

Wells Financial Corp. Announces Fourth Quarter and Annual Results

Wells, Minnesota, January 20, 2011

Selected Financial Data

(Dollars in Thousands, except per share data)
(unaudited)

	Quarter Ended		Year Ended December 31,	
	December 31, 2010	2009	2010	2009
Net Income	\$ 611	\$ 440	\$ 2,024	\$ 2,110
Basic earnings per share	\$ 0.78	\$ 0.57	\$ 2.59	\$ 2.72
Diluted earnings per share	\$ 0.78	\$ 0.57	\$ 2.58	\$ 2.71
Return on average equity (1)	10.5%	8.0%	8.9%	9.9%
Return on average assets (1)	1.0%	0.7%	0.8%	0.8%
Net interest rate spread	4.4%	3.3%	3.8%	3.3%
Net interest rate margin	4.4%	3.3%	3.8%	3.4%
Book value per share	\$ 29.79	\$ 28.42	\$ 29.79	\$28.42

(1) Annualized

Lonnie R. Trasamar, President of Wells Financial Corp. (the Company), the holding company of Wells Federal Bank (the Bank), announced earnings for the fourth quarter of 2010 of \$611,000, up \$171,000 or 38.9%, when compared to the fourth quarter of 2009. Basic and diluted earnings per share for the fourth quarter of 2010 were \$0.78, up \$0.21 or 36.8%, when compared to the same period in 2009.

Net income for the year ended December 31, 2010 was \$2,024,000, down \$86,000 or 4.1% when compared to 2009. Basic and diluted earnings per share were \$2.59 and \$2.58, respectively, down \$0.13 or 4.8% when compared to 2009.

When comparing the quarter ended December 31, 2010 with the same period in 2009, net interest income increased by \$399,000, or 20.0%, due to decreased costs on deposits and borrowed funds. The provision for loan loss increased by \$247,000 during the period. See the discussion below regarding the allowance for loan loss for additional information. Noninterest income increased by \$397,000 during the fourth quarter when compared to the same period in 2009 due, primarily, to an increase in the gain on sale of loans. This increase was due to a reduction in the market rates on loans originated for sale to the secondary market resulting in an increase in loan originations. Noninterest expense increased by \$218,000 due, primarily, to an increase in other noninterest expense.

In accordance with the Bank's internal classification of assets policy, management evaluates the loan portfolio on a quarterly basis to identify and determine the adequacy of the allowance for loan loss and adjusts the level of the allowance for loan loss through the provision for loan loss. The provision for loan losses increased by \$257,000 for the fourth quarter of 2010 when compared to the same period in 2009 and decreased by \$73,000 for the year ended December 31, 2010 when compared to 2009. As of December 31, 2010 and December 31, 2009, the balance in the allowance for loan losses and the allowance for loan losses as a percentage of total loans were \$2,136,000 and \$1,525,000 and 1.1% and 0.8%, respectively.

When comparing 2010 with 2009 net interest income increased by \$723,000 due, primarily, to decreased costs on deposits and borrowed funds. The provision for loan loss decreased by \$73,000 during 2010. See the discussion above regarding the allowance for loan loss for additional information. Noninterest income decreased by \$458,000 due to a decrease in the gain on sale of loans. During the first two quarters of 2010, the Bank experienced less activity in loan originations for sale to the secondary markets when compared to the first two quarters of 2009 resulting in a decrease in gain on sale of loans during 2010. This decrease in loan originations for sale to the secondary market during the first two quarters of 2010 was partially offset by the increase in loan origination activity during the third and fourth quarters described above. Noninterest expense increased by \$418,000 due, primarily, to increases in other noninterest expense and federal insurance premiums.

Forward-looking Statements

Statements in this press release that are not strictly historical may be “forward-looking” statements, which involve risks and uncertainties. The foregoing material may contain forward-looking statements concerning the financial condition, results of operations and business of the Company. We caution that such statements are subject to a number of uncertainties and actual results could differ materially and, therefore, readers should not place undue reliance on any forward-looking statements. The Company does not undertake, and specifically disclaims, any obligation to publicly release the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances arising after the date hereof.

An unaudited consolidated balance sheet and income statement are part of this press release

Wells Financial Corp. and Subsidiary
Consolidated Statement of Financial Condition
(Dollars in Thousands)
(Unaudited)

ASSETS	<u>12/31/10</u>	<u>12/31/09</u>
Cash, including interest-bearing accounts: 12/31/10 \$2,468; 12/31/09 \$5,772	\$ 8,244	\$ 12,008
Certificates of deposit	-	175
Fed Funds Sold	12,542	29,005
Securities available for sale	14,624	10,698
Federal Home Loan Stock	1,859	2,728
Loans held for sale	2,217	1,931
Loans receivable, net	185,732	195,423
Accrued interest receivable	1,366	1,564
Premises and equipment	3,439	3,693
Mortgage servicing rights, net	1,687	1,373
Other assets	7,072	6,623
TOTAL ASSETS	<u>\$ 238,782</u>	<u>\$ 265,221</u>
LIABILITIES AND EQUITY		
LIABILITIES:		
Deposits	\$ 210,819	\$ 208,871
Borrowed funds	1,785	31,435
Advances from borrowers for taxes and insurance	2,300	2,233
Income taxes:		
Deferred	(66)	53
Accrued interest payable	53	61
Accrued expenses and other liabilities	455	505
TOTAL LIABILITIES	<u>215,346</u>	<u>243,158</u>
STOCKHOLDER'S EQUITY:		
Common stock, \$.10 par value; 7,000,000 shares authorized; 2,187,500 shares issued	\$ 219	\$ 219
Additional paid in capital	17,104	17,166
Retained earnings, substantially restricted	33,824	32,615
Other comprehensive income	147	131
Treasury stock, at cost, 1,400,705 shares at December 31, 2010; 1,411,260 shares at December 31, 2009	(27,858)	(28,068)
TOTAL EQUITY	<u>23,436</u>	<u>22,063</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 238,782</u>	<u>\$ 265,221</u>

Wells Financial Corp. and Subsidiary
Consolidated Statement of Income
(Dollars in Thousands, except per share data)
(Unaudited)

	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2010	2009	2010	2009
Interest and dividend income				
Loans receivable:				
Residential loans	\$ 609	\$ 615	\$ 2,407	\$ 2,689
Commercial Loans	579	583	2,322	2,478
Ag Real Estate Loans	710	783	2,913	3,398
Consumer and other loans	1,062	1,170	4,394	4,754
Investment securities and other interest-bearing deposits	127	109	561	437
Total interest income	<u>3,087</u>	<u>3,260</u>	<u>12,597</u>	<u>13,756</u>
Interest expense				
Deposits	647	949	3,030	4,000
Borrowed funds	32	302	679	1,591
Total interest expense	<u>679</u>	<u>1,251</u>	<u>3,709</u>	<u>5,591</u>
Net interest income	<u>2,408</u>	<u>2,009</u>	<u>8,888</u>	<u>8,165</u>
Provision for loan losses	402	145	907	980
Net interest income after provision for loan losses	<u>2,006</u>	<u>1,864</u>	<u>7,981</u>	<u>7,185</u>
Noninterest income				
Gain on sale of loans	783	282	1,849	2,365
Loan servicing fees	240	240	954	933
Insurance commissions	162	154	679	636
Fees and service charges	141	158	550	605
Other	154	249	512	463
Total noninterest income	<u>1,480</u>	<u>1,083</u>	<u>4,544</u>	<u>5,002</u>
Noninterest expense				
Compensation and benefits	1,147	1,135	4,305	4,269
Occupancy and equipment	267	246	1,006	1,010
Federal insurance premiums	116	196	457	325
Data processing	187	174	738	738
Advertising	68	58	245	238
Amortization & Valuation adjustments for MSR's	71	89	309	461
Impairment of Securities Available for Sale	-	-	-	-
Other	647	387	2,190	1,791
Total noninterest expense	<u>2,503</u>	<u>2,285</u>	<u>9,250</u>	<u>8,832</u>
Income before income taxes	<u>983</u>	<u>662</u>	<u>3,275</u>	<u>3,355</u>
Income tax expense	372	222	1,251	1,245
Net Income	<u><u>\$ 611</u></u>	<u><u>\$ 440</u></u>	<u><u>\$ 2,024</u></u>	<u><u>\$ 2,110</u></u>
Earnings per share				
Basic earnings per share	<u>\$ 0.78</u>	<u>\$ 0.57</u>	<u>\$ 2.59</u>	<u>\$ 2.72</u>
Diluted earnings per share	<u>\$ 0.78</u>	<u>\$ 0.57</u>	<u>\$ 2.58</u>	<u>\$ 2.71</u>