

# **HAWTHORN BANCSHARES, INC.**

## **COMPENSATION COMMITTEE CHARTER**

### **I. COMMITTEE PURPOSE**

The Compensation Committee (the "Committee") is appointed by the Board of Directors (the "Board") of Hawthorn Bancshares, Inc. (the "Company"). The primary purposes of the Committee are to: (1) develop, approve, monitor and oversee the Company's policies relating to compensation and benefit programs, (2) oversee the preparation of any required disclosure relating to compensation and benefit programs for inclusion in the Company's Annual Report on Form 10-K and proxy statement in accordance with applicable rules and regulations, and (3) discharge the Board's responsibility relating to the adoption, amendment, modification, or termination of any retirement plan, health or welfare plan, equity incentive plan, deferred compensation plan, supplemental executive retirement plan or other benefit plan, program or arrangement sponsored or maintained by the Company or any of its subsidiaries in which any of the executive officers of the Company may participate.

### **II. PRINCIPAL COMMITTEE RESPONSIBILITIES AND DUTIES**

The Committee's responsibilities and duties are:

1. To review the competitiveness of the Company's executive compensation programs to ensure (a) the attraction and retention of corporate officers, (b) the motivation of corporate officers to achieve the Company's business objectives, and (c) the alignment of the interests of key leadership with the long-term interests of the Company's shareholders.
2. To review, approve and oversee the procedures and substance of the Company's compensation policy.
3. To periodically determine whether the Company's compensation policies and practices create risks that are reasonably likely to have a material adverse effect on the Company; and consider modifying, or directing the Company to modify, such policies and practices so as to mitigate such risks.
4. With respect to compensation of the Company's Chief Executive Officer ("CEO"):
  - To review and approve, at least annually, the corporate goals and objectives relevant to CEO compensation;
  - To evaluate, at least annually, the CEO's performance in light of those goals and objectives;
  - Subject to ratification by the full Board (excluding any director who is also the CEO), to determine the CEO's compensation level and elements of compensation based on this evaluation; and

- In determining the long-term incentive component of CEO compensation, to consider all relevant factors, including the Company's performance and relative shareholder return, the value of similar incentive awards to CEO's at comparable companies, and the awards given to the CEO in past years;

in each case, after considering the results of the most recent shareholder advisory vote on executive compensation ("Say-on-Pay Vote") required by Rule 14a-21(a) under the Securities Exchange Act of 1934, as amended (the "1934 Act"). The CEO may not be present during the Committee's deliberation or voting on the CEO's compensation.

5. To review and recommend to the Board the annual salary, bonus, stock options, other equity-based incentives, and other benefits, direct and indirect, of the Company's other executive officers, including development of an appropriate balance between short-term pay and long-term incentives while focusing on long-term shareholder interests, in each case, after considering the results of the most recent Say-on-Pay Vote.<sup>1</sup> In so doing, the Committee shall endeavor not to create incentives which encourage officers of the Company to focus on the Company's short-term stock price rather than the long-term value of the Company.
6. To review, at least annually, the competitiveness of the Company's executive compensation.
7. To perform, at least annually, performance evaluations of any executive officer who is also a Director.
8. To review, at least annually, performance evaluations of the executive officers.
9. To review new executive compensation programs after considering the results of the most recent Say-on-Pay Vote; review on a periodic basis the operation of the Company's executive compensation programs to determine whether they are properly coordinated; establish and periodically review policies for the administration of executive compensation programs; and take steps to modify any executive compensation programs that yield payments and benefits that are not reasonably related to executive performance.
10. To review and make recommendations to the Board with respect to any severance or similar termination payments proposed to be made to any current or former executive officer of the Company.
11. To establish and periodically review policies in the area of management perquisites and "fringe" benefits after considering the results of the most recent Say-on-Pay Vote.
12. To periodically review the Company's severance or termination philosophy with the CEO.
13. To review all equity-based compensation plans and amendments thereto, including those that are not subject to stockholder approval under the listing standards of any stock exchange on which the Company's securities may be traded, and to approve such plans

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<sup>1</sup> Nasdaq Rule 5605(d).

and amendments in its sole discretion after considering the results of the most recent Say-on-Pay Vote.

14. To make recommendations to the Board with respect to the adoption of incentive-compensation plans and equity-based compensation plans, including any amendments to such plans, after considering the results of the most recent Say-on-Pay Vote.
15. To perform such duties and responsibilities as may be assigned by the Board to the Committee under the terms of any executive compensation plan, incentive-compensation plan or equity-based plan.
16. To plan for executive development and succession; to plan for management development and evaluation of key personnel.
17. To periodically review and make recommendations to the Board as to the form and amount of compensation for the Company's directors. Director compensation should provide reasonable compensation for non-employee directors commensurate with their duties and responsibilities as directors and provide a sufficient level of compensation necessary to attract and retain the highest quality individuals.
18. To oversee the preparation of any required disclosure relating to compensation and benefit programs for inclusion in the Company's Annual Report on Form 10-K and proxy statement, including the annual Committee report with respect to executive compensation, as required by applicable rules and regulations.
19. To recommend an appropriate method by which shareholder concerns about compensation may be communicated by shareholders to the Committee and, as the Committee deems appropriate, to respond to such shareholder concerns.
20. To review and discuss items required to be included in the Company's proxy statements with respect to the Say-on-Pay Vote and the vote required by Rule 14a-21(b) under the 1934 Act (the "Say-When-on-Pay Vote") and to make recommendations to the Board regarding such matters.
21. To determine the frequency of the "Say-on-Pay Vote" and "Say-When-on-Pay Vote" to be held at annual meetings of the Company's shareholders.
22. To review and discuss the results of the "Say-on-Pay Vote" and "Say-When-on-Pay Vote" by the shareholders.
23. To oversee the Company's talent recruitment, human capital management and retention efforts.
24. To develop and recommend to the Board for approval one or more policies for the recovery or clawback of erroneously paid compensation (to the extent required under applicable rules of the Securities and Exchange Commission), including any revisions to such policies, and monitor compliance with such policies, including determining the extent, if any, to which incentive-based compensation of any current or former employees should be recouped or forfeited.

### **III. COMMITTEE COMPOSITION**

The Committee will be comprised of at least three members. Members shall be appointed by the Board based on nominations by the Company's Nominations and Corporate Governance Committee. Members shall serve at the pleasure of the Board and for such term or terms as the Board may determine. All members of the Committee must satisfy, at a minimum, the independence requirements of the listing standards of the Nasdaq Stock Market and the other director qualification standards set forth in the Company's Corporate Governance Guidelines.<sup>2</sup> In addition, a person may serve on the Committee only if he or she is a "Non-employee Director" for purposes of Rule 16b-3 under the 1934 Act.

### **IV. COMMITTEE MEETINGS**

The Committee will meet as required to fulfill its responsibilities set forth in this Charter. The chairperson of the Committee or his or her designee shall preside over all meetings of the Committee. The Committee shall meet at least two times annually and at such other times as the chairperson deems appropriate or as required by law or applicable rules and regulations. A majority of the members of the Committee shall constitute a quorum. The vote of a majority of the members present at any meeting at which a quorum is present shall be the act of the Committee. The Committee may meet in person or telephonically and actions may be taken by unanimous written consent. The Committee shall establish its own rules of procedure, which shall be consistent with the Bylaws of the Company and this Charter. The chairperson or a majority of the members of the Committee may call a special meeting of the Committee.

### **V. APPOINTMENT AND REMOVAL**

Members of the Committee shall be appointed by the Board and shall generally serve until their successors shall be duly appointed and qualified. The Committee shall recommend, and the Board shall designate, one member of the Committee as chairperson. The members shall serve until their failure to qualify, resignation, or retirement, their removal by the Board or until their successors shall be duly appointed and qualified. No member of the Committee shall be removed except by a majority vote of the independent directors, as determined in accordance with the listing standards of the Nasdaq Stock Market and the other director qualification standards set forth in the Company's Corporate Governance Guidelines, then in office. A member of the Committee shall be deemed to have resigned from the Committee at such time that the member shall have been removed from the Board pursuant to the Bylaws of the Company or such member has resigned or otherwise terminated his or her membership of the Board. A member of the Committee shall also be deemed to have resigned from the Committee at such time that a majority of the independent members of the Board, as determined in accordance with the listing standards of the Nasdaq Stock Market and the other director qualification standards set forth in the Company's Corporate Governance Guidelines, have determined that such member of the Committee is no longer an independent director of the Board.

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<sup>2</sup> Nasdaq Rule 5605(d).

## **VI. SUBCOMMITTEES**

As permitted by law or the listing standards of the Nasdaq Stock Market, the Committee may delegate its duties and authority to a subcommittee of fully independent directors who satisfy the requirements identified under "Committee Composition" above.

## **VII. SEARCH FIRMS AND OTHER RESOURCES**

The Committee shall have the authority, in its sole discretion, to select, retain and obtain the advice of a compensation consultant, legal counsel or other adviser as necessary to assist with the execution of its duties and responsibilities as set forth in this Charter. The Committee shall be directly responsible for the appointment, compensation and oversight of the work of each such compensation consultant, legal counsel or other adviser. The Committee shall receive appropriate funding from the Company, as determined by the Committee in its capacity as a committee of the Board, for the payment of compensation to its compensation consultants, legal counsel and any other advisors. However, the Committee shall not be required to implement or act consistently with the advice or recommendations of its compensation consultant, legal counsel or other advisor to the compensation committee, and the authority granted in this Charter shall not affect the ability or obligation of the Committee to exercise its own judgment in fulfillment of its duties under this Charter.

In retaining or seeking advice from compensation consultants, legal counsel and other advisors (other than any in-house counsel of the Company), the Committee must take into consideration the following factors, as well as any other factors identified by listing standards of the Nasdaq Stock Market:

1. The provision of other services to the Company by the person that employs the compensation consultant, legal counsel or other adviser;
2. The amount of fees received from the Company by the person that employs the compensation consultant, legal counsel or other adviser, as a percentage of the total revenue of such person;
3. The policies and procedures of the person that employs the compensation consultant, legal counsel or other adviser that are designed to prevent conflicts of interest;
4. Any business or personal relationship of the compensation consultant, legal counsel or other adviser with a member of the Committee;
5. Any stock of the Company owned by the compensation consultant, legal counsel or other adviser; and
6. Any business or personal relationship of the compensation consultant, legal counsel, other adviser or the person employing the adviser with an executive officer of the Company.

The Committee may retain, or receive advice from, any compensation consultant, legal counsel or other adviser it chooses, including ones that are not independent, after considering the factors specified above. The Committee is not required to assess the independence of any compensation consultant or other advisor that acts in a role limited to consulting on any broad-based plan that

does not discriminate in scope, terms or operation in favor of executive officers or directors and that is generally available to all salaried employees or providing information that is not customized for a particular company or that is customized based on parameters that are not developed by the consultant or advisor, and about which the consultant or advisor does not provide advice.

The Committee shall evaluate whether any compensation consultant retained or to be retained by it has any conflict of interest in accordance with Item 407(e)(3)(iv) of Regulation S-K.

#### **VIII. RELIANCE ON OTHERS**

Unless a committee member has knowledge that makes reliance unwarranted, each Committee member, in discharging his or her duties to the Company, may rely on information, opinions, reports, or statements, any of which may be written or oral, formal or informal, including financial statements, valuation reports, and other financial data, if prepared or presented by: (a) one or more officers or employees of the Company whom the Committee member believes in his or her reasonable business judgment and good faith to be reliable and competent in the matters presented; (b) compensation consultants, legal counsel, or other persons as to matters which the Committee member believes in his or her reasonable business judgment and good faith to be within the professional or expert competence of such person; or (c) another committee of the Board of which such Committee member is not a member if the Committee member believes in his or her reasonable business judgment and good faith that such Committee merits confidence.

#### **IX. MINUTES; REPORTS TO BOARD OF DIRECTORS**

The Committee shall keep correct and complete minutes of its proceedings and the names and places of residence of its members.

Following each of its meetings, the Committee shall deliver a report on the meeting to the Board, including a description of all actions taken by the Committee at the meeting. The Committee also must submit annually a report, along with supporting documentation, to the Board justifying the current compensation of the executive officers of the Company, including the CEO.

#### **X. ANNUAL EVALUATION OF PERFORMANCE AND CHARTER**

1. At least annually, the Committee shall conduct an evaluation of its performance. The Committee shall report its conclusions regarding this evaluation to the Board. The Committee's report should generally include an assessment of its compliance with this Charter, as well as identification of areas in which the Committee could improve its performance.
2. The Committee shall review and reassess the adequacy of this Charter on an annual basis and recommend any proposed changes to the Board for approval. This Charter will be made available on the Company's internet website.

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