HMN FINANCIAL INC
Form DEF 14A
March 25, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

(RULE 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant þ
Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

HMN Financial, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

1016 Civic Center Drive N.W.
Rochester, Minnesota 55901-6057
(507) 535-1200

March 25, 2011

Dear Stockholder:

You are cordially invited to attend the annual meeting of stockholders to be held at the Rochester Golf and Country Club, located at 3100 W. Country Club Road, Rochester, Minnesota, on Tuesday, April 26, 2011, at 10:00 a.m., local time.

The corporate secretary s notice of annual meeting and the proxy statement that follow describe the matters to come before the meeting. During the meeting, we also will review the activities of the past year and items of general interest about our company.

We hope that you will be able to attend the meeting in person, and we look forward to seeing you. Please vote your proxy through the Internet, by telephone, or mark, date and sign the enclosed proxy card and return it in the accompanying postage-paid reply envelope as quickly as possible, even if you plan to attend the annual meeting. If you later desire to revoke the proxy, you may do so at any time before it is exercised.

Sincerely,

Timothy R. Geisler
Chairman of the Board of Directors

VOTING METHODS

The accompanying proxy statement describes important issues affecting HMN Financial, Inc. If you are a stockholder of record, you have the right to vote your shares through the Internet, by telephone or by mail. You also may revoke your proxy any time before the annual meeting. Please help us save time and administrative costs by voting through the Internet or by telephone. Each method is generally available 24 hours a day and will ensure that your vote is confirmed and posted immediately. To vote:

1. **BY INTERNET**

    a. Go to the web site at http://www.eproxy.com/hmnf, 24 hours a day, seven days a week, until 11:59 p.m. central time on April 25, 2011.

    b. Please have your proxy card and the last four digits of your social security number or tax identification number and create an electronic ballot.

    c. Follow the simple instructions provided.

2. **BY TELEPHONE**

    a. On a touch-tone telephone, call toll-free 1-800-560-1965, 24 hours a day, seven days a week, until 11:59 p.m. central time on April 25, 2011.

    b. Please have your proxy card and the last four digits of your social security number or tax identification number.

    c. Follow the simple instructions provided.

3. **BY MAIL (if you vote by telephone or Internet, please do not mail your proxy card)**

    a. Mark, sign and date your proxy card.

    b. Return it in the enclosed postage-paid envelope.

If your shares are held in the name of a bank, broker or other holder of record, you will receive instructions from the holder of record that you must follow in order for your shares to be voted.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on April 26, 2011:

The Proxy Statement and Annual Report to Stockholders are available at *http://www.proxydocs.com/hmnf*

Your vote is important. Thank you for voting.

HMN FINANCIAL, INC.

Notice of Annual Meeting of Stockholders
to be held on April 26, 2011

Notice is hereby given that the annual meeting of stockholders of HMN Financial, Inc. will be held at the Rochester Golf and Country Club, located at 3100 W. Country Club Road, Rochester, Minnesota, at 10:00 a.m., local time, on April 26, 2011.

A proxy card and a proxy statement for the meeting are enclosed.

The meeting is for the purpose of considering and acting upon:

1. the election of three directors;

2. the approval, in an advisory (non-binding) vote, of the compensation of executives, as disclosed in this proxy statement; and

3. the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for 2011; and

such other matters as may properly come before the meeting, or any adjournments or postponements thereof. As of the date of this notice, the board of directors is not aware of any other business to come before the meeting.

Any action may be taken on the foregoing proposals at the meeting on the date specified above, or on any date or dates to which the meeting may be adjourned or postponed. Stockholders of record at the close of business on March 1, 2011, are the stockholders entitled to receive notice of, and to vote at, the meeting and any adjournments or postponements thereof.

A complete list of stockholders entitled to vote at the meeting will be available for examination by any stockholder, for any purpose germane to the meeting, between 9:00 a.m. and 5:00 p.m. central time, at HMN Financial, Inc., 1016 Civic Center Drive N.W., Rochester, Minnesota for a period of ten days prior to the meeting.

Your proxy is important to ensure a quorum at the meeting. Even if you own only a few shares, and whether or not you expect to be present at the meeting, please vote your proxy by telephone or through the Internet, in accordance with the voting instructions set forth on the enclosed proxy card, or mark, date and sign the enclosed proxy card and return it in the accompanying postage-paid reply envelope as quickly as possible. You may revoke your proxy at any time prior to its exercise, and returning your proxy or voting your proxy by telephone or through the Internet will not affect your right to vote in person if you attend the meeting and revoke the proxy.

HMN FINANCIAL, INC.
BY Order of the Board of Directors

Cindy K. Hamlin

Secretary

Rochester, Minnesota
March 25, 2011

PROXY STATEMENT

ABOUT THE ANNUAL MEETING

This proxy statement is furnished in connection with the solicitation on behalf of the board of directors of HMN Financial, Inc. of proxies to be used at the annual meeting of stockholders, which will be held at the Rochester Golf and Country Club, located at 3100 W. Country Club Road, Rochester, Minnesota, on April 26, 2011, at 10:00 a.m., local time, and any adjournments or postponements of the meeting. The accompanying notice of annual meeting and this proxy statement are first being mailed to stockholders on or about March 25, 2011.

Certain information provided herein relates to Home Federal Savings Bank, a wholly owned subsidiary of our company referred to as the bank.

The board of directors requests that you vote on the proposals described in this proxy statement. You are invited to attend the meeting, but you do not need to attend the meeting to cast your vote.

What is the purpose of the annual meeting?

At the annual meeting we will ask our stockholders to vote on three matters:

1. to elect three members of our board of directors, to serve until the conclusion of the third succeeding annual meeting of stockholders or until their successors have been duly elected and qualified;

2. to approve, in an advisory (non-binding) vote, the compensation of executives, as disclosed in this proxy statement; and

3. to ratify the appointment of KPMG LLP as our independent registered public accounting firm for 2011;

as well as to transact other business that may properly be brought before the meeting. Following the formal portion of the meeting, our management will report on our performance and answer questions from our stockholders.

Who is entitled to vote at the meeting?

Common stock is our only authorized and outstanding security entitled to vote at the annual meeting. Holders of record of our common stock as of the close of business on March 1, 2011, the record date, will be entitled to one vote for each share of common stock then held. As of March 1, 2011, we had 4,388,399 shares of common stock issued and outstanding. The number of issued and outstanding shares excludes shares held in our treasury.

Who is entitled to attend the meeting?

Subject to space availability, all stockholders as of the record date, or their duly appointed proxies, may attend the meeting. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. Registration will begin at 9:30 a.m. If you plan to attend the meeting, please note that you will be asked to present valid picture identification, such as a driver s license or passport. Cameras, recording devices and other electronic devices are not permitted at the meeting.

Please also note that if you hold your shares in street name (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date.

What constitutes a quorum?

One third of the outstanding shares of common stock entitled to vote constitutes a quorum for purposes of the meeting.

How do I vote?

If you are a registered stockholder, proxies in the accompanying form that are properly signed and duly returned to us, voted by telephone or through the Internet in accordance with the voting instructions set forth below, and not revoked, will be voted in the manner specified. We encourage you to vote by telephone or on the Internet, if possible, to reduce the costs of tabulating the vote.

To vote by Internet:

a. Go to the web site at http://www.eproxy.com/hmnf.

b. Please have your proxy card and the last four digits of your social security number or tax identification number and create an electronic ballot.

c. Follow the simple instructions provided.

To vote by telephone:

a. Call toll-free 1-800-560-1965.

b. Please have your proxy card and the last four digits of your social security number or tax identification number.

c. Follow the simple instructions provided.

To vote by mail:

a. Mark, sign and date your proxy card.

b. Return it in the enclosed postage-paid envelope.

If you are a registered stockholder and attend the annual meeting, you may deliver your proxy in person.

If you hold your shares in street name, meaning you hold them through an account with a bank or broker, your ability to vote over the Internet or by telephone depends on your bank s or broker s voting procedures. Please follow the directions that your bank or broker provides.

All shares of our common stock represented at the meeting by properly executed proxies, duly delivered to our corporate secretary prior to or at the meeting, and not revoked, will be voted at the meeting in accordance with the instructions specified on the proxies.

What happens if no instructions are indicated on my proxy?

If no instructions are indicated, properly executed proxies will be voted ***for*** the nominees for director listed below, ***for*** the approval of the compensation of executives, as disclosed in this proxy statement, and ***for*** the ratification of the appointment of our independent registered public accounting firm. As of the date of this proxy statement, the board does not know of any matters, other than those described in the notice of annual meeting and this proxy statement, that are to come before the meeting. If any other matters are properly presented at the meeting for action, the persons named in the enclosed form of proxy and acting thereunder will have, to the extent permitted by law, the discretion to

vote on these matters in accordance with their best judgment.

May I revoke my proxy or change my vote?

A proxy given pursuant to this solicitation may be revoked at any time before it is voted. Proxies may be revoked by filing with our corporate secretary, at or before the meeting, a written notice of revocation bearing a later date than the date on the proxy. A vote may be changed by duly executing a proxy dated a later date than the earlier proxy and relating to the same shares and delivering it to our corporate secretary at or before the meeting. Attendance at the meeting will not by itself revoke a previously granted proxy.

What is the recommendation of the board of directors on voting my shares?

Our board of directors recommends a vote ***for*** the election of the three nominated directors, ***for*** the approval of the compensation of executives, as disclosed in this proxy statement, and ***for*** the ratification of KPMG LLP as our independent registered public accounting firm. If any other matters come up for a vote at the meeting, the proxy holders will vote in line with the recommendations of the board of directors or, if there is no recommendation, at their own discretion.

What vote is required to approve each item?

Election of Directors. Directors are elected by a plurality of the voting power of the shares of common stock entitled to vote and present in person or represented by proxy at the meeting. For this purpose, a properly executed proxy marked ***withheld*** with respect to the election of director nominees will be counted for purposes of determining whether there is a quorum, but will have no effect on the outcome of the vote on the election of directors.

Other Items. For all other items that properly come before the meeting, the affirmative vote of a majority of the outstanding shares of common stock entitled to vote and present in person or represented by proxy at the meeting is required for approval. A properly executed proxy marked ***abstain*** with respect to any matter will be counted for purposes of determining whether there is a quorum and will be considered present in person or by proxy and entitled to vote.

What is the effect of abstentions and broker non-votes?

If stockholders indicate on their proxy that they wish to abstain from voting on a particular proposal, including brokers holding their customers shares of record who cause abstentions to be recorded, these shares are considered present and entitled to vote at the meeting. These shares will count toward determining whether or not a quorum is present. However, these shares will not be considered cast with respect to the proposal for which they abstain from voting and will not be taken into account in determining the outcome of any of those proposals.

Although our shares of common stock are traded on the the Nasdaq Global Market, we are subject to certain rules and regulations of the New York Stock Exchange, including those relating to the ability of brokers to vote on certain matters. If a stockholder does not give a broker holding the stockholder s shares instructions as to how to vote the shares, the broker has authority under New York Stock Exchange rules to vote those shares for or against routine matters that are not contested, such as the ratification of KPMG LLP as our independent registered public accounting firm. Brokers cannot vote on their customers behalf on non-routine proposals. The rules of the New York Stock Exchange define the election of directors and actions on executive compensation as non-routine matters. If a broker votes shares that are unvoted by its customers for or against a routine proposal, these shares are counted for the purpose of establishing a quorum and also will be counted for the purpose of determining the outcome of the routine proposals on which they cast. Shares held by a broker on behalf of a stockholder will not be considered cast with respect to any non-routine proposals and will not be taken into account in determining the outcome of any of non-routine proposals.

May the meeting be adjourned?

If a quorum is not present at the meeting, the chairman of the meeting, or the stockholders present, by vote of a majority of the votes cast by stockholders present in person or represented by proxy and entitled to vote, may adjourn the meeting. At any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally called.

Who pays the expenses incurred in connection with the solicitation of proxies?

We will bear the cost of solicitation of proxies. We will reimburse brokerage firms and other custodians, nominees and fiduciaries for reasonable expenses incurred by them in sending proxy materials to the beneficial owners of common stock. In addition to solicitation by mail, our directors, officers and regular employees, as well as employees of the bank, may solicit proxies personally or by telephone without additional compensation.

How may I obtain additional copies of the annual report?

Our 2010 annual report, including financial statements, is enclosed. The annual report is also available online at www.hmnf.com or www.proxydocs.com/hmnf. For additional printed copies, which are available without charge, please request copies in writing to 1016 Civic Center Drive N.W., Rochester, Minnesota 55901-6057, Attention: Corporate Secretary.

What is the deadline for submitting a stockholder proposal for the 2012 annual meeting?

We must receive stockholder proposals intended to be presented at the 2012 annual meeting of stockholders that are requested to be included in the proxy statement for that meeting at our principal executive office no later than November 19, 2011. The inclusion of any stockholder proposals in the proxy materials will be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934, including Rule 14a-8. We must receive any other stockholder proposals intended to be presented at the 2012 annual meeting of stockholders in writing at our principal executive office no later than 90 days in advance of the meeting (or if we do not publicly announce our annual meeting date 100 days in advance of the meeting date, by the close of business on the 10th day following the day on which notice of the meeting is mailed to stockholders or publicly made). We currently anticipate that our 2012 annual meeting of stockholders will be held on or about April 24, 2012; therefore, we must receive notice of any business to be brought before that meeting by January 25, 2012. Written copies of all stockholder proposals should be sent to our principal executive offices at 1016 Civic Center Drive N.W., Rochester, Minnesota 55901-6057, Attention: Corporate Secretary.

What does it mean if I receive more than one proxy card or instruction form?

This means that your shares are registered differently and are held in more than one account. To ensure that all shares are voted, please either vote each account over the Internet or by telephone, or sign and return by mail all proxy cards. We encourage you to register all of your shares in the same name and address by contacting our transfer agent, Wells Fargo Shareowner Services, at 1-800-401-1957. If you hold your shares through an account with a bank or broker, you should contact your bank or broker and request consolidation.

I share an address with another stockholder, how can I change the number of copies of the proxy statement that we receive?

Generally, we are sending only one copy of the proxy materials to eligible stockholders who share a single address unless we received instructions to the contrary from any stockholder at that address. This practice, known as householding, is designed to reduce our printing and postage costs. We will promptly deliver a separate copy of proxy materials to any stockholder who requests one by contacting our corporate secretary by telephone at (507) 535-1205, or by mail to our principal executive offices at 1016 Civic Center Drive N.W., Rochester, Minnesota 55901-6057, Attention: Corporate Secretary. If you are a registered stockholder residing at an address with another registered stockholder and you wish to receive a separate proxy in the future, or if the registered stockholders at that address currently are receiving multiple copies of the proxy materials and you wish to receive a single copy, you may contact our corporate secretary at the telephone number or address set forth above. If you are a stockholder whose shares are held by a bank, broker or other nominee, you can request information about householding from your bank, broker or other nominee.

PROPOSAL I ELECTION OF DIRECTORS

Background

Our certificate of incorporation provides that the board of directors shall fix the number of directors from time to time. On January 28, 2004, the size of the board was fixed at nine members, subject to the power of the board to increase the size of the board at any time. The board is divided into three classes. The terms of three members of the board will expire at the conclusion of the meeting. The board has nominated Karen L. Himle, a current member of the board of directors, whose current term will expire at the conclusion of the meeting, and Allen J. Berning and Bernard R. Nigon, for election as directors to serve terms to expire at the conclusion of the third succeeding annual meeting of stockholders after their election, with each to hold office following each nominee s election and qualification until his or her successor has duly been elected and qualified.

It is intended that the proxies solicited on behalf of the board (other than proxies in which the vote is withheld as to one or more nominees) will be voted at the meeting for the election of the nominees identified in the preceding paragraph. If any nominee is unable to serve, the shares of common stock represented by all of these proxies will be voted for the election of a substitute as the board may recommend. Effective February 22, 2011, we and our banking subsidiary each entered into written supervisory agreements (the Supervisory Agreements) with the Office of Thrift Supervision (the OTS). Under the Supervisory Agreements, we must obtain OTS approval for Messrs. Berning and Nigon to serve on our board of directors, which approval may be withheld in the sole discretion of the OTS. We are currently in the process of obtaining this OTS approval. If OTS approval of Messrs. Berning or Nigon is not obtained prior to our annual meeting of stockholders, Messrs. DeBoer or Geisler, as our current directors whose terms expire at the annual meeting of stockholders, will continue to serve as directors until Messrs. Berning or Nigon are approved, or otherwise authorized to serve as directors, by the OTS. If the OTS does not provide its approval or authorization for Messrs. Berning or Nigon to serve on our board of directors, Messrs. DeBoer or Geisler, respectively, will continue to serve as directors until their successors are duly elected and qualified or their earlier resignation. Other than the foregoing regulatory approvals, the board knows of no reason why any of the nominees, if elected, might be unable to serve. Except as described herein, there are no arrangements or understandings between any director or nominee and any other person pursuant to which the director or nominee was selected.

Selection of Director Nominees

Director Qualifications. The board, acting through the governance and nominating committee, is responsible for selecting director nominees. The board and the governance and nominating committee believe that the board as a whole and its members individually should possess a combination of skills, professional experience, and business judgment necessary to oversee our company s current and future operations and represent stockholders interests. The attributes that the board believes every director nominee should possess include:

- notable or significant business or public service achievement and experience;
- familiarity with, knowledge of, or experience in, the commercial banking industry;
- familiarity with, knowledge of, or experience in, managing risk;
- the highest character and integrity;
- knowledge and understanding of the business and social environment in the primary geographical areas in which we operate;

an understanding of their obligation to represent the interests of all shareholders;

freedom from conflicts of interest that would interfere with their ability to discharge their duties or that would violate any applicable laws or regulations;

capability of working in a collegial manner with persons of diverse educational, business and cultural backgrounds; and

ability to devote the necessary time to discharge their duties, taking into account memberships on other boards and other responsibilities.

Procedures Regarding Director Candidates Recommended by Stockholders. As set forth in its charter, the governance and nominating committee will consider director candidates recommended by stockholders if the recommended director candidate would be eligible to serve as a director under our by-laws. Our by-laws require that directors have their primary domicile in a county where the bank has a full service branch. This requirement may be waived by a majority of the board so long as a majority of the directors currently serving on the board have their primary domicile in a county where the bank has a full service branch. Our by-laws also require that each director must receive (or have been deemed to receive) any approval, waiver or non-objection required by the company s and the bank s federal regulators. This qualification requirement may be waived by a majority of the board in its sole discretion.

In order to be considered by the governance and nominating committee, a stockholder recommendation of a director candidate must set forth all information relating to the candidate that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, pursuant to Regulation 14A under the Exchange Act (including the potential director s written consent to being named in the proxy statement as a nominee and to serving as a director if elected).

The governance and nominating committee will consider director candidates recommended by stockholders in the same manner that it considers all director candidates. This consideration will include an assessment of each candidate s experience, integrity, competence, diversity, skills and dedication in the context of the needs of the board. Each candidate will be evaluated in the context of the board as a whole, with the objective of recommending a group of nominees that can best perpetuate the success of the business and represent stockholder interest through the exercise of sound judgment based on a diversity of experience.

Rather than recommending director candidates to the governance and nominating committee, stockholders may directly nominate a person for election to the board by complying with the procedures set forth in our by-laws, any applicable rules and regulations of the Securities and Exchange Commission and any applicable laws. For more information regarding the submission of stockholder nominations of director candidates, please refer to the section entitled Stockholder Proposals, as well as the Q&A appearing at the beginning of this proxy statement.

Board Diversity. Neither the governance and nominating committee nor the board has a formal policy with regard to the consideration of diversity in identifying director nominees. However, the governance and nominating committee considers diversity on the board in evaluating potential director nominees and believes that diverse perspectives are represented on the board, within the constraints of our by-law requirement that generally directors must have their primary domicile in a county where the bank has a full service branch.

Board of Directors

The following table sets forth certain information regarding each director or director nominee:

Name	Age	Position	Director Since
Nominated for Election:			
Karen L. Himle	55	Director	2005
Allen J. Berning	56	Nominee	
Bernard R. Nigon	62	Nominee	
Term expiring in 2011:			
Allan R. DeBoer	68	Director	1999
Timothy R. Geisler	59	Chairman of the Board of Directors	1996
Karen L. Himle	55	Director	2005
Term expiring in 2012:			
Bradley C. Krehbiel	52	President of the bank and Director of the company and the bank	2009
Mahlon C. Schneider	71	Director	2000
Hugh C. Smith	71	Director	2009
Term expiring in 2013:			
Michael J. Fogarty	72	Director	2002
Susan K. Kolling	59	Senior Vice President and director of the company and the bank	2001
Malcolm W. McDonald	74	Director	2004

Messrs. DeBoer and Geisler s terms as directors expire at our 2011 annual meeting of stockholders.

Allen J. Berning is currently a director and the Chief Executive Officer of Hardcore Computer, Inc., a computer design and manufacturing company. Prior to joining Hardcore Computer in 2007, Mr. Berning served as Chairman and Chief Executive Officer of Pemstar, Inc., an engineering and medical device manufacturing company, since founding the company in 1994. Prior to 1994, he held various engineering and management positions throughout his 15 year career with IBM.

Mr. Berning, having founded Pemstar and serving as its Chief Executive Officer for 13 years and then serving as the Chief Executive Officer of Hardcore Computer for over 4 years, brings extensive experience and perspective to our board, assisting it in assessing risk, evaluating opportunities and identifying resources essential to our success. Mr. Berning has resided in the Rochester, Minnesota area for more than 30 years, providing him with an understanding and appreciation for the social and business atmosphere of the bank s most important marketing area.

Allan R. DeBoer, from 1988 until his retirement in 2001, was the Chief Executive Officer of RCS of Rochester, Inc., which does business as Rochester Cheese/Valley Cheese, a cheese trading and processing company. Since 2002, Mr. DeBoer has practiced law, currently as of counsel with the law firm of O Brien & Wolf, L.L.P., and served as an independent business consultant. He currently serves on the board of Hamline University in St. Paul, Minnesota.

Having served as the Chief Executive Officer of a business with annual revenues in excess of $100 million, Mr. DeBoer brings extensive business experience and perspective to our board, assisting it in the evaluation and oversight of lending and offering financial service products to businesses. As a lawyer, Mr. DeBoer also brings legal perspective to our board, assisting it in its understanding and treatment of legal issues. Mr. DeBoer has served on our

board and its audit and compensation committee for more than 10 years, giving him insight into, and perspective on, our company s operations, which assists our board in its oversight of our company.

Michael J. Fogarty has been an insurance agent with C.O. Brown Agency, Inc., an insurance agency located in Rochester, Minnesota, for over 40 years. He currently serves as a Vice President for C.O. Brown Agency, Inc.

Mr. Fogarty brings to our board extensive business experience from selling risk protection and financial products, which provides our board with perspective in its oversight of the company s financial services business.

Mr. Fogarty s experience with risk protection products also assists our board in its identification and oversight of company risks. Mr. Fogarty s 8 years of experience on our board has given him insight into, and perspective on, our company s operations, which assists our board in its oversight of our company.

Timothy R. Geisler is currently a Manager in the Division of Public Affairs for Mayo Clinic. From 2000 until 2009, Mr. Geisler was Unit Manager Financial Accounting and Controls, for Mayo Clinic and had previously been Corporate Tax Unit Manager for Mayo Clinic from 1986 to 2000. Mr. Geisler has been a certified public accountant since 1976 and has eight years of public accounting experience with an international public accounting firm. Mr. Geisler currently serves on the board of the Rochester Airport Company, the management company for the Rochester International Airport.

Mr. Geisler has extensive accounting and financial reporting experience, having earned a Bachelor s Degree in Comprehensive Public Accounting and practiced with an international accounting firm, where his specialty was the financial services industry. His experience assists our board in understanding and addressing complex accounting and financial reporting issues. Mr. Geisler also is active in the Rochester, Minnesota community through service on the boards of numerous civic and charitable entities. He brings to our board a strong understanding of the Rochester community and its leaders from his public service experiences. In addition, Mr. Geisler s 14 years of experience on our board and its audit committee has given him insight into, and perspective on, our company s operations, which assists our board in its oversight of our company.

Karen L. Himle is the former Vice President of University Relations for the University of Minnesota, a position she held from January 2007 until January 2011. From 2004 to January 2006 she served as the Executive Vice President of Children s Hospitals and Clinics of Minnesota, an independent, not-for-profit health care system, and President of Children s Hospitals and Clinics Foundation, the fundraising arm of Children s Hospitals and Clinics of Minnesota. From 2002 to 2004, Ms. Himle served as an independent consultant. From 1985 to 2002, she held various positions, including Senior Vice President Corporate and Government Affairs, at The St. Paul Companies, Inc., a worldwide provider of commercial property-liability insurance and reinsurance products and services. Ms. Himle currently serves as a Minnesota Supreme Court appointee to the Commission on Judicial Selection and on the board of directors for HimleHorner, Inc., a public relations and public affairs firm.

Ms. Himle has held senior executive positions in complex enterprises in both the public and private sectors over her 30-year career. She brings to our board the management experience and insight that she has developed over her career, which assists our board in its oversight of the management of our company. In addition, Ms. Himle provides our board with experience and insight with respect to government affairs, risk protection and financial service products.

Susan K. Kolling served as a Vice President of the bank from 1992 to 1994 and has served as a Senior Vice President of the company and the bank since 1995. In addition, from 1997 to 2003, Ms. Kolling was an owner of Kolling Family Corp., which is doing business as Valley Home Improvement, a retail lumber yard. Ms. Kolling became a director of Kolling Family Corp. in 2004.

Ms. Kolling has been an employee or officer of our bank for over forty years. She brings to our board the unique perspective of her long tenure with our bank and assists our board in understanding and overseeing the bank s, and the company s, operations. As an owner of a family business, Ms. Kolling also helps our board understand the banking needs of family businesses and contributes to the oversight of the bank s cash management operations.

Bradley C. Krehbiel has served as President of the bank since January 2009 and President of the company since April 2010. Prior to that he had been the Executive Vice President of the bank since 2004. Mr. Krehbiel joined the bank as Vice President of Business Banking in 1998. Prior to his employment at the bank, Mr. Krehbiel held several positions in the financial services industry, including six years as a private banking consultant.

Mr. Krehbiel brings to our board the financial services industry insights and perspectives gained through his extensive financial services industry experience, including as a private banking consultant. In addition, as an executive of our banking subsidiary for over twelve years, Mr. Krehbiel contributes a unique understanding of, and perspective on, our banking operations to our board.

Malcolm W. McDonald served as a member of the Board of Directors and Senior Vice President of Space Center, Inc., an industrial real estate firm located in St. Paul, Minnesota, from 1977 until his retirement in 2002. He also served as Vice President of First National Bank of St. Paul from 1960 to 1977. Mr. McDonald is a member of the Board of Directors of Scherer Brothers Lumber Company, a privately held full-service lumber yard, and a director or trustee of several nonprofit organizations.

Based on his 42-year career in financial services management and commercial real estate, Mr. McDonald brings to our board extensive knowledge and experience in lending, investing and audit functions, as well as a deep understanding of the importance of the role of banking in a community. Based on his service on numerous public-company, private-company and nonprofit boards of directors, Mr. McDonald also brings to our board his extensive understanding of corporate governance, including of board committee structures and executive succession planning, as well as significant experience in risk oversight.

Bernard R. Nigon, from 1985 until his retirement in 2010, was an audit partner with McGladrey & Pullen, LLP. He began his career with McGladrey in 1975. He is Certified Public Accountant and a member of the American Institute of Certified Public Accountants and the Minnesota Society of Certified Public Accountants.

Mr. Nigon has extensive accounting and financial reporting experience having practiced with a national accounting firm and examined the financial records of both public and private companies for over 35 years. His experience and expertise will assist the board in understanding and addressing complex accounting and financial reporting issues.

Mahlon C. Schneider, from 1999 until his retirement in 2004, was Senior Vice President External Affairs and General Counsel of Hormel Foods Corporation, a multinational manufacturer and marketer of consumer-branded meat and food products. From 1990 to 1999, Mr. Schneider was the Vice President and General Counsel of Hormel Foods Corporation. Since 2003, he has been a director of the Hormel Foundation, a charitable trust.

Mr. Schneider has extensive legal experience, having earned a law degree and practiced law for over 35 years with various multinational Minnesota-based food companies. His experience assists our board in understanding and addressing complex legal and compliance issues. Mr. Schneider also is active in the Austin, Minnesota community through service on the boards of numerous civic and charitable entities. He brings to our board a strong understanding of the Austin community and its leaders from his public service experiences. In addition, Mr. Schneider s 10 years of experience on our board, including periods during which he has served as chair of the nominating and governance committee and a member of the audit committee, has given him insight into, and perspective on, our company s operations, which assists our board in its oversight of our company.

Hugh C. Smith has been a director of the company since 2009 and since 1972, has served as Professor of Medicine, Mayo Clinic College of Medicine, a medical school, and Consultant in the Cardiovascular Division at Mayo Clinic, a full-service, not-for-profit medical practice. Dr. Smith also served as Chief Executive Officer, Mayo Clinic-Rochester, from 1999 through 2006; Vice President, Mayo Foundation, 2002 to 2005; and Chair, Rochester Board of Governors, Mayo Clinic, 1999 to 2005. Dr. Smith is a member of the Board of Directors of Dartmouth Hitchcock Medical Center, Blue Cross Blue Shield Minnesota, Rochester Area Foundation and Hormel Foods Corporation.

Dr. Smith brings extensive executive management experience to our board, having served as a Chief Executive Officer directing more than 2,000 physicians and scientists and over 35,000 employees. Based on his service on public company and non-profit boards of directors, Dr. Smith also brings to our board his extensive understanding of corporate governance and significant experience in risk oversight. Dr. Smith is active in the Rochester, Minnesota community and brings to our board a strong understanding of that community, its leaders, it financial services needs and its exposure to economic risks.

The board recommends that stockholders vote *for* the election of the three candidates nominated for election as indicated above.

PROPOSAL II ADVISORY (NON-BINDING) VOTE ON EXECUTIVE COMPENSATION

In December 2008, we participated in the Capital Purchase Program, or CPP, under the Troubled Asset Relief Program of the United States Treasury. The American Recovery and Reinvestment Act of 2009, signed into law on February 17, 2009, includes a provision requiring CPP participants, during the period in which any obligation arising from assistance provided under the CPP remains outstanding, to permit a separate stockholder vote to approve the compensation of executives, as disclosed pursuant to the compensation rules of the Securities and Exchange Commission. This requirement applies to any proxy, consent, or authorization for an annual meeting of the participant s stockholders for which proxies will be solicited for the election of directors or a special meeting in lieu of such an annual meeting. Under this legislation, the stockholder vote is not binding on the board of directors of the CPP participant, and may not be construed as overruling any decision by the participant s board of directors.

In accordance with the American Recovery and Reinvestment Act of 2009, stockholders are being given the opportunity to vote to approve the compensation of our executives, as disclosed in this proxy statement, including the information presented under Compensation Discussion and Analysis and in the compensation tables and related material under the heading 2010 Executive Compensation.

This is an advisory vote only, and neither the company nor our board of directors will be bound to take action based upon the outcome. The compensation committee will consider the vote of the stockholders when considering future executive compensation arrangements.

The board recommends that stockholders vote *for* the approval of the compensation of executives, as disclosed in this proxy statement.

PROPOSAL III RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Upon the recommendation of the audit committee, the board of directors has appointed KPMG LLP, an independent registered public accounting firm, to be our independent registered public accounting firm for 2011, subject to ratification by the stockholders. KPMG LLP has audited the financial statements of our company or the bank since 1966. Representatives of KPMG LLP are expected to attend the meeting to respond to appropriate questions and to make a statement, if they so desire.

In connection with the engagement of KPMG LLP, we entered into an engagement agreement with KPMG LLP that sets forth the terms pursuant to which KPMG LLP will perform its audit services. That agreement is subject to alternative dispute resolution procedures and an exclusion of punitive damages.

While it is not required to do so, the audit committee is submitting the appointment of that firm for ratification in order to ascertain the view of the stockholders. If the stockholders do not ratify the appointment, the audit committee will review the appointment.

The board recommends that stockholders vote *for* the ratification of the appointment of KPMG LLP as our 2011 independent registered public accounting firm.

CORPORATE GOVERNANCE

Board Leadership Structure and Role in Risk Oversight

The board of directors is committed to its role in providing objective risk oversight of the company. The structure and responsibilities of the board s membership, leadership and committees is a critical aspect of our corporate governance to fulfill this role.

The company s corporate governance guidelines require that a substantial majority of the board shall be independent directors and the board believes its process of selecting and nominating a diverse membership with a combination of skills, professional experience and business judgment is an important element in accomplishing its risk oversight responsibility. The board does not have a policy on separating the offices of Chairman of the Board and Principal Executive Officer since it believes it should be free to make the choice from time to time that is in the best interests of the company and its stockholders. While there is no policy, it is the current practice of the board to have the Chairman be an independent board member. Currently, Mr. Geisler serves as the Chairman of the Board and Mr. Krehbiel serves as President of the company and the bank, as our Principal Executive Officer, and as a Director. The board believes this is the most appropriate structure for the company at this time and contributes to objective risk oversight because it makes use of Mr. Geisler s extensive experience on our board and his independent oversight skills accumulated through years of accounting and financial reporting work, including as a financial services specialist with an international public accounting firm, while freeing Mr. Krehbiel to focus his energies on the operations of the bank. The chairs of board committees are selected by the full board based on their experience and expertise, including consideration of their understanding of the risk oversight associated with their respective committee.

The board of directors and the audit, compensation and nominating and governance committees of the board coordinate with each other, through the leadership of Mr. Geisler and the committee chairs, to provide enterprise-wide risk oversight of management and the company s operations. These committees address risk-related matters during their meetings and the committee chairs regularly report to the full board on risk-related matters, providing the full board with integrated insight about our management of strategic, credit, interest rate, financial reporting, technology, liquidity, compliance, operational and reputational risks. In addition, our banking subsidiary has its own board of directors and audit, loan, information technology, compliance and asset/liability management committees whose responsibilities include risk management for the bank. The management and committees of our banking subsidiary also provide reports to our board of directors regarding activities related to risk management.

At meetings of the board of directors and its committees, directors receive regular updates from management regarding risk management. The chief financial officer, chief credit officer and other senior management of our banking subsidiary, who are responsible for instituting risk management practices that are consistent with our overall business strategy and risk tolerance, report directly to Mr. Krehbiel, the President of our company, our banking subsidiary and a member of the board, and lead management s risk discussions at board and committee meetings. Outside of formal meetings, the board, its committees and individual board members have full access to senior executives and management for, among other purposes, discussions of risks facing our company and the management of those risks.

Committees of the Board of Directors

The board of directors has standing audit, compensation, executive and governance and nominating committees. The directors current committee memberships are indicated in the table below:

Director	Audit Committee	Compensation Committee	Executive Committee	Nominating and Governance Committee
Allan R. DeBoer	Member	Chair	Alternate	
Michael J. Fogarty		Member	Alternate	
Timothy R. Geisler	Chair		Member	
Karen L. Himle		Member	Alternate	Member
Susan K. Kolling			Member	
Bradley C. Krehbiel			Member	
Malcolm W. McDonald	Member		Alternate	Member
Mahlon C. Schneider	Member		Alternate	Chair
Hugh C. Smith		Member	Alternate	Member

Audit Committee. The audit committee oversees our financial reporting process by, among other things, recommending and taking action to oversee the independence of the independent registered public accounting firm and selecting and appointing the independent registered public accounting firm. The board has determined that all members of the audit committee are independent as that term is defined in the applicable Nasdaq listing standards and regulations of the Securities and Exchange Commission and that all members are financially literate as required by the applicable Nasdaq listing standards. In addition, the board has determined that each of Mr. Geisler and Mr. Nigon have the financial experience required by the applicable Nasdaq listing standards and are audit committee financial experts as defined by applicable regulations of the Securities and Exchange Commission. The responsibilities of the audit committee are set forth in the audit committee charter, which was amended and restated on March 15, 2011, and is available on our website at www.hmnf.com. The audit committee reviews and reassesses its charter annually.

Compensation Committee. The compensation committee reviews and reports to the board on matters concerning compensation plans and the compensation of certain executives, as well as administering our 2001 Omnibus Stock Plan and our 2009 Equity Incentive Plan. The board has determined that all members of the compensation committee are independent as that term is defined in the applicable Nasdaq listing standards. The responsibilities of the compensation committee are set forth in the compensation committee charter, which was amended and restated by the board on March 15, 2011. The compensation committee charter is available on our website at www.hmnf.com. The compensation committee reviews and reassesses its charter annually.

Executive Committee. The executive committee acts on issues arising between regular board meetings. The executive committee possesses the powers of the full board between meetings of the board.

Governance and Nominating Committee. The governance and nominating committee selects candidates as nominees for election as directors and advises and makes recommendations to the board on other matters concerning directorship and corporate governance practices, including succession plans for our executive officers. The board has determined that all members of the governance and nominating committee are independent as that term is defined in the applicable Nasdaq listing standards. The responsibilities of the governance and nominating committee are set forth in the governance and nominating committee charter, which was readopted by the board on November 23, 2010, and is available on our website at www.hmnf.com. The governance and nominating committee reviews and reassesses

their charter annually.

Board and Committee Meetings

The board held 10 meetings during 2010. The audit committee held 5 meetings during 2010. The compensation committee held 8 meetings during 2010. The executive committee held no meetings during 2010. The governance and nominating committee held 5 meetings during 2010. Each of our directors attended at least 75% of the meetings of the board and all committees on which the director served, except Dr. Smith attended 69% of such meetings.

Director Independence

The board has determined that none of our directors except for Mr. Krehbiel and Ms. Kolling, who are employees of the bank, have a material relationship with our company other than service as a director (either directly or as a partner, stockholder or officer of an organization that has a material relationship with our company). Mr. DeBoer serves as of counsel with the law firm of O Brien & Wolf, L.L.P., which provided certain legal services to the company in 2010. We concluded that Mr. DeBoer s role as of counsel did not impact his independence under the applicable Nasdaq listing standards due to the limited nature of his role with the firm and the total amount of fees paid by the company to the firm. Therefore, all of our directors except for Mr. Krehbiel and Ms. Kolling are independent within the meaning of applicable Nasdaq listing standards.

Code of Business Conduct and Ethics

We adopted a Code of Business Conduct and Ethics applicable to all of our directors and employees, including our senior management and financial reporting employees. This code is available on our website at www.hmnf.com.

Stockholder Communication with the Board

The board of directors provides a process for stockholders to send communications to the board or any of the directors. Stockholders may send written communications to the board or any of the directors c/o Chief Financial Officer, HMN Financial, Inc., 1016 Civic Center Drive N.W., Rochester, Minnesota 55901-6057. All communications will be compiled by the Chief Financial Officer and submitted to the board or the individual directors on a periodic basis. Communications directed to the board in general will be forwarded to the appropriate director(s) to address the matter.

Director Attendance at Annual Meetings

Directors are expected to attend the annual meeting of stockholders. In 2010, all directors attended the annual meeting of stockholders.

Stockholder Proposals

Under our by-laws, certain procedures are provided that a stockholder must follow to introduce an item of business at an annual meeting of stockholders or to nominate persons for election as directors. These procedures provide, generally, that stockholders desiring to bring a proper subject of business before the meeting, or to make nominations for directors, must do so by a written notice received not later than 90 days in advance of the meeting (or if we do not publicly announce our annual meeting date 100 days in advance of the meeting date, by the close of business on the 10th day following the day on which notice of the meeting is mailed to stockholders or publicly made) by our corporate secretary containing the name and address of the stockholder as they appear on our books and the class and number of shares owned by the stockholder. If the notice relates to an item of business it also must include a representation that the stockholder intends to appear in person or by proxy at the meeting. Notice of an item of business shall include a brief description of the proposed business and a description of all arrangements or understandings between the stockholder and any other person or persons (including their names) in connection with the proposal of business by the stockholder and any material interest of the stockholder in the business. If the notice relates to a nomination for director, it must set forth the name and address of any nominee(s), any other information regarding each nominee as would have been required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had each nominee been nominated by the board, and the consent of each nominee to be named in the proxy statement and to serve on the board.

The chairman of the meeting may refuse to allow the transaction of any business not presented, or to acknowledge the nomination of any person not made, in compliance with the foregoing procedures. Copies of our by-laws are available from our corporate secretary.

Compensation Committee Interlocks and Insider Participation

During 2010, the compensation committee was comprised of Messrs. DeBoer, Fogarty and Smith and Ms. Himle. None of the members is an executive officer, employee or former employee of our company, and

no interlocking relationship exists between the board or compensation committee and the board of directors or compensation committee of any other company.

Related Person Transaction Approval Policy

On March 15, 2011, our board of directors readopted a written policy for related person transactions, which sets forth our policies and procedures for the review, approval or ratification of transactions subject to the policy with related persons who are subject to the policy. Our policy applies to any transaction, arrangement or relationship or any series of similar transactions, arrangements or relationships that have a financial aspect and in which we are a participant and a related person has a direct or indirect interest. Our policy, however, exempts the following:

- our payment of compensation to a related person for that person s service to us in the capacities that give rise to the person s status as a related person;
- transactions available to all of our employees or all of our stockholders on the same terms;
- any extension of credit by our banking subsidiary in which a related person has a direct or indirect interest and which complies with the requirements of Regulation O under Title 12 of the Code of Federal Regulations and has been approved by either the board of directors of our banking subsidiary or its loan committee; and
- transactions, which when aggregated with the amount of all other transactions between the related person and our company, involve less than $120,000 in a fiscal year.

We consider the following people to be related persons under the policy:

- all of our executive officers and directors;
- any nominee for director;
- any immediate family member of any of our directors, nominees for director or executive officers; and
- any holder of more than 5% of our common stock, or an immediate family member of the holder.

The audit committee of our board of directors must approve any related person transaction subject to this policy before commencement of the related party transaction. The committee will analyze the following factors, in addition to any other factors the committee deems appropriate, in determining whether to approve a related party transaction:

- whether the terms are fair to our company;
- whether the transaction is material to our company;
- the role the related person has played in arranging the related person transaction;
- the structure of the related person transaction; and
- the interests of all related persons in the related person transaction.

The committee may, in its sole discretion, approve or deny any related person transaction. Approval of a related party transaction may be conditioned upon our company and the related person taking any actions that the committees

deems appropriate.

If one of our executive officers becomes aware of a related person transaction that has not previously been approved under the policy:

if the transaction is pending or ongoing, it will be submitted to the audit committee promptly and the committee will consider the transaction in light of the standards of approval listed above. Based on this evaluation, the committee will consider all options, including approval, ratification, amendment, denial or termination of the related person transaction; and

if the transaction is completed, the committee will evaluate the transaction in accordance with the same standards to determine whether rescission of the transaction is appropriate and feasible.

There were no related person transactions in 2010 required to be reported in this proxy statement.

Certain Transactions

The bank follows a policy of granting loans to eligible directors, officers, employees and members of their immediate families for the financing of their personal residences and for consumer purposes. The rate charged on mortgage loans is generally equal to the then-current rate offered to the general public, although certain fees are reduced or waived. The employee rate charged on consumer loans is generally 1% below the then-current rate offered to the general public. As of December 31, 2010, the aggregate amount of the bank s loans to directors, executive officers, affiliates of directors or executive officers, and employees was approximately $4.1 million or 5.95% of our stockholders equity. All of these loans were current as of December 31, 2010. All of the loans to directors and executive officers (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including collateral, as those prevailing at the time for comparable transactions with other persons, except for the employee interest rate, fee reduction or fee waiver and (c) did not involve more than the normal risk of collectability or other unfavorable features.

Independent Registered Public Accounting Firm Fees

The following table presents fees for professional audit services rendered by KPMG LLP for the audit of our annual financial statements for 2010 and 2009, and fees for other services rendered by KPMG LLP relating to these fiscal years.

Description of Fees	**2010**	**2009**
Audit Fees(1)	$ 207,000	$ 204,000
Audit-Related Fees(2)	28,000	15,000
Total Audit and Audit-Related Fees	$ 235,000	$ 219,000

(1) Audit fees consisted of the annual audit and quarterly reviews of our consolidated financial statements, statutory audit, audit of internal controls over financial reporting and assistance with and review of documents filed with the Securities and Exchange Commission.

(2) Audit-related fees consisted of employee benefit plan audits.

Approval of Independent Registered Public Accounting Firm Services and Fees

The audit committee pre-approved 100% of the services provided by KPMG LLP, our independent registered public accounting firm. KPMG provided no other services to the company, other than those noted above.

The audit committee s current practice on pre-approval of services performed by the independent registered public accounting firm is to approve annually all audit services and, on a case-by-case basis, recurring permissible non-audit services to be provided by the independent registered public accounting firm during the fiscal year. The audit committee reviews each non-audit service to be provided and assesses the impact of the service on the registered public accounting firm s independence. In addition, the audit committee may pre-approve other non-audit services during the year on a case-by-case basis. Pursuant to a policy adopted by the audit committee, the chair of the audit committee is authorized to pre-approve certain limited non-audit services described in Section 10A(i)(1)(B) of the Exchange Act. Mr. Geisler, as the chair of the audit committee, did not pre-approve any non-audit services pursuant to

this authority in 2010.

Report of the Audit Committee

The audit committee has (i) reviewed and discussed our audited financial statements for 2010 with our management; (ii) discussed with our independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, as adopted by the Public Company Accounting Oversight Board in Rule 3200T, as currently in effect; (iii) received the written disclosures and the letter from our independent registered public accounting firm required by the applicable requirements of the PCAOB regarding the independent accountant s communications with the audit committee concerning independence; and (iv) has discussed with our independent registered public accounting firm its independence. Based on the review and discussions with management and our independent registered public accounting firm referred to above, the audit

committee recommended to the board that the audited financial statements be included in our annual report on Form 10-K for the fiscal year ended December 31, 2010, and filed with the Securities and Exchange Commission.

The Audit Committee

Allan R. DeBoer
Timothy R. Geisler
Malcolm W. McDonald
Mahlon C. Schneider

SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth, as of March 1, 2011, the beneficial ownership of: (i) each stockholder known by management to beneficially own more than five percent of the outstanding common stock, (ii) each of the current executive officers listed in our summary compensation table, (iii) each director, and (iv) all directors and executive officers as a group. Unless otherwise indicated, the listed beneficial owner has sole voting power and investment power with respect to the shares of common stock and maintains an address at 1016 Civic Center Drive N.W., Rochester, Minnesota 55901-6057.

Name and Address (if required) of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percentage of Outstanding Shares
United States Department of the Treasury(1) 1500 Pennsylvania Ave., NW Washington, D.C. 20220	833,333	16.0%
HMN Financial, Inc. Employee Stock Ownership Plan(2)	761,222	17.3
Dimensional Fund Advisors LP(3) Palisades West, Building One 6300 Bee Cave Road Austin, TX 78746	352,656	8.0
Tontine Associates, LLC(4) 55 Railroad Avenue, 3rd Floor Greenwich, CT 06830	259,741	5.9
Directors, director nominees and executive officers:		
Allen J. Berning(5)	1,000	*
Allan R. DeBoer(6)	14,700	*
Jon J. Eberle(7)	61,395	1.4
Michael J. Fogarty(8)	22,900	*
Timothy R. Geisler(9)	4,233	*
Karen L. Himle(10)	15,200	*
Dwain C. Jorgensen(11)	88,056	2.0
Susan K. Kolling(12)	83,109	1.9
Bradley C. Krehbiel(13)	83,709	1.9
Malcolm W. McDonald(14)	19,775	*
Bernard R. Nigon(15)	2,500	*
Mahlon C. Schneider(16)	3,200	*
Hugh C. Smith(17)	4,600	*
Lawrence D. McGraw(18)	23,000	*
All directors, director nominees and executive officers of the company as a group (14 persons)(19)	427,377	9.6

* Less than 1% Owned

(1) Represents shares of common stock covered by a warrant that is currently exercisable. The United States Department of the Treasury has agreed not to exercise any voting rights with respect to shares of our common stock issued under the warrant.

(2) As reported on a Schedule 13G/A dated February 8, 2011, and filed on February 8, 2011. The amount reported represents shares of common stock held by the HMN Financial, Inc. Employee Stock Ownership Plan, known as the ESOP. As reported on a Form 5 dated February 8, 2011, and filed February 8, 2011, 335,453 of the 761,222 shares of common stock beneficially owned by the ESOP have been allocated to accounts of participants. First Bankers Trust Services, Inc., Quincy, Illinois, the trustee of the ESOP, may be deemed to beneficially own the shares of common stock held by the ESOP. First Bankers Trust expressly disclaims beneficial ownership of these shares. Participants in the ESOP are entitled to instruct the trustee as to the voting of shares of common stock allocated to their accounts under the ESOP. Unallocated shares or allocated shares for which no voting instructions are received are voted by the trustee in the same proportion as allocated shares for which instructions have been received from participants. The ESOP has sole voting power for 425,769 of the shares it holds, and shared voting power for 335,453 of the shares it holds. The ESOP has sole dispositive power for 425,769 of the shares it holds, and shared dispositive power for 335,453 of the shares it holds.

(3) As reported on a Schedule 13G/A dated February 11, 2011, and filed on February 11, 2011. Dimensional Fund Advisors LP is an investment adviser. The amount reported represents shares of common stock held in various advisory accounts. No account has an interest relating to more than 5% of the outstanding shares of common stock. Dimensional Fund Advisors LP exercises sole dispositive power for 352,656 of the shares it holds and sole voting power with respect to 351,656 of the shares. In its role as investment advisor, Dimensional Fund Advisors, LP may be deemed to be the beneficial owner of the shares held by it. Dimensional Fund Advisors, LP expressly disclaims beneficial ownership of these shares.

(4) As reported by a third-party securities ownership tracking service. On a Schedule 13D/A dated May 28, 2003, filed on May 30, 2003, associates of Tontine Associates, LLC reported ownership of 421,729 shares of common stock. Tontine Associates, LLC and its associates have filed no amendments to the Schedule 13D/A dated May 28, 2003.

(5) Includes 1,000 shares of common stock held jointly with his spouse.

(6) Includes 14,700 shares of common stock held directly.

(7) Includes 43,322 shares of common stock held directly, 10,779 shares of common stock allocated to Mr. Eberle s account under our employee stock ownership plan and 7,294 shares of common stock covered by options that are currently exercisable or exercisable within 60 days of March 1, 2011.

(8) Includes 6,900 shares of common stock held in a fiduciary capacity, 1,000 shares of common stock held in a fiduciary capacity jointly with his spouse and 15,000 shares of common stock covered by options that are currently exercisable or exercisable within 60 days of March 1, 2011.

(9) Includes 365 shares of common stock held jointly with his spouse, 3,725 shares of common stock held by Mr. Geisler s IRA account, and 143 shares of common stock held in Mr. Geisler s spouse s IRA account.

(10) Includes 200 shares of common stock held directly and 15,000 shares of common stock covered by options that are currently exercisable or exercisable within 60 days of March 1, 2011.

(11) Includes 48,150 shares of common stock held directly, 2,150 shares of common stock held by the IRA account of Mr. Jorgensen s spouse, 10,077 shares of common stock under the bank s 401(k) plan, 17,798 shares of common stock allocated to Mr. Jorgensen s account under our employee stock ownership plan and 9,881 shares of common stock covered by options that are currently exercisable or exercisable within 60 days of March 1, 2011.

(12) Includes 53,767 shares of common stock held directly, 15,386 shares of common stock allocated to Ms. Kolling s account under our employee stock ownership plan, 7,186 shares of common stock held under the bank s 401(k) plan and 6,770 shares of common stock covered by options that are currently exercisable or exercisable within 60 days of March 1, 2011.

(13) Includes 65,564 shares of common stock held directly, 7,962 shares of common stock allocated to Mr. Krehbiel s account under our employee stock ownership plan and 10,183 shares of common stock covered by options that are currently exercisable or exercisable within 60 days of March 1, 2011.

(14) Includes 2,675 shares of common stock held directly, all of which are pledged as security, 2,100 shares held in Mr. McDonalds s IRA, and 15,000 shares of common stock covered by options that are currently exercisable or

exercisable within 60 days of March 1, 2011.

(15) Includes 2,500 shares of common stock held directly.

(16) Includes 3,200 shares of common stock held directly.

(17) Includes 1,600 shares of common stock held directly and 3,000 shares of common stock covered by options that are currently exercisable or exercisable within 60 days of March 1, 2011.

(18) Includes 23,000 shares of common stock held directly.

(19) Includes shares of common stock held directly, as well as shares of common stock held jointly with family members (if these shares are deemed to be beneficially owned by the director or officer), shares of common stock held in retirement accounts, shares of common stock held by these individuals in their accounts under the bank s 401(k) plan, shares of common stock allocated to the ESOP accounts of the group members, shares of common stock held in a fiduciary capacity or by certain family members and shares covered by options that are currently exercisable or exercisable within 60 days of March 1, 2011, with respect to which shares the persons included may be deemed to have sole or shared voting and/or investment power.

2010 DIRECTOR COMPENSATION

All of our directors also serve as directors of our banking subsidiary. During 2010, non-employee members of our board of directors were paid the following combined cash fees for their services to us and our banking subsidiary:

	Description of Fees			
	Chairman of the Board	Non-employee Directors	Chairman of the Audit Committee	Other Committee Chairs
Monthly fee	$ 3,333	$ 1,250		
Board meeting attendance fee	$ 1,000	$ 500		
Audit Committee attendance fee		$ 500	$ 1,500	
Other board committee attendance fees		$ 300		$ 900

Our 2010 schedule for fees payable to non-employee members of our board of directors did not change from our 2009 schedule following the compensation committee s determination that such fees should not be increased between the periods. In accordance with the fee schedule set forth above, our non-employee directors received the following total compensation for 2010 for their service on our board of directors:

Non-Employee Director	Fees Earned or Paid in Cash ($)(1)	Option Awards ($)(2)	Total ($)
Allan R. DeBoer	$ 26,700	$	$ 26,700
Michael J. Fogarty	29,450		29,450
Timothy R. Geisler	69,200		69,200
Karen L. Himle	22,550		22,550
Malcolm W. McDonald	34,450		34,450
Mahlon C. Schneider	25,650		25,650
Hugh C. Smith	27,850		27,850

(1) We allow directors to defer receipt of their fees until January 30 of the calendar year immediately following the date in which they cease to be a member of the board. We pay deferred fees over a yearly period of ten years or less. Deferred fees earn interest at a rate equal to our bank subsidiary s cost of funds on November 30 of each year in which the fees are deferred. A director who is one of our employees receives no separate compensation for services as a director. As of December 31, 2010, Mr. DeBoer had a deferred fee balance of $208,299 and Mr. Schneider had a deferred fee balance of $131,715.

(2) The amount reported is the aggregate grant-date fair market value computed in accordance with FASB Accounting Standards Codification, or ASC, Topic 718. See footnote 13 in the notes to consolidated financial statements included in our annual report for the assumptions made in determining the fair value of option awards in accordance with ASC Topic 718. We granted 15,000 options to each director when they became a member of the board. Options outstanding as of December 31, 2010, totaled 0 for Mr. DeBoer, Mr. Geisler and

Mr. Schneider and 15,000 for each of the other directors. The exercise prices of the outstanding options range from $4.77 to $30.00.

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This Compensation Discussion and Analysis provides information about the 2010 compensation program for our named executive officers, who are:

Bradley C. Krehbiel, President of the company and bank,

Jon J. Eberle, Chief Financial Officer, Senior Vice President and Treasurer of the company and bank,

Lawrence D. McGraw, Chief Credit Officer and Senior Vice President of the bank,

Dwain C. Jorgensen, Senior Vice President of the company and bank, and

Susan K. Kolling, Senior Vice President of the company and bank.

Compensation to our executive officers is provided by our banking subsidiary. We have not separately provided compensation to our executive officers since our formation, and do not anticipate paying any compensation to these officers until we become actively involved in the operation or acquisition of businesses other than our banking subsidiary. As of December 31, 2010, we had no executive officers other than our five named executive officers.

The compensation committee of our board of directors establishes and administers the compensation and benefits program for executive officers and directors. The compensation committee has designed our executive compensation program to achieve the following primary goals:

to attract and retain a highly qualified and coordinated workforce of executives who have the skills, experience and work ethic required to effectively achieve our goals and objectives; and

to align executives interests with the creation and maintenance of long-term stockholder value.

Beginning in 2009, our compensation program for named executive officers has been significantly affected by our participation in the U.S. Treasury s Capital Purchase Program, or CPP. Under the CPP, we are limited in the types of compensation that we may offer to named executive officers and other highly compensated employees, as described below. Due largely to the CPP compensation limitations, the total direct compensation (salary plus incentive compensation) for our named executive officers in 2010 consisted of their base salaries, supplemented by restricted stock awards that ranged from 15% to 35% of their respective base salaries. No increases in base salaries were approved during 2010.

With the assistance of an independent compensation consulting firm retained in 2009, the compensation committee had also developed a performance-based compensation program for Mr. Krehbiel for 2010, payments under which would be made in the form of additional shares of restricted stock. No payments under this program were earned based on our 2010 performance, and the program was not extended to other named executive officers during the year.

In 2010, we created a new position of Chief Credit Officer and hired Lawrence D. McGraw to fill this role. Mr. McGraw s compensation was recommended by Mr. Krehbiel and approved by the compensation committee and the board of directors.

Restrictions on Compensation Based on Participation in the Capital Purchase Program

On December 23, 2008, we sold preferred stock to the United States Treasury under the CPP. As a participant in the CPP, we must comply with certain limitations on executive compensation and compensation practices that affect our named executive officers and certain other highly compensated employees throughout the time the Treasury holds our preferred stock. These executive compensation requirements:

prohibit any bonus, retention award or incentive compensation to our five most highly compensated employees (who are not necessarily our five named executive officers) unless it is in the form of long-term

restricted common stock that does not vest in the first two years after it is issued and that cannot be transferred except as permitted under a schedule based on the redemption of the preferred stock;

prohibit payment of severance for any reason to our named executive officers and our next five most highly compensated employees;

require us to recover from our named executive officers and the next 20 most highly compensated employees any bonus, retention award or incentive compensation when based on materially inaccurate earnings, revenues, gains or other criteria;

prohibit incentive compensation to named executive officers that encourages unnecessary and excessive risks that threaten the value of our company;

prohibit any compensation plan that would encourage manipulation of our reported earnings to enhance the compensation of any of our employees;

prohibit tax gross ups to any named executive officer or the next 20 most highly compensated employees;

preclude us from claiming a deduction in an applicable tax year for federal income tax purposes for remuneration in excess of $500,000 to a named executive officer, as calculated in accordance with Section 162(m)(5) of the Internal Revenue Code;

require the compensation committee to review incentive compensation arrangements for our named executive officers with our senior risk officer to assess and limit arrangements which encourage unnecessary or excessive risks that could threaten the value of our company, to meet semiannually with the senior risk officer to review the relationship between our company s risk management policies and practices and the named executive officers incentive compensation arrangements, and to certify to the foregoing in our proxy statement.

Each of the requirements listed above will impact the design of our compensation program and arrangements for our executive officers so long as the Treasury holds our preferred stock. We have amended our bonus and incentive compensation arrangements with our named executive officers to provide for the recovery of any payments based on materially inaccurate financial statements or any other materially inaccurate performance metrics, in accordance with these CPP requirements. The right to recover these payments is not dependent upon the occurrence of a restatement of our financial results or of any misconduct.

While most of these requirements apply to our named executive officers, and in many cases to some number of additional highly compensated employees, the limitation on bonuses, retention awards and incentive compensation applies to our five most highly compensated employees. Mr. Jorgensen and Ms. Kolling are not currently included in this latter group for purposes of the CPP.

Compensation Program Design and Operation

Program Design. Within the constraints of the requirements related to the CPP, the compensation committee seeks to achieve the goals of our executive compensation program by providing for a competitive base salary and long-term equity incentive awards. Under the CPP requirements, base salaries generally cannot represent less than two-thirds of our named executive officers annual total direct compensation (which consists of base salary and the grant date value of equity compensation awards granted in a particular year). The compensation committee s philosophy is that over the long term, base salaries should be competitive with those of similarly-sized publicly held financial institutions that operate in the upper-Midwest and against whom we may compete for executive talent.

Subject to the restrictions imposed on compensation under the CPP, the compensation committee considers many factors in determining our compensation program for executive officers, including data on competitive compensation practices and amounts, our overall performance compared to expected results and the contributions of the executive officer to achieving our strategic goals. Although we do not have formal stock ownership guidelines, the compensation committee does consider the value and vesting timetable of outstanding equity awards held by executive officers in determining the timing and amount of new equity awards. While the compensation committee may from time to time establish specific performance objectives for the receipt of incentive

compensation, our compensation program is essentially a discretionary system in which the compensation committee uses competitive compensation data and draws upon the business experience, business judgment and general knowledge of its members to evaluate compensation matters collaboratively and subjectively.

In designing our compensation program, we have also considered, the accounting treatment in our financial statements and the tax impact on us and on our executive officers of various potential elements of compensation. In the past, we have modified the mix of our compensation elements based on changes in financial accounting treatment (such as changing the nature of equity compensation awards partially in response to changes in accounting for equity compensation) and included compensation elements with favorable tax treatment for our employees (such as employer 401(k) contributions), and we may do so again in the future, subject to the constraints of the requirements related to the CPP. However, we do not consider accounting and tax matters as primary factors in managing our compensation program.

Roles of Committee and Management. The compensation committee consists exclusively of independent non-employee directors, and has the full authority to determine all elements of the compensation for Mr. Krehbiel and to approve all elements of the compensation of our other executive officers. In approving compensation actions for the other executive officers, the compensation committee receives regular input and recommendations from Mr. Krehbiel, and ascribes significant weight to his recommendations. Our chief financial officer and his staff, together with outside professionals, assist the compensation committee in evaluating the financial accounting and tax treatment of existing and potential elements of our executive compensation program.

Compensation Consultant. The compensation committee has the authority to retain independent compensation consultants to assist in the evaluation of executive officer compensation. In 2009, the compensation committee engaged Amalfi Consulting, LLC (Amalfi), to assist it in refining the committee s compensation philosophy, defining characteristics of peer financial institutions and identifying particular peer group entities, compiling peer group compensation data, analyzing the elements of compensation, developing incentive compensation systems and ensuring compliance with the compensation restrictions under the CPP and other regulatory requirements. During 2010, the compensation committee utilized Amalfi s services to assess the compensation of our non-employee directors and provide data on market practices with respect to non-employee director compensation. In late 2010, the compensation committee engaged Blanchard Chase as its independent compensation consultant.

Determining Market Competitive Compensation. With Amalfi s assistance, in the fourth quarter of 2009, the compensation committee identified the following twenty publicly traded financial institutions in the Upper Midwest that are comparable to us in asset size and performance and with whom we may compete for executive talent for purposes of obtaining data on competitive compensation practices:

QCR Holdings, Inc.	Princeton National Bancorp, Inc.	Ames National Corporation
Reliance Bancshares, Inc.	HF Financial Corp.	OAK Financial Corporation
Bank Financial Corporation	Baylake Corp.	United Bancorp, Inc.
West Bancorporation, Inc.	First Mid-Illinois Bancshares, Inc.	Meta Financial Group, Inc.
MidWestOne Financial Group, Inc.	Northern States Financial Corp.	First Clover Leaf Financial Corp.
Centrue Financial Corporation	Indiana Community Bancorp	BNCCORP, Inc.
Hawthorn Bancshares, Inc.	First Business Financial Services, Inc.	

At the time this peer group of companies was identified, our total assets were at the 36th percentile within the group, and our number of branches at the 37th percentile. Eleven members of the group were then participants in the CPP.

The compensation committee s philosophy is to generally target base salaries and total direct compensation for our named executive officers at or below the median for comparable positions with the peer group companies, reserving to itself the discretion to position an individual s base salary or total direct compensation above or below the peer group median based on the individual s experience, performance and level of responsibilities. Peer group compensation data was not updated during 2010, as the compensation committee determined, with the concurrence of its consultant, that the competitive data was not likely to have changed significantly. The compensation committee anticipates that it will obtain updated competitive compensation data every two to three years.

Elements of Compensation

Executive officer compensation includes the following elements:

Base Salary. The base salary amount is the fixed portion of each executive s annual compensation and, under requirements related to the CPP, must represent 66%-100% of an executive s total annual potential compensation. Salary levels are based primarily on the executive s responsibilities and experience, the market compensation paid by similar sized financial institutions for similar positions. Ordinarily, base salaries are reviewed annually, and adjusted from time to time to realign salaries with market levels and individual responsibilities, performance and experience.

Incentive Compensation. Long-term restricted stock grants are the only form of bonus, retention award or incentive compensation that we are permitted to provide to our five most highly compensated employees, including two of our named executive officers, under requirements related to the CPP. In accordance with CPP requirements, restricted stock awards generally may not vest prior to the second anniversary of the applicable grant date. Even after a restricted stock award has vested, the shares of stock subject to the award may not be transferred any time earlier than is proportional, in 25% increments, to our repayment to the Treasury of the financial assistance we received under the CPP. We have not yet repaid any of the financial assistance that we received under the CPP.

The issuance of restricted stock is designed to provide a long-term retention incentive for executive officers, align their interests with the creation and maintenance of long-term stockholder value and reward them for managing our performance to increase stockholder value. The compensation committee s philosophy is that restricted stock grants also may encourage executive officers to balance the risk of losses in stockholder value against the potential for gains in stockholder values when evaluating business decisions. As a result, the executive officers may adopt strategies that strike a better balance between the potential for stock price appreciation and the risk that a failed strategy will lead to a stock price decline.

The compensation committee began using restricted stock grants as an element of the overall compensation program in 2004, when the accounting requirements for expensing stock options changed and the difference in the financial statement impact between granting awards of restricted stock and granting option awards was reduced. At that time, the compensation committee began issuing restricted stock grants instead of stock options due to the change in accounting treatment of stock options, the relatively long remaining vesting and exercise periods of the then outstanding stock options, and the committee s belief that grants of restricted stock awards provide a stronger retention incentive than stock options because executives are assured of realizing value as the stock vests over time. No stock options have been issued to executive officers in the past seven years.

Historically, we have also awarded nominal cash bonuses based on years of service and annual holiday bonuses to all employees, including our executives. We also reserve the right to pay bonus compensation under other circumstances, such as payment of the signing bonus to Mr. McGraw in connection with the commencement of his employment.

Benefits. The compensation committee s philosophy is that a competitive benefits package contributes to executive retention. Our executive officers participate on an equal, nondiscriminatory basis with all other employees in our medical insurance plan, medical reimbursement plan, childcare plan, long-term disability plan and group life insurance plan. If an executive officer retires after 15 years of service, we will continue to pay the employer portion of his or her health insurance coverage until he or she reaches the age of 65.

Our executive officers also participate along with other employees, on a nondiscriminatory basis, in a 401(k) plan with a 25% match on employee contributions up to 8% of the employee s salary.

Our executive officers also participate on a nondiscriminatory basis in our Employee Stock Ownership Plan (ESOP). All of our employees are eligible to participate in the ESOP after they complete one year of service as defined by the plan. The ESOP holds shares of our common stock that secure a loan for the funds that were used to acquire the ESOP shares. Each year the security interest is released from a fixed number of shares as a fixed amount of the loan is amortized. The shares that are released from the security interest are allocated to eligible participant accounts based on the percentage of the participant s compensation (subject to limits) to the entire compensation of

all plan participants. The value of the ESOP contributions vary based on the price of our common stock and represents less than 1% of each executive s base salary amount.

The compensation committee considers the benefits granted to executive officers when determining executive officer compensation amounts and comparing compensation amounts to other executives at similar companies, and considers the value of the ESOP contributions when it considers the mix between cash and equity compensation.

Change in Control Compensation. We also have entered into change-in-control agreements with each of our named executive officers, other than Mr. McGraw, that, subject to CPP requirements, provide for a cash payment equal to 200% of the employee s prior year base salary and bonus if, following a change in control, his or her employment is involuntarily terminated or the employee terminates his or her employment for good reason. The compensation committee s philosophy is that change-in-control agreements are appropriate to induce executives to remain with our company in the event of a proposed or anticipated change in control or through a change in control to facilitate an orderly transition to new ownership. The change-in-control agreements also assist us in recruiting and retaining executives by providing executives with appropriate economic security, given the relatively limited number of alternative employers in our industry and geographic area, against loss of employment following a change in control. However, until we have repaid all of the financial assistance we received under the CPP, we may not make any payment to our named executive officers in connection with a change in control, except for payments for services performed or benefits accrued.

2010 Compensation Actions

Based on our consultations with Amalfi and the peer group data received, on the compensation limitations applicable to us due to our participation in the CPP and on general economic uncertainty, the compensation committee decided to make no changes to the base salaries of our named executive officers during 2010. The base salaries of Mr. Krehbiel and Mr. Eberle were last adjusted in August 2009 to reflect changes in their roles with the company and bank following the resignation of our former principal executive officer. At that time, the compensation committee determined that in light of Mr. Krehbiel s level of experience and the committee s desire to provide incentives for future growth in his compensation, it would be appropriate to set his base salary at approximately the 27th percentile of peer group companies. Base salaries of the other named executive officers range between the 21st and 38th percentiles of comparable peer group positions.

On January 26, 2010, in order to retain the services of our executive officers and to provide them with long-term incentive compensation within the limitations of the CPP, the compensation committee authorized a grant to each of our named executive officers of restricted stock. The grant date value of each annual restricted stock award to a named executive officer whose award is limited under CPP requirements may not exceed one-half of the executive officer s base salary for the calendar year. Based on competitive data and analyses provided by Amalfi, the compensation committee decided to provide 2010 restricted stock awards with a grant date value of 35% of base salary to Messrs. Krehbiel and Eberle, 20% to Ms. Kolling and 15% to Mr. Jorgensen. Amalfi had recommended that the grant date value of such awards increase as a percentage of base salary based on the increased responsibilities of the respective positions. The compensation committee generally approves equity-based awards at a meeting early in the first quarter of each fiscal year, after our year-end financial results have been released.

The compensation committee also worked with Amalfi to develop, within the limitations imposed by the CPP, an incentive compensation plan for Mr. Krehbiel for 2010 to more closely link his compensation with individual and bank performance. The plan was based on the achievement of annual financial and non-financial objectives, which were established by the compensation committee at the beginning of 2010. The allocation of incentives between financial and non-financial objectives for the 2010 plan was split 30% for attainment of budgeted earnings per share and 70% for attainment of specified strategic objectives such as reducing our net charge offs for loan and loan type

concentrations, exceeding the budget amount of non-interest income and meeting performance objectives for specified market segments and bank branch offices. Under this plan, Mr. Krehbiel was eligible to receive an award of restricted stock in early 2011 with a grant date value that would be based on the degree to which the 2010 performance objectives under the plan had been achieved. Because the performance objectives were not achieved, Mr. Krehbiel did not receive an additional award of performance-based restricted stock. The compensation committee did not create a similar program for other executive officers during 2010.

In February 2010, we hired Lawrence D. McGraw to fill the newly created position of chief credit officer. Mr. McGraw s annual base salary of $155,000 and signing bonus of $20,000 were determined through negotiations between Mr. McGraw and our company and were recommended by Mr. Krehbiel and approved by the compensation committee and the board of directors.

Developments Affecting 2011 Compensation

Restrictions on Compensation Based on Entry into Supervisory Agreements. Under our Supervisory Agreements with the OTS, we and our banking subsidiary are not permitted, without the prior written consent of the OTS, to enter into any new contractual arrangement or to renew or revise any existing contractual arrangement related to compensation or benefits with any director or certain executive officers. The Supervisory Agreements also prohibit any golden parachute payment unless such payment complies with the applicable rules and regulations of the Federal Deposit Insurance Corporation. The limitations on our ability to take certain employment and compensation actions as provided by the Supervisory Agreements were not in effect during 2010.

2011 Base Compensation. Mr. Krehbiel did not receive an increase in his base compensation for 2011. Mr. Jorgensen and Ms. Kolling each received a 2% increase in their base compensation for 2011, consistent with 2011 salary guidelines for employees generally. Mr. McGraw received a $20,000 increase in his base compensation for 2011 following the committee s review of market compensation levels for comparable positions. Mr. Eberle received a $10,000 increase in his base compensation for 2011 reflecting both the committee s considerations of internal pay equity among its named executive officers and general salary guidelines.

Retention Awards. On January 27, 2011, the compensation committee approved, subject to the approval of the OTS, a grant of discretionary cash retention awards to Mr. Jorgensen and Ms. Kolling, neither of whom are subject to the CPP limitation on bonus, retention and incentive awards. The compensation committee approved a total award for Mr. Jorgensen of $16,800 and a total award for Ms. Kolling of $24,720. These cash-based awards, which are payable in three equal annual installments, are provided for retention purposes and to lessen the usage of shares under our equity-based compensation plan. An installment will vest and be paid if the officer remains employed on December 31 of each year and has been continuously employed throughout the year, subject to accelerated vesting of an installment in the event of death or disability during the calendar year. Vesting of the entire unvested award may be accelerated if the executive officer is involuntarily terminated without cause or voluntarily terminates his or her employment for good reason during the 12-month period following a change in control of the company, but only to the extent that such vesting is permitted under the CPP and not objected to by the OTS or other supervisory authority. The vested portion of the cash retention award will be paid on January 31 in the year following the year in which vesting occurs. The cash retention awards did not impact the total annual compensation of any executive officer for 2010.

Recovery of Performance-Based Compensation

The Sarbanes-Oxley Act requires recovery of certain incentive and equity compensation from our principal executive officer and principal financial officer in the event of restatement of financial results due to misconduct. The audit committee is responsible for determining if bonus or stock compensation paid to the principal executive officer or principal financial officer should be recovered in the event of a restatement.

COMPENSATION COMMITTEE REPORT

The compensation committee certifies that at least every six months, it has

discussed, evaluated and reviewed with the senior risk officer the named executive officer compensation plans in an effort to ensure that such plans do not encourage the named executive officers to take unnecessary and excessive risks that threaten the value of our company;

discussed, evaluated and reviewed with the senior risk officer the employee compensation plans in light of the risks posed to our company by such plans and how to limit such risks; and

discussed, evaluated and reviewed employee compensation plans in an effort to ensure that these plans do not encourage the manipulation of reported earnings of our company to enhance the compensation of any of our company s employees.

In addition, the compensation committee certifies that it has made reasonable efforts to identify and limit any features of the named executive officer compensation plans that could lead named executive officers to take unnecessary and excessive risks that could threaten the value of our company and has made reasonable efforts to identify and limit any features of the employee compensation plans that pose risks to our company in an effort to ensure that our company is not unnecessarily exposed to risks.

Based on, among other factors, the committee s assessment of the principal risks to which our company is subject, its evaluation of the existing compensation arrangements for our named executive officers in accordance with the limitations imposed under the CPP, the relatively significant portion of total compensation represented by base salary and the CPP limitation on the use of variable forms of compensation, the discretion to award incentive compensation exercisable by the company, the customary use of non-financial objectives in determining a significant portion of any incentive compensation, the use of restricted stock as a significant component of equity incentive compensation and the sole component in recent years, the required vesting periods included in equity awards, the holding period required after vesting for restricted stock grants subject to the requirements related to the CPP, and the clawback requirements to which incentive compensation is now subject, the compensation committee concluded that our compensation plans for our named executive officers are not reasonably likely to encourage unnecessary or excessive risk, including behavior focused on short-term results rather than long-term value creation, that would threaten the value of our company.

Based on, among other factors, the elements of our employees compensation, the relatively significant portion of total compensation represented by base salary for our employees, the discretion to award incentive compensation exercisable by the company, the use of non-financial objectives in determining a significant portion of any incentive compensation, the use of restricted stock as a significant component of equity incentive compensation and the sole component in recent years, the required vesting periods included in equity awards, executive and management oversight of our operations and our systems of internal controls over financial reporting, the compensation committee concluded that our employee compensation plans are not reasonably likely to encourage behavior focused on short-term results rather than long-term value creation or encourage the manipulation of our reported earnings to enhance the compensation of any of our employees.

The compensation committee has discussed and reviewed the compensation discussion and analysis with management. Based upon this review and discussion, the compensation committee recommended to the board of directors that the compensation discussion and analysis be included in this proxy statement.

Members of The Compensation Committee

Allan R. DeBoer
Michael J. Fogarty
Karen L. Himle
Hugh C. Smith

2010 EXECUTIVE COMPENSATION

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Non-Equity Incentive Plan($)	Stock Awards ($)(2)	All Other Compensation ($)(3)	Total ($)
Bradley C. Krehbiel	2010	264,500	150	0	92,400	19,051	376,101
President	2009	231,327	150	0	70,620	10,401	312,498
	2008	160,700	150	0	56,245	15,291	232,386
Jon J. Eberle	2010	165,500	150	0	57,750	7,655	231,055
Senior Vice President, Chief	2009	156,333	300	0	49,500	7,709	213,842
Financial Officer and Treasurer	2008	142,000	150	0	49,700	7,713	199,563
Lawrence D. McGraw	2010	139,202	20,050	0	0	3,221	162,473
Senior Vice President and Chief Credit Officer							
Dwain C. Jorgensen	2010	112,508	150	0	16,800	4,495	133,953
Senior Vice President,	2009	112,091	500	0	36,960	5,724	155,275
Facilities and Compliance Services	2008	112,300	150	0	39,305	6,505	158,260
Susan K. Kolling	2010	124,100	150	0	24,720	5,699	154,669
Senior Vice President,	2009	123,683	550	0	40,788	6,216	171,237
Business Development	2008	119,300	150	0	41,755	12,469	173,674

(1) Other than the $20,000 signing bonus paid to Mr. McGraw upon the commencement of his employment, these amounts represent the nominal cash bonuses we pay to all employees for holidays and years of service. We generally pay bonuses for a fiscal year in the first quarter of the following fiscal year. Holiday and years of service bonuses are generally paid in December.

(2) The amount reported is the aggregate grant-date fair market value computed in accordance with FASB Accounting Standards Codification, or ASC, Topic 718. See footnote 13 in the notes to consolidated financial statements included in our annual report for the assumptions made in determining the fair value of option awards in accordance with ASC Topic 718.

(3) All other compensation consists of the following:

Name	Employer 401(k) Contribution ($)	Value of Common Stock Allocated to ESOP ($)	Employer Paid Life Insurance Premiums ($)	Dividends Received on Vested Restricted Stock ($)	Perquisites and Other Personal Benefits ($)(a)	Total ($)

Bradley C. Krehbiel	3,732	1,929	350	1,596	11,444	19,051
2010	4,630	2,610	428	2,733	0	10,401
2009	3,875	2,396	134	2,369	6,517	15,291
2008						
Jon J. Eberle	2,794	1,319	342	1,410	1,790	7,655
2010	3,133	1,764	416	2,396	0	7,709
2009	3,543	2,122	74	1,974	0	7,713
2008						
Lawrence D. McGraw						
2010	2,984	0	237	0	0	3,221
Dwain C. Jorgensen						
2010	2,253	887	233	1,122	0	4,495
2009	2,252	1,265	284	1,923	0	5,724
2008	2,779	1,664	335	1,727	0	6,505
Susan K. Kolling						
2010	2,500	985	258	1,185	771	5,699
2009	2,485	1,396	312	2,023	0	6,216
2008	2,975	1,782	241	1,803	5,668	12,469

(a) Perquisites and other personal benefits include cash payments for the use of company cars in 2008 and the payment of unused personal time off in excess of carryover limits in 2010.

Change-In-Control Agreements

Under regulations related to the CPP, until we have repaid all of the financial assistance we received under the CPP, we many not make any payment to our named executive officers upon a change in control, except for payments for services performed or benefits accrued. Prior to our receipt of funds under the CPP, our banking subsidiary entered into a change-in-control agreements with each of Messrs. Krehbiel, Eberle and Jorgensen and Ms. Kolling as of May 27, 2008. These original agreements expire on May 30, 2010, but they provide for an automatic extension for one year and from year to year thereafter unless either applicable party gives contrary written notice 180 days prior to the expiration date each year. No such notice was given as of December 31, 2010. Therefore, by their terms, these agreements were extended to May 30, 2012. These agreements were designed to assist us in maintaining a stable and competent management team.

If permitted, the agreements would provide for a cash payment equal to a percentage of the employee s prior year base salary and bonus prior to termination in the event that their employment is terminated in connection with a change of control. A change of control occurs under the agreements if any person other than the executive, us, or one of our benefit plans acquires or becomes beneficial owner of 35% or more of our outstanding stock entitled to vote in a general election of directors; a majority of the members of our board are replaced as a result of an actual or threatened election contest; a reorganization, merger or consolidation of us is consummated that changes our ownership by 35% or more; or our stockholders approve a complete liquidation or dissolution of us or disposition of substantially all of our assets. If permitted, these named executive officers would also eligible for the cash payment if they voluntarily terminate employment within one year after a change in control has occurred if their duties, responsibilities, base salary, or benefits are reduced or if their principal place of employment is relocated more than 35 miles from its current location. If permitted, Messrs. Krehbiel, Eberle, and Jorgensen and Ms. Kolling would be entitled to receive a cash payment equal to 200% of their respective annual base salaries and bonus. These agreements also provide that these named executive officers, if permitted, would participate in the health, disability and life insurance plans and programs that they were entitled to immediately prior to termination for one year after termination. If payment under these agreements were permitted, the amounts payable pursuant to these agreements would be reduced by the amount of any severance pay that the employees receive from the bank, its subsidiaries or its successors. Based on their prior year base salary and bonus amounts, if their employment had been terminated as of December 31, 2010, under circumstances giving rise to the salary payment described above and the payments were permitted, Mr. Krehbiel would have been entitled to receive approximately $529,000, Mr. Eberle would have been entitled to receive approximately $331,000, Mr. Jorgensen would have been entitled to receive approximately $225,016 and Ms. Kolling would have been entitled to receive approximately $248,200. The agreements provide that if the cash payments under the agreements together with any other compensation payments triggered by the change in control would constitute a parachute payment under Section 280G of the internal revenue code, the cash payments under the agreements would be reduced to the largest amount as would result in no portion of the payment being subject to an excise tax under the code. Pursuant to the Supervisory Agreements, any payment made under the change-in-control agreements must comply with the applicable rules and regulations of the Federal Deposit Insurance Corporation.

Grants of Plan-Based Awards in 2010

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock ($)(1)

Bradley C. Krehbiel	January 26, 2010	16,800	92,400
Jon J. Eberle	January 26, 2010	10,500	57,750
Dwain C. Jorgensen	January 26, 2010	3,055	16,800
Susan K. Kolling	January 26, 2010	4,495	24,720

(1) Based on a market value of $5.50 on January 26, 2010.

Outstanding Equity Awards

The following tables summarize the outstanding option grants and stock awards at December 31, 2010, of the named executive officers and the value of the restricted stock that vested in 2010.

Outstanding Equity Awards at December 31, 2010

	Option Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Options (#) Unexercisable(1)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(2)	Market Value of Shares or Units of Stock That Have Not Vested ($)(3)
Bradley C. Krehbiel	0	11,842	16.13	04/15/2012		
	4,540	0	27.66	03/02/2014	15,658	43,999
Jon J. Eberle	0	9,853	16.13	04/15/2012		
	3,640	0	27.66	03/02/2014	11,130	31,275
Dwain C. Jorgensen	102	12,398	16.13	04/15/2012		
	3,580	0	27.66	03/02/2014	8,344	23,447
Susan K. Kolling	0	9,189	16.13	04/15/2012		
	3,780	0	27.66	03/02/2014	9,184	25,807

(1) Mr. Krehbiel received a grant of options on April 16, 2002, of which 5,643 options will vest on April 16, 2011 and 6,199 options will vest on January 1, 2012. Mr. Eberle received a grant of options on April 16, 2002, of which 3,654 options will vest on April 16, 2011, and 6,199 options will vest on January 1, 2012. Mr. Jorgensen received a grant of options on April 16, 2002, of which 102 options vested on April 16, 2010, and 6,199 options will vest on each of April 16, 2011 and January 1, 2012. Ms. Kolling received a grant of options on April 16, 2002, of which 2,990 options will vest on April 16, 2011, and 6,199 options will vest on January 1, 2012.

(2) Of Mr. Krehbiel s unvested stock awards, 853 shares will vest on January 25, 2011, 9,870 shares will vest on May 8, 2011, 11,200 shares will vest on January 26, 2012, 4,935 shares will vest on May 8, 2012 and 5,600 shares will vest on January 26, 2013. Of Mr. Eberle s unvested stock awards, 753 shares will vest on January 25, 2011, 6,918 shares will vest on May 8, 2011, 7,000 shares will vest on January 26, 2012, 3,459 shares will vest on May 8, 2012 and 3,500 shares will vest on January 26, 2013. Of Mr. Jorgensen s unvested stock awards, 596 shares will vest on January 25, 2011, 1,1018 shares will vest on January 26, 2011, 5,165 shares will vest on May 8 2011, 1,018 shares will vest on January 26, 2012, 2,583 shares will vest on May 8, 2012 and 1,019 shares will vest on January 26, 2013. Of Ms. Kolling s unvested stock awards, 633 shares will vest on January 25, 2011, 5,700 shares will vest on May 8, 2011, 2,997 shares will vest on January 26, 2012, 2,851 shares will vest on May 8, 2012 and 1,498 shares will vest on January 26, 2013.

(3) Represents market value of underlying securities at year end of $2.81, which is the closing price of the common stock on the last trading day of 2010.

2010 Restricted Stock Vesting

Name	Stock Awards	
	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)(1)
Bradley C. Krehbiel	1,399	7,862
Jon J. Eberle	1,236	6,946
Dwain C. Jorgensen	982	5,519
Susan K. Kolling	1,039	5,839

(1) Based on market value of $5.62 on January 24 and January 25, 2010.

Our employees are included in the Financial Institutions Retirement Fund (FIRF), a multi-employer comprehensive pension plan. This non-contributory defined benefit retirement plan covers all employees who have met minimum service requirements. Employees become 100% vested in the pension plan after five years of eligible service. Our policy is to fund the minimum amounts required by the plan, and in 2010, we made a contribution of $237,182 to the plan. On September 1, 2002, benefits for all of the existing participants under the plan were frozen, and as a result, no additional benefits have been earned and no new employees have been enrolled in the plan after that date. At age 65, Mr. Krehbiel will be entitled to annual payments of $2,567, Mr. Eberle will be entitled to annual

payments of $4,141, Mr. Jorgensen will be entitled to annual payments of $28,247, and Ms. Kolling will be entitled to annual payments of $23,779. The annual benefit amount is calculated based on the employees base salary for the five years prior to the plan being frozen.

2010 Pension Benefits

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
Bradley C. Krehbiel	FIRF	3 years, 2 months	12,732	0
Jon J. Eberle	FIRF	6 years, 11 months	13,582	0
Dwain C. Jorgensen	FIRF	27 years, 1 month	254,788	0
Susan K. Kolling	FIRF	28 years, 9 months	191,897	0

OTHER EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2010 for compensation plans under which equity securities may be issued.

Plan Category	(a) Number of Securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans(excluding securities reflected in column (a))(1)
Equity compensation plans approved by stockholders	300,934	$ 18.38	163,883
Equity compensation plans not approved by stockholders	0	0	0
Total	300,934	$ 18.38	163,883

(1) Includes securities available for future issuance under stockholder approved compensation plans other than upon the exercise of an option, warrant or right, as follows: 163,883 shares under the company s 2009 Equity Incentive

Plan.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers to file initial reports of ownership and reports of changes in ownership with the Securities and Exchange Commission. Directors and executive officers are required by Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the copies of the forms furnished to us and written representations from our directors and executive officers, all Section 16(a) filing requirements were met for 2010, except that Michael J. Fogarty filed one late Form 4.

ADDITIONAL INFORMATION

We are furnishing our annual report, including financial statements, for the year ended December 31, 2010, to each stockholder with this proxy statement. **Stockholders who wish to obtain an additional copy of our annual report, or a copy of our Current Report on Form 10-K filed with the Securities and Exchange Commission, for the year ended December 31, 2010, may do so without charge by writing to Chief Financial Officer, 1016 Civic Center Drive N.W., Rochester, Minnesota 55901-6057. The annual report is also available online at www.hmnf.com or www.proxydocs.com/hmnf.**

HMN FINANCIAL, INC.
By Order of the Board of Directors

Cindy K. Hamlin
Secretary

Dated: March 25, 2011

Shareowner ServicesSM P.O. Box 64945 St. Paul, MN 55164-0945 COMPANY # Vote by Internet, Telephone or Mail 24 Hours a Day, 7 Days a Week Your phone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card. 3 INTERNET www.eproxy.com/hmnf Use the Internet to vote your proxy until 11:59 p.m. (CT) on April 25, 2011. Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions to obtain your records and create an electronic ballot. 3 PHONE 1-800-560-1965 Use a touch-tone telephone to vote your proxy until 11:59 p.m. (CT) on April 25, 2011. Please have your proxy card and the last four digits of your Social Security Number or Tax Identification Number available. Follow the simple instructions the voice provides you. 3 MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope provided. If you vote your proxy by Internet or by Telephone, you do NOT need to mail back your Proxy Card. TO VOTE BY MAIL AS THE BOARD OF DIRECTORS RECOMMENDS ON ALL ITEMS BELOW, SIMPLY SIGN, DATE, AND RETURN THIS PROXY CARD. The Board of Directors Recommends a Vote FOR Items 1, 2 and 3. 1. Election of directors: 01 Allen J. Berning ??Vote FOR ??Vote WITHHELD 02 Karen L. Himle all nominees from all nominees 03 Bernard R. Nigon (except as marked) (Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.) 2. The approval, in an advisory (non-binding) vote, of the compensation of executives, as disclosed in the proxy statement ??For ??Against ??Abstain 3. The ratification of the appointment of KPMG LLP as the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2011 ??For ??Against ??Abstain 4. In their discretion, the proxies are authorized to vote on any other business that may properly come before the Meeting, or any adjournments or postponements thereof. THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED AS DIRECTED OR, IF NO DIRECTION IS GIVEN, WILL BE VOTED FOR EACH PROPOSAL. Date _____ Address Change? Mark box, sign, and indicate changes below: ? Signature(s) in Box Please sign exactly as your name(s) appears on Proxy. If held in joint tenancy, all persons should sign. Trustees, administrators, etc., should include title and authority. Corporations should provide full name of corporation and title of authorized officer signing the Proxy.

HMN FINANCIAL, INC. ANNUAL MEETING OF STOCKHOLDERS Tuesday, April 26, 2011 10:00 a.m. Rochester Golf & Country Club 3100 W. Country Club Road Rochester, Minnesota HMN Financial, Inc. 1016 Civic Center Drive N.W. Rochester, Minnesota 55901-6057 proxy This proxy is solicited by the Board of Directors for use at the Annual Meeting on Tuesday, April 26, 2011. The shares of stock you hold in your account will be voted as you specify on the reverse side. If no choice is specified, the proxy will be voted FOR Items 1, 2 and 3. By signing the proxy, you revoke all prior proxies and appoint Bradley C. Krehbiel and Jon J. Eberle, and each of them with full power of substitution, to vote your shares on the matters shown on the reverse side and any other matters which may come before the Annual Meeting and all adjournments. See reverse for voting instructions. 101154