particular service, the Audit Committee is informed of each service and the pre-approval policies and procedures do not include the delegation of the Audit Committee responsibilities to management. If pre-approval policies and procedures are adopted, the Company may engage the registered public accounting firm to perform services consistent with the policies and procedures. When pre-approving non-audit services, the Audit Committee should consider whether the provision of the non-audit services by the registered public accounting firm is compatible with maintaining the registered public accounting firm's independence.

Authority to Engage Independent Advisors

The Audit Committee shall have the authority to retain independent counsel and other legal, accounting or other advisors as it determines necessary to carry out its duties. The Company shall provide appropriate funding, as determined by the Audit Committee, for payment of compensation to any advisors employed by the Audit Committee.

Responsibility for Financial Statement and Disclosure Matters

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

1. Review and discuss with management and the registered public accounting firm the Company's annual audited financial statements, including disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.
2. Review and discuss with management and the registered public accounting firm the Company's quarterly financial statements, including disclosures made in management's discussion and analysis, prior to the filing of its Form 10-Q, including the results of the registered public accounting firm's review of the quarterly financial statements. The review and discussion should include any matters identified by the registered public accounting firm pursuant to Statement on Auditing Standards No. 100, or its successor, regarding the Company's interim financial statements.
3. Discuss with management and the registered public accounting firm significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.
4. Review and discuss quarterly reports from the registered public accounting firm on:
 - (a) all critical accounting policies and practices to be used,
 - (b) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of

the use of such alternative disclosures and treatments, and the treatment preferred by the registered public accounting firm, and

- (c) other material written communications between the registered public accounting firm and management, such as any management letter or schedule of unadjusted differences.
5. Discuss with management and the registered public accounting firm the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.
 6. Review and consider the matters required to be discussed by applicable PCAOB Auditing Standards with the registered public accounting firm and management relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.
 7. Receive information from the Company's management about any significant deficiencies or material weaknesses in the design or operation of internal controls that could adversely affect the Company's ability to record, process, summarize and report financial data and any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls.
 8. Review and discuss periodically with management the design and efficacy of Company's system of disclosure controls and procedures, and receive information from management about the application of disclosure controls and procedures in the preparation of the Company's periodic and current reports, proxy materials and other publicly disseminated documents directed to the public markets.

Oversight of the Company's Relationship with the Registered Public Accounting Firm

1. Review and evaluate the lead partner of the independent audit team.
2. Obtain and review a report from the registered public accounting firm at least annually regarding:
 - (a) the registered public accounting firm's internal quality-control procedures,
 - (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm,
 - (c) any steps taken to deal with any such issues, and
 - (d) all relationships between the registered public accounting firm and the Company consistent with the applicable requirements of the Public Company Oversight Board.

3. Actively engage in a dialogue with the registered public accounting firm regarding any disclosed relationships or services that may impact the objectivity and independence of the registered public accounting firm. Evaluate the qualifications, performance and independence of the registered public accounting firm, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and internal auditors. The Audit Committee shall present its conclusions with respect to the registered public accounting firm to the Board.
4. Ensure the rotation of the audit partner, lead partner and concurring partner of the registered public accounting firm as required by law.
5. Recommend to the Board policies for the Company's hiring of employees or former employees of the registered public accounting firm who participated in any capacity in the audit of the Company in order to ensure the independence of the registered public accounting firm under the SEC rules.
6. Confirm that none of the audit partners earn or receive compensation based on procuring engagements with the Company for providing products or services, other than audit review or attest services.
7. Discuss with the national office of the registered public accounting firm issues on which they were consulted by the Company's audit team and matters of audit quality and consistency.
8. Meet with the registered public accounting firm prior to the audit to discuss the planning and staffing of the audit.

Oversight of the Company's Internal Audit Function

1. Review the appointment and replacement of the senior internal auditing executive.
2. Review the significant reports to management prepared by the internal auditing department and management's responses.
3. Discuss with the registered public accounting firm and management the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of internal audit activities.

Compliance Oversight Responsibilities

1. Obtain from the registered public accounting firm assurance that the audit was conducted in a manner consistent with Section 10A(b) of the Exchange Act.
2. Administer and oversee, to the extent directed by the Board, any codes of ethics or business conduct adopted by the Company.

3. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
4. Discuss with management and the registered public accounting firm any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company's financial statements or accounting policies.
5. The Audit Committee shall prepare an audit committee report as required by the rules of the SEC to be included in the Company's annual proxy statement.

Related Person Transactions

The Audit Committee shall review and approve any transactions with related persons subject to the Company's Related Person Transactions Approval Policy.

Evaluation

The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Audit Committee shall annually review the Audit Committee's own performance.

Meetings

The Audit Committee shall meet as often as it determines, but not less frequently than quarterly. The Audit Committee shall meet periodically with management, the internal auditors and the registered public accounting firm in separate executive sessions. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or registered public accounting firm to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. The Audit Committee shall report regularly to the Board through presentations at Board meetings or by submission of the minutes of the Audit Committee meetings to the Board. In addition to funding for the specific purposes described above, the Company shall provide appropriate funding, as determined by the Audit Committee, for ordinary administrative expenses that are necessary for the Audit Committee to carry out its duties.