

**Charter of the Compensation Committee
of the Board of Directors of
LSB Financial Corp.**

I. Statement of Policy

The Compensation Committee (the “Committee”) of the Board of Directors (the “Board”) of LSB Financial Corp. (the “Corporation”) shall discharge the Board’s responsibilities relating to the compensation of the Corporation’s executive officers and other key management personnel and make recommendations to the Board regarding director compensation.

II. Committee Composition and Meetings

The Committee shall be comprised of three or more directors (including a chairperson) as appointed by the Board, each of whom shall be an independent director as defined by the Nasdaq Stock Market (the “Nasdaq”) listing standards and each of whom shall be free from any relationship that would interfere with the exercise of his or her independent judgment. The Board shall also consider whether it is advisable for members of the Committee to also qualify as “non-employee directors” within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, “outside directors” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), or any other standards of applicable law, rule or regulation.

The members of the Committee shall be selected annually by the Board, considering the recommendation of the Nominating Committee of the Board. The Board shall have the power at any time to change the membership of the Committee and to fill vacancies, subject to the qualification requirements of this Charter. The Committee shall meet at least two times annually or more frequently as circumstances require.

III. Committee Duties, Responsibilities and Process

The Committee will cause to be kept adequate minutes of all its proceedings, and will report its actions at the next meeting of the Board. Committee members will be furnished with copies of the minutes of each meeting and any action taken by unanimous consent. The Committee is governed by the same rules regarding meetings (including meetings by conference telephone or similar communications equipment), action without meetings, notice, waiver of notice, and quorum and voting requirements as are applicable to the Board. The Committee is authorized and empowered to adopt its own rules of procedure not inconsistent with (a) any provision of this Charter, (b) any provision of the Bylaws of the Corporation, or (c) the laws of its jurisdiction of incorporation.

The Committee may request that any directors, officers or employees of the Corporation, or any other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

The Committee shall have the following responsibilities:

- (1) Review from time to time the goals and objectives of the Corporation's compensation plans, and, if the Committee deems it appropriate, amend or recommend that the Board amend these goals and objectives.
- (2) Review from time to time the Corporation's compensation plans in light of the Corporation's goals and objectives with respect to such plans, and, if the Committee deems it appropriate, adopt or recommend to the Board the adoption of new incentive-compensation plans, equity-based plans, other compensation plans or amendments to existing plans.
- (3) Annually review and approve corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluate the Chief Executive Officer's performance in light of these goals and objectives, and determine and approve the Chief Executive Officer's compensation level based on this evaluation. In determining long-term incentive compensation of the Chief Executive Officer, the Committee will consider the Corporation's performance, relative stockholder return, the value of similar incentive awards to chief executive officers at comparable companies and the awards given to the Chief Executive Officer in past years.
- (4) Oversee the evaluation of management of the Corporation, including the other executive officers of the Corporation, and establish the compensation for the Corporation's executive officers and approve the compensation for other key members of management.
- (5) Recommend to the Board the appropriate level of compensation and the appropriate mix of cash compensation and equity compensation for Board and Board committee service by non-employee members of the Board.
- (6) Perform such duties and responsibilities as may be assigned to the Committee under the terms of any executive or employee compensation plan.
- (7) Oversee the preparation of, and review, approve and issue, an annual report to shareholders on executive compensation for inclusion in the Corporation's proxy statement, in accordance with all applicable laws, regulations and listing standards.
- (8) Review, monitor and report to the Board, at least annually, on management development efforts to assure development of a pool of candidates for adequate and orderly management succession.
- (9) Review the Corporation's policies regarding the tax deductibility of compensation paid to the Corporation's executive officers for purposes of Section 162(m) of the Code.

- (10) Discharge any other duties and responsibilities delegated to the Committee from time to time.

IV. Investigations and Studies; Outside Advisers

The Committee may conduct or authorize studies of or investigations into matters within the Committee's scope of responsibilities, and may retain, at the Corporation's expense, such counsel or other advisors as it deems necessary (which may, if the Committee deems it appropriate, be the Corporation's regular counsel or advisors). The Committee shall have the authority to retain or terminate a compensation consultant to assist the Committee in carrying out its responsibilities, including authority to approve the consultant's fees and other retention terms, which fees shall be borne by the Corporation.

Approved: 2/23/04

Reviewed: 9/18/06