WELLS Financial CORP.

2014 ANNUAL REPORT

WELLS FINANCIAL CORP.
2014 ANNUAL REPORT

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Wells Financial Corp. and Subsidiary

Profile

Wells Financial Corp. (the "Company") is a Minnesota corporation organized in December 1994 at the direction of the Board of Directors of Wells Federal Bank, fsb, now known as Wells Federal Bank, (the "Bank") to acquire all of the capital stock that the Bank issued upon its conversion from mutual to stock form of ownership. The Company is a unitary commercial bank holding company which, under existing laws, generally is not restricted in the types of business activities in which it may engage. At the present time, because the Company does not conduct any active business, the Company does not employ any persons but utilizes the officers and staff of the Bank.

During 2012 the Bank converted from a federally chartered savings bank to a Minnesota state chartered commercial bank. The Bank is headquartered in Wells, Minnesota. The Bank has eight full service offices located in Faribault, Martin, Blue Earth, Nicollet, Freeborn and Steele Counties, Minnesota and one loan origination office in Dakota County, Minnesota. The Bank was founded in 1934 and its deposits have been federally insured since 1934 by the Savings Association Insurance Fund ("SAIF") and its predecessor, the Federal Savings and Loan Insurance Corporation ("FSLIC"), and at present, by the Federal Deposit Insurance Corp. (FDIC). The Bank is a member of the Federal Home Loan Bank ("FHLB") System. The Bank is a community oriented, full-service retail commercial bank. The Bank attracts deposits from the general public and uses such deposits to invest in residential lending on owner occupied properties, commercial real estate and construction loans, agricultural real estate and operating loans, home equity and other consumer loans. Cash in excess of amounts needed for lending operations is used to purchase investment securities and to maintain required liquidity. The Bank has two subsidiaries, Greater Minnesota Mortgage (GMM) and Wells Insurance Agency (WIA). GMM originated loans through referrals from community commercial banks and, primarily, sold these loans to the secondary market. GMM ceased operations on February 1, 2012 and its operations were transferred to the Bank. WIA is a full service insurance agency that sells property, casualty, life and health insurance.

On November 17, 2014, the Company announced that it had reached a definitive agreement with St. James Federal Savings and Loan ("St. James"), headquartered in St. James, Minnesota, to acquire St. James Federal in a conversion merger transaction. Pursuant to the Agreement and Plan of Conversion Merger (the "Agreement"), which has been approved by the Boards of Directors of both institutions, St. James Federal will convert from a federally-chartered mutual savings association to a federally-chartered stock savings association and issue its shares of common stock to Wells. In connection with the acquisition and pursuant to the terms of the Agreement and the related Plan of Conversion Merger (the "Plan"), Wells will offer shares of its common stock on a priority basis first to eligible members of St. James Federal and then to Wells' Employee Stock Ownership Plan in a subscription offering. The amount of Wells common stock to be offered in the subscription offering will be based on an independent valuation of St. James Federal. Any Wells common stock not purchased by eligible members of St. James Federal or Wells' Employee Stock Ownership Plan in the subscription offering will be offered to certain members of St. James Federal's community and the general public. Wells reserves the right to accept or reject any orders in part or in whole in the community offering. Following the closing of the offering pursuant to the Plan, St. James Federal will merge with and into Wells Federal Bank, with Wells Federal Bank as the surviving institution.

Wells Financial Corp. and Subsidiary
SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

(dollars in thousands, except per share amounts)

Financial Condition

December 31,	2014	2013	2012	2011	2010
Total assets	$251,826	$243,801	$244,195	$239,475	$238,407
Loans held for sale	1,707	1,952	6,911	3,253	2,217
Loans receivable, net	182,050	165,401	157,901	170,016	185,418
Securities available for sale	34,177	41,569	23,068	23,006	14,624
Certificates of deposit	4,181	3,695	9,631	3,735	-
Cash and cash equivalents (1)	16,373	17,625	34,000	25,089	20,786
Deposits	221,972	214,370	214,928	210,555	210,819
Borrowed funds	-	-	150	1,000	1,785
Mezzanine equity	2,533	2,342	2,008	1,506	1,888
Stockholders' equity	24,086	23,741	24,149	23,453	21,339
Adjusted common equity (4)	26,619	26,083	26,157	24,959	23,227

Summary of Operations

Years Ended December 31,	2014	2013	2012	2011	2010
Interest income	$8,818	$8,475	$9,390	$10,953	$12,597
Interest expense	597	798	1,238	1,991	3,709
Net interest income	8,221	7,677	8,152	8,962	8,888
Provision for loan losses	520	640	840	1,410	978
Noninterest income	3,569	4,151	5,287	4,046	4,496
Noninterest expense	9,344	9,216	9,950	9,273	9,522
Net income	1,303	1,186	1,592	1,500	1,815

Other Selected Data

As of and for Years Ended December 31,	2014	2013	2012	2011	2010
Return on average assets	0.52%	0.48%	0.66%	0.62%	0.73%
Return on average equity	4.93%	4.52%	6.23%	6.23%	8.00%
Stockholders' equity to assets	9.56%	9.74%	9.89%	9.79%	8.95%
Adjusted common equity to assets (4)	10.57%	10.70%	10.71%	10.42%	9.74%
Net interest rate spread (2)	3.53%	3.33%	3.70%	3.96%	3.78%
Nonperforming assets to total loans (3)	2.54%	3.37%	4.76%	4.04%	4.26%
Allowance for loan losses to total loans	1.17%	1.03%	1.09%	1.62%	1.17%
Allowance for loan losses to nonperforming assets (3)	46.3%	30.6%	22.8%	40.0%	25.5%
Basic earnings per share	$1.72	$1.54	$2.03	$1.91	$2.32
Diluted earnings per share	$1.72	$1.54	$2.03	$1.91	$2.31
Cash dividends declared per share	$0.60	$0.60	$0.25	-	$1.04

(1) Includes Federal Funds Sold.
(2) Interest rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(3) Nonperforming loans are loans over 90 days past due. Nonperforming assets include nonperforming loans and foreclosed real estate.
(4) Adjusted common equity includes mezzanine equity and stockholders' equity.

WELLS Financial CORP.

53 FIRST ST. S.W., PO BOX 310 • WELLS, MN 56097-0310 • 507/553-3151

To Our Stockholders and Customers:

I am very pleased with the financial results that were reported by Wells Financial Corp. for 2014. Our talented and dedicated staff worked diligently to execute our strategic plan of increasing profitability and improving asset quality.

During the year, management continued to focus on improving net interest income. When compared to 2013, net interest income increased by 7.1%. This was achieved by growing the loan portfolio with loans secured by agricultural real estate, commercial real estate, commercial construction real estate and commercial and agricultural operating and term loans. Of great importance was our ability to generate loans in these areas without decreasing the underwriting standards that we established during the height of the recession.

Our deposit staff's hard work paid off as they increased retail deposits by 3.5% during 2014. We continue to shift the funding of the Bank towards core deposits and away from retail certificates of deposit. During 2014, core deposits increased by $17.8 million while retail certificates of deposit decreased by $10.2 million.

On a monthly basis, management reviews the adequacy of the allowance for loan loss. Factors that are taken into consideration in this review include: specific loan impairment, historical loss experience, the size and composition of the loan portfolio and current economic conditions. Based on these reviews management was able to reduce the provision for loan loss by 18.8% when compared to 2013. This is a very positive indication that the credit risk in the Bank's loan portfolio is stabilizing.

The acquisition of the Minnesota Lake, Minnesota branch during 2014 went smoothly. As part of the transaction we were able to underwrite almost all of the $6.2 million in loans that were acquired providing us confidence that the loans did not have any adverse inherent credit risks. In addition to the loans we also acquired a $12.4 million portfolio of very stable core deposits.

On November 17, 2014 we announced that the Company had reached a definitive agreement with St. James Federal Savings and Loan Association, where Wells Federal will acquire St. James Federal in a conversion merger transaction. I feel that this acquisition will be very positive for Wells Financial Corp. and for the customers and staff of St. James Federal. The conversion merger is scheduled to close in the second quarter of 2015.

Thank you for your investment in, and support of, Wells Financial Corp. With the St. James conversion merger and our continuing effort to improve profit and asset quality I look forward to a successful 2015.

Sincerely,

James D. Moll

James D. Moll
Interim President and Chief Executive Officer

Wells Financial Corp. and Subsidiary

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(dollars in thousands)

General

The Company's business activities to date have been limited to its investment in and loan to the Bank and a loan made to the Bank's Employee Stock Ownership Plan ("ESOP") to enable the ESOP to purchase shares of the Company's common stock and, to a lesser degree, investing in securities and deposits in other financial institutions. As a result of the limited operations of the Company, this discussion primarily relates to the Bank. The principal business of the Bank consists of attracting deposits from the general public and using such deposits, together with borrowings to invest in loans and investment securities.

The Company's primary source of income is the Bank's net income. The Bank's net interest income is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities (interest rate spread) and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities. The Bank's interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand, and deposit flows. In order to maintain interest rate spread and reduce interest rate risk, management has elected to diversify the Bank's loan portfolio by emphasizing its investment in agriculture and commercial mortgages, commercial operating and term loans and consumer loans.

The Bank's secondary sources of income are, primarily, the gain on sale of loans originated for sale and loan servicing fees. During 2014 the Bank saw decreased activity in the refinancing of loans sold to the secondary market due to changes in market conditions and interest rates on these loans.

The operations of the Bank and the entire banking industry are significantly affected by prevailing economic conditions, competition, and the monetary and fiscal policies of the federal government and governmental agencies. The demand for and supply of housing, competition among lenders, the level of interest rates, and the availability of funds influence lending activities. Deposit flows and costs of funds are influenced by prevailing market rates of interest, primarily on competing investments, account maturities, and the levels of personal income and savings in the Bank's market area.

The Company may from time to time make written or oral "forward-looking statements" including statements contained in this report and in other communications by the Company which are made in good faith pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements, such as statements of the Company's plans, objectives, estimates and intentions, involve risks and uncertainties and are subject to change based on various important factors (some of which are beyond the Company's control). The following factors, among others, could cause the Company's financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements: the strength of the United States economy in general and the strength of the local economies in which the Company conducts operations; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System, inflation, interest rate, market and monetary fluctuations; the timely development of and acceptance of new products and services of the Company and the perceived overall value of the products and services by users, including the features, pricing and quality compared to competitor's products and services; the willingness of users to substitute competitors' products and services for the Company's products and services; the success of the Company in gaining regulatory approval of its products and services, when required; the impact of changes in financial services' laws and regulations (including laws concerning taxes, banking, securities and insurance); technological changes; acquisitions; changes in consumer spending and savings habits; and the success of the Company at managing the risks involved in the foregoing.

The Company cautions that the foregoing list of important factors is not exclusive. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of the Company.

Critical Accounting Estimates

The consolidated financial statements include amounts that are based on informed judgments of management. These estimates and judgments are the result of management's need to estimate the effect of matters that are inherently uncertain. Therefore, actual results could vary significantly from the estimates used. Management considers the following items to be the critical accounting estimates contained in the consolidated financial statements.

Allowance for Loan Loss. The allowance for loan loss is based on management's periodic review of the loan portfolio. In evaluating the adequacy of the allowance for loan loss, management considers factors including, but not limited to, specific loan impairment, historical loss experience, the size and composition of the loan portfolio and current economic conditions. Although management believes that the allowance for loan loss is maintained at an adequate level, there can be no assurance that further additions will not be made to the allowance and that losses will not exceed the estimated amounts.

Available for Sale Securities. The fair value of equity securities is based on quoted market prices and the fair value of debt securities is generally determined based on matrix pricing utilizing yield curves, credit ratings and prepayment speeds. The Company believes the unrealized losses are temporary because the primary reason for the unrealized losses is changes in market interest rates from the date of purchase to the reporting date.

Foreclosed Real Estate. Foreclosed real estate is reported at its net realizable value less estimated costs to sell. The Company monitors the net realizable value of the property on a monthly basis, taking into consideration market and economic factors, including comparison to sales of like properties.

Mortgage Servicing Rights. Mortgage servicing rights are capitalilized and then amortized over the period of estimated servicing income. Management periodically evaluates its capitalized mortgage servicing rights for impairment. The valuation of mortgage servicing rights is based on estimated prepayment speeds, ancillary income receivd from servicing the loans and current interest rates. Changes in these estimates may have a material effect on the valuation of the mortgage servicing rights. Although management believes that the estimates used to determine the value of the mortgage servicing rights are reasonable, future material adjustments may be necessary if economic conditions vary from those used to estimate the value of the servicing rights.

Wells Financial Corp. and Subsidiary

Average Balance Sheet (dollars in thousands)

The following table sets forth certain information relating to the Bank's average balance sheet and reflects the average yield on assets and average cost of liabilities for the periods indicated and the average yields earned and rates paid. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods presented. The yields for the periods presented include deferred loan origination fees that are considered adjustments to yield. Average balances are derived from month-end balances. Management does not believe that the use of month-end balances instead of daily average balances has caused any material difference in the information presented.

	Years Ended December 31,								
	2014			2013			2012		
	Average Balance	Interest	Average Cost/Yield	Average Balance	Interest	Average Cost/Yield	Average Balance	Interest	Average Cost/Yield
Interest-earning assets:									
Loans receivable (1)	$172,011	$8,088	4.70%	$158,393	$7,705	4.86%	$165,825	$8,791	5.30%
Investments (2)	59,933	730	1.22%	71,020	770	1.08%	53,693	599	1.12%
Total interest-earning assets	231,944	8,818	3.80%	229,413	8,475	3.69%	219,518	9,390	4.27%
Noninterest earning assets	16,501			17,149			25,395		
Total assets	$248,445			$246,562			$244,913		
Interest bearing liabilities:									
Savings, NOW and money Market accounts	$145,337	$90	0.06%	$134,371	$110	0.08%	$125,944	$221	0.18%
Certificates of deposit	72,900	507	0.70%	82,105	687	0.84%	89,186	991	1.11%
Borrowed funds	-	-	-%	23	1	4.35%	598	26	4.35%
Total interest bearing liabilities	218,237	597	0.27%	216,499	798	0.37%	215,728	1,238	0.57%
Noninterest bearing liabilities	3,780			3,821			3,389		
Total liabilities	222,017			220,320			219,117		
Equity(3)	26,428			26,242			25,796		
Total liabilities and equity	$248,445			$246,562			$244,913		
Net interest income		$8,221			$7,677			$8,152	
Interest rate spread (4)			3.53%			3.32%			3.70%
Net yield on interest earning assets (5)			3.54%			3.35%			3.71%
Ratio of average interest earning assets to average interest bearing liabilities	1.06X			1.06X			1.02X		

(1) Average balances include non-accrual loans and loans held for sale.
(2) Includes interest-bearing deposits in other financial institutions.
(3) Includes mezzanine equity and stockholders' equity
(4) Interest-rate spread represents the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities.
(5) Net yield on interest-earning assets represents net interest income as a percentage of average interest-earning assets.
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Wells Financial Corp. and Subsidiary

(dollars in thousands)

Rate/Volume Analysis

The table below sets forth certain information regarding changes in interest income and interest expense of the Bank for the years indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (changes in average volume multiplied by old rate); (ii) changes in rates (changes in rate multiplied by old average volume); (iii) changes in rate-volume (changes in rate multiplied by the change in average volume). The combined effects of changes in both rate and volume that cannot be separately identified have been allocated proportionately to the change due to rate and the change due to volume.

	Years Ended December 31,					
	2014 vs. 2013			2013 vs. 2012		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
Interest Income:						
Loans receivable	$ 626	$ (243)	$ 383	$ (383)	$ (703)	$(1,086)
Investments	(128)	88	(40)	188	(17)	171
Total interest-earning assets	498	(155)	343	(195)	(720)	(915)
Interest expense:						
Deposit accounts	(65)	(135)	(200)	(62)	(353)	(415)
Borrowed funds	(1)	-	(1)	(24)	(1)	(25)
Total interest-bearing liabilities	(66)	(135)	(201)	(86)	(354)	(440)
Change in net interest income	$ 564	$ (20)	$ 544	$ (109)	$ (366)	$ (475)

Wells Financial Corp. and Subsidiary

(dollars in thousands)

Financial Condition

Total assets increased by $8,025 during 2014 from $243,801 at December 31, 2013 to $251,826 at December 31, 2014 due to an increase of $16,649 in loans receivable. Partially offsetting the increase in loans receivable was a $7,392 decrease in securities available for sale.

Loans held for sale decreased from $1,952 at December 31, 2013 to $1,707 at December 31, 2014. On December 31, 2013 and December 31, 2014, the Company had firm commitments to sell the loans that were classified as held for sale. Loans receivable increased by $16,649, or 10.1%, from $165,401 at December 31, 2013 to $182,050 at December 31, 2014. The increase in loans receivable primarily resulted from an increase in loans secured by agricultural land and increases in loans on commercial and residential real estate.

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 losses. As of December 31, 2014 and December 31, 2013, the balance in the allowance for loan losses and the allowance for loan losses as a percentage of total loans were $2,158 and $1,724 and 1.17% and 1.03%, respectively.

Loans on which the accrual of interest had been discontinued amounted to $1,010 and $1,300 at December 31, 2014 and 2013, respectively. The Company considers all nonaccrual loans impaired. The amount of impaired loans at December 31, 2014 and 2013 was $4,072 and $5,136, respectively, and the related allowance for loan loss for these loans was $573 and $377, respectively.

Liabilities increased by $7,489, from $217,718 at December 31, 2013 to $225,207 at December 31, 2014. This increase resulted from an increase in deposits.

Stockholders' equity increased by $345 from $23,741 at December 31, 2013 to $24,086 at December 31, 2014. The increase in stockholders' equity resulted, primarily, from net income of $1,303 and an increase in other comprehensive income of $357 being partially offset by payments of $453 in cash dividends, the purchase of $703 in treasury stock and the change in fair value of redeemable common stock.

Wells Financial Corp. and Subsidiary

(dollars in thousands)

Comparison of Operating Results for the Years Ended December 31, 2014 and 2013

General. Net income increased by $117, or 9.9% for 2014 when compared to 2013. Net interest income increased by $544, or 7.1%, in 2014 when compared to 2013. During 2014 the Company saw decreased activity in the refinancing of loans sold to the secondary market. This resulted in a decrease of $739 during 2014 in the gain on sale of loans originated for sale when compared to 2013.

Interest Income. Interest income increased by $343, or 4.0% for 2014 when compared to 2013. The changes in interest income from the loan portfolio and investment securities and other interest bearing deposits resulted from changes in the average balances and yields on those interest earning assets. These changes are detailed in the Average Balance Sheet and Rate/Volume analysis above.

Interest Expense. Interest expense on deposits and borrowed funds decreased by $201, or 25.2%, for 2014 when compared to 2013. These changes resulted from changes in the average balances and interest rates. These changes are detailed in the Average Balance Sheet and Rate/Volume analysis above.

Net Interest Income. Net interest income increased by $544, or 7.1% for the year ended December 31, 2014 when compared to the year ended December 31, 2013 due to the changes in interest income and interest expense described above.

Provision for Loan Losses. The provision for loan loss decreased by $120, or 18.8% for 2014 when compared to 2013. The provision reflects management's monitoring of the allowance for loan losses in relation to the size and quality of the loan portfolio and adjusts the provision for loan losses to adequately provide for loan losses. Due to changes in economic conditions and changes in the composition of the loan portfolio, it is possible that the provision for loan losses will increase in future periods.

Noninterest Income. Noninterest income decreased by $582, or 14.0%, for 2014 when compared to 2013 primarily due to a decrease in the gain on sale of loans originated for sale. During 2014 the Company saw decreased activity in the refinancing of loans sold to the secondary market due to changes in market conditions.

Noninterest Expense. Noninterest expense increased by $128, or 1.4%, for 2014 when compared to 2013 due, primarily, to a $452 increase in compensation and benefits. During 2014 the Bank hired additional personnel to expand the commercial and agricultural loan portfolios and, to a lesser extent, replace employees that announced their retirements. An increase in benefits expense, primarily health insurance, also contributed to the additional expense.

Income Tax Expense. Income tax expense decreased by $163, or 20.7%, for 2014 when compared to 2013. Upon completion and filing of the Company's 2013 income tax return it was realized that the Company was over accrued for income tax purposes. This over accrual was reversed during the third quarter of 2014 resulting in a decrease in the effective income tax rate from 39.7% in 2013 to 32.3% in 2014.

McGladrey

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Wells Financial Corp. and Subsidiary
Wells, Minnesota

We have audited the accompanying consolidated balance sheets of Wells Financial Corp. and Subsidiary as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity and mezzanine equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Wells Financial Corp. and Subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

McGladrey LLP

Sioux Falls, South Dakota
March 12, 2015

Wells Financial Corp. and Subsidiary

Consolidated Balance Sheets
December 31, 2014 and 2013
(Dollars in Thousands, Except Per Share Data)

Assets	**2014**	2013
Cash and cash equivalents, including interest-bearing accounts, 2014, $7,411; 2013, $5,370	**$ 14,373**	$ 12,625
Certificates of deposit, at cost	**4,181**	3,695
Federal funds sold	**2,000**	5,000
Securities available for sale	**34,177**	41,569
Federal Home Loan Bank stock, at cost	**2,079**	2,021
Loans held for sale	**1,707**	1,952
Loans receivable, net of allowance for loan loss of $2,158 in 2014; $1,724 in 2013	**182,050**	165,401
Accrued interest receivable	**834**	804
Premises and equipment, net	**3,172**	3,040
Mortgage servicing rights, net	**1,886**	1,952
Foreclosed real estate	**3,656**	4,340
Other assets	**1,711**	1,402
Total assets	**$ 251,826**	$ 243,801
Liabilities, Mezzanine Equity and Stockholders' Equity		
Liabilities		
Deposits	**$ 221,972**	$ 214,370
Advances from borrowers for taxes and insurance	**2,630**	2,614
Accrued interest payable	**17**	6
Accrued expenses and other liabilities	**588**	728
Total liabilities	**225,207**	217,718
Commitments, Contingencies and Credit Risk		
Mezzanine Equity		
Redeemable common stock held by ESOP, $0.10 par value, 95,602 shares issued and outstanding	**2,533**	2,342
Stockholders' Equity		
Preferred stock, no par value; 500,000 shares authorized; none outstanding	**-**	-
Common stock, $0.10 par value; 7,000,000 shares authorized; 2,091,898 shares issued	**209**	209
Additional paid-in capital	**17,110**	17,096
Retained earnings, substantially restricted	**35,552**	34,893
Accumulated other comprehensive income (loss)	**93**	(264)
Treasury stock, 2014, 1,445,248 shares; 2013, 1,418,180 shares	**(28,878)**	(28,193)
Total stockholders' equity	**24,086**	23,741
Total liabilities, mezzanine equity and stockholders' equity	**$ 251,826**	$ 243,801

See Notes to Consolidated Financial Statements.

Wells Financial Corp. and Subsidiary

Consolidated Statements of Income
Years Ended December 31, 2014 and 2013
(Dollars in Thousands, Except Per Share Data)

	2014	2013
Interest income:		
Loans receivable	$ 8,088	$ 7,705
Investment securities and interest-bearing deposits	730	770
Total interest income	8,818	8,475
Interest expense:		
Deposits	597	797
Borrowed funds	-	1
Total interest expense	597	798
Net interest income	8,221	7,677
Provision for loan losses	520	640
Net interest income after provision for loan losses	7,701	7,037
Noninterest income:		
Gain on sale of loans held for sale	803	1,542
Loan servicing fees	768	923
Insurance commissions	641	659
Fees and service charges	483	454
Other	874	573
Total noninterest income	3,569	4,151
Noninterest expenses:		
Compensation and benefits	4,649	4,218
Occupancy	764	868
Data processing	962	812
Advertising	249	250
Amortization of mortgage servicing rights	324	430
Other real estate owned	499	730
Other	1,897	1,908
Total noninterest expenses	9,344	9,216
Income before income taxes	1,926	1,972
Income tax expense	623	786
Net income	$ 1,303	$ 1,186
Earnings per share:		
Basic	$ 1.72	$ 1.54
Diluted	1.72	1.54

See Notes to Consolidated Financial Statements.

Wells Financial Corp. and Subsidiary

Consolidated Statements of Comprehensive Income
Periods Ended September 30, 2014 and 2013
(Dollars in Thousands, Except Per Share Data)

		2014		2013
Net income	**$**	**1,303**	$	1,186
Other comprehensive income (loss):				
Unrealized gain (loss) on securities, net of related taxes		**357**		(684)
Comprehensive income	**$**	**1,660**	$	502

See Notes to Consolidated Financial Statements.

Wells Financial Corp. and Subsidiary

Consolidated Statements of Stockholders' Equity and Mezzanine Equity
Years Ended December 31, 2014 and 2013
(Dollars in Thousands, Except Per Share Data)

	Common Stock	Additional Paid-In Capital	Retained Earnings
Balances, December 31, 2012	$ 209	$ 17,147	$ 34,502
Net income	-	-	1,186
Other comprehensive loss, net of related taxes	-	-	-
Cash dividends declared ($0.60 per share)	-	-	(461)
Stock-based compensation	-	(51)	-
Treasury stock purchases, 6,666 shares	-	-	-
Change in fair value related to redeemable common stock	-	-	(334)
Balances, December 31, 2013	209	17,096	34,893
Net income	-	-	1,303
Other comprehensive income, net of related taxes	-	-	-
Cash dividends declared ($0.60 per share)	-	-	(453)
Stock-based compensation	-	14	-
Treasury stock purchases, 27,974 shares	-	-	-
Change in fair value related to redeemable common stock	-	-	(191)
Balances, December 31, 2014	**$ 209**	**$ 17,110**	**$ 35,552**

See Notes to Consolidated Financial Statements.

Accumulated Other Comprehensive Income (Loss)		Treasury Stock		Total Stockholders' Equity		Mezzanine Equity Redeemable Common Stock	
$	420	$	(28,129)	$	24,149	$	2,008
	-		-		1,186		-
	(684)		-		(684)		-
	-		-		(461)		-
	-		75		24		-
	-		(139)		(139)		-
	-		-		(334)		334
	(264)		(28,193)		23,741		2,342
	-		-		1,303		-
	357		-		357		-
	-		-		(453)		-
	-		18		32		-
	-		(703)		(703)		-
	-		-		(191)		191
$	**93**	**$**	**(28,878)**	**$**	**24,086**	**$**	**2,533**

Wells Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013
(Dollars in Thousands, Except Per Share Data)

	2014	2013
Cash Flows From Operating Activities		
Net income	**$ 1,303**	$ 1,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**520**	640
Gain on sale of loans	**(803)**	(1,542)
Originations of loans held for sale	**(25,332)**	(50,770)
Proceeds from the sale of loans held for sale	**26,380**	57,271
Net change in mortgage servicing rights	**66**	(12)
Loss (gain) on sales of foreclosed real estate, net	**(40)**	15
Deferred income taxes	**(196)**	(67)
Depreciation expense	**182**	200
Amortization of net deferred loan origination fees	**(84)**	(70)
Amortization of securities premiums	**210**	181
Impairment of foreclosed real estate	**302**	304
Stock-based compensation expense	**32**	24
Changes in assets and liabilities:		
Accrued interest receivable	**(30)**	22
Other assets	**(361)**	267
Accrued expenses and other liabilities	**(129)**	79
Net cash provided by operating activities	**2,020**	7,728
Cash Flows From Investing Activities		
Net increase in loans	**(11,334)**	(10,847)
Loans purchased – Minnesota Lake	**(6,247)**	-
Net decrease (increase) in certificates of deposit	**(486)**	5,936
Net decrease in federal funds sold	**3,000**	16,000
Purchase of Federal Home Loan Bank stock	**(215)**	(314)
Proceeds from sale of Federal Home Loan Bank stock	**157**	481
Cash flows from available-for-sale securities	**7,787**	(19,842)
Purchase of premises and equipment	**(314)**	(48)
Investment in foreclosed real estate	**(143)**	-
Proceeds from sales of foreclosed real estate	**1,061**	1,719
Net cash used in investing activities	**(6,734)**	(6,915)
Cash Flows From Financing Activities		
Net decrease in deposits	**(4,826)**	(558)
Deposits assumed - Minnesota Lake	**12,428**	-
Net increase in advances from borrowers for taxes and insurance	**16**	120
Dividends paid	**(453)**	(461)
Repayment of borrowed funds	**-**	(150)
Purchase of treasury stock	**(703)**	(139)
Net cash provided by (used in) financing activities	**6,462**	(1,188)
Net increase (decrease) in cash and cash equivalents	**1,748**	(375)
Cash and Cash Equivalents		
Beginning	**12,625**	13,000
Ending	**$ 14,373**	$ 12,625

See Notes to Consolidated Financial Statements

Wells Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements
(Dollars in Thousands, Except Per Share Data)

Note 1. Summary of Significant Accounting Policies

Nature of operations: Operations of Wells Financial Corp. (the Company) primarily consist of banking services through Wells Federal Bank (the Bank), and Wells Insurance Agency, Inc., a property and casualty insurance agency. The Company serves its customers through the Bank's nine locations in south central Minnesota.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Wells Financial Corp., its wholly owned subsidiary, Wells Federal Bank, and the Bank's wholly owned subsidiary, Wells Insurance Agency, Inc. All significant intercompany transactions and balances are eliminated in consolidation.

Basis of financial statement presentation: The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Use of estimates: In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and revenues and expenses for the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan loss, valuation of available-for-sale securities, mortgage servicing rights, and foreclosed real estate.

Cash and cash equivalents: Cash and cash equivalents include cash on hand, demand, and interest-bearing deposits at other financial institutions, and amounts due from banks (including cash items in the process of clearing). For the purpose of reporting cash flows, cash flows from loans (except loans originated for sale), federal funds sold, certificates of deposit, advances from borrowers for taxes and insurance, and deposits are reported net.

Federal Home Loan Bank stock: The Bank is a member of the Federal Home Loan Bank of Des Moines (FHLB) and, as such, is required to maintain a minimum investment in stock of the Federal Home Loan Bank that varies with the level of advances outstanding with the Federal Home Loan Bank. The stock is bought from and sold to the Federal Home Loan Bank based upon its $100 par value. The stock does not have a readily determinable fair value and, as such, is classified as restricted stock, carried at cost and evaluated for impairment. In accordance with this guidance, the stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted, (b) commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance, (c) the impact of legislative and regulatory changes on the customer base of the Federal Home Loan Bank and (d) the liquidity position of the Federal Home Loan Bank. The Company has not recognized any impairment as of December 31, 2014 and 2013.

Securities available for sale: Securities classified as available-for-sale include all marketable equity securities and those debt securities the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations and other similar factors.

Note 1. Summary of Significant Accounting Policies (Continued)

Securities available for sale are carried at fair value. Unrealized gains or losses, net of the related deferred tax effect, are reported as a net amount in accumulated other comprehensive income (loss). Amortization of premiums and accretion of discounts, computed by the interest method over their contractual lives, are recognized in interest income. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings. Declines in the fair value of individual securities below their amortized cost that are determined to be other than temporary result in write-downs of the individual securities to their fair value, with the resulting write-downs included in current earnings as realized losses.

The Company evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. The Company employs a systematic methodology that considers available evidence in evaluating potential impairment of its investments. The assessment of whether such impairment has occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded in investment income, and a new cost basis in the investment is established.

Securities with unrealized losses that the Company deems to be other than temporary are recognized as realized losses. The assessment of whether such impairment has occurred is based on management's case-by-case evaluation of the underlying reasons for the decline in fair value. As part of their assessment process, management determines whether (a) they do not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that they will not have to sell the debt security prior to recovery, in which case the security would not be considered other than temporarily impaired, unless there is a credit loss. When management does not intend to sell the security, and it is more likely than not they will not have to sell the security before recovery of its cost basis, the Company will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

Loans held for sale: Loans held for sale are those loans the Company has the intent to sell in the foreseeable future. They are carried at the lower of aggregate cost or fair value. Gains and losses on sales of loans are recognized at settlement dates and are determined by the difference between the sales proceeds and the carrying value of the loans after allocating cost to servicing rights retained. All sales are made without recourse.

Interest rate lock commitments on mortgage loans to be funded and sold are valued at fair value and are included in other assets or liabilities, if material.

Loans receivable: The Company generally originates single-family residential loans within its primary lending area of south central Minnesota and northern Iowa. These loans are secured by the underlying properties. The Company is also active in originating residential real estate, commercial real estate, agricultural real estate, commercial construction real estate, residential construction real estate, home equity, commercial operating, agricultural operating, vehicle, and consumer loans.

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at the amount of unpaid principal, reduced by an allowance for loan losses, unaccreted discount and net deferred origination fees. Interest is accrued daily on the outstanding balances.

Interest on loans is generally recognized over the terms of the loans using the simple-interest method on principal amounts outstanding.

Note 1. Summary of Significant Accounting Policies (Continued)

The Company determines a loan to be delinquent when payments have not been made according to contractual terms, typically evidenced by nonpayment of a monthly installment by the due date. Accrual of interest is discontinued for loans at the time the loan is 90 days delinquent, unless the credit is well-secured and in the process of collection. All interest accrued but not collected for loans that are placed on nonaccrual status is reversed against interest income. Accrual of interest is generally resumed when the borrower has demonstrated the ability to make all periodic interest and principal payments.

Allowance for loan losses: The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, the value of underlying collateral, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses and may require the Bank to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific and general components.

The Company maintains a loan loss reserve for all commercial loans and agricultural operating loans in the portfolio using a risk-rating system. The calculated allowance is evaluated against the historical loss default rate for each loan type above (net of recoveries) to determine an appropriate level of allowance by loan type.

Homogeneous loans with similar risk and loss characteristics are also assessed for probable losses. These loan pools include consumer, residential real estate, agricultural real estate, home equity, and vehicle loans. Historical loss default rates are multiplied by the total of each portfolio segment to determine an appropriate level of allowance by segment.

The general allowance for loan losses also includes estimated losses resulting from macroeconomic factors and adjustments to account for imprecision of the loan loss model. Macroeconomic factors adjust the allowance for loan losses upward or downward based on the current point in the economic cycle and are applied to the loan loss model through a separate allowance element. The Company reviews the macroeconomic factors in order to conclude they are adequate based on current economic conditions.

Note 1. Summary of Significant Accounting Policies (Continued)

The specific component of the allowance for loan losses relates to loans that are considered to be impaired. A loan is impaired when it is probable, based on current information and events, the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured on an individual basis based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The Company obtains external appraisals on real estate–related impaired loans. Other valuation techniques are used as well, including internal valuations, comparable property analyses, and contractual sales information. The Company may further discount appraisal values based on their age and the relationship to the listed comparables. The amount of impairment, if any, and any subsequent changes are included in the provision for loan losses.

Accrual of interest on impaired loans is discontinued when management believes the borrower's financial condition is such that collection of interest is doubtful. Impaired loans also include loans that have been renegotiated in a troubled debt restructuring. Cash collections on impaired loans are generally credited to the loan balance, and no interest income is recognized on those loans until the principal balance has been determined to be collectible.

Troubled debt restructurings: A loan is classified as a troubled debt restructuring when a borrower is experiencing financial difficulties that lead to a restructuring of the loan, and the Company grants concessions to the borrower in the restructuring that it would not otherwise consider. These concessions may include rate reductions, principal forgiveness, extension of maturity date, and other actions intended to minimize potential losses. Performance prior to the restructuring is considered when assessing whether the borrower can meet the new terms and may result in the loan being returned to accrual at the time of the restructuring or after a shorter performance period.

Loan origination fees and related costs: Loan origination and commitment fees and certain direct loan origination costs are deferred, and the net fee or cost is recognized as an adjustment to interest income using the interest method over the contractual life of the loans, adjusted for estimated prepayments based on the Company's historical prepayment experience.

Loan servicing: The Company sells loans to investors in the secondary market and generally retains the right to service mortgage loans sold to others. Mortgage servicing rights retained are initially measured at fair value and have been recognized as a separate asset and are being amortized in proportion to and over the period of estimated net servicing income.

Mortgage servicing rights are subject to change based primarily on changes in the mix of loans, interest rates, prepayment speeds, or default rates from the estimates used in the valuation of the mortgage servicing rights. Such changes may have a material effect on the amortization and valuation of mortgage servicing rights. Although management believes that the assumptions used to evaluate the mortgage servicing rights for impairment are reasonable, future adjustment may be necessary if future economic conditions differ substantially from the economic assumptions used to determine the value of the mortgage servicing rights.

Note 1. Summary of Significant Accounting Policies (Continued)

Mortgage servicing rights are periodically evaluated for impairment based on the fair value of those rights. Fair values are estimated using discounted cash flows based upon estimated prepayment speeds, ancillary income received from loan servicing, and current interest rates. For purposes of measuring impairment, the rights must be stratified by one or more predominant risk characteristics of the underlying loans. The Company stratifies its capitalized mortgage servicing rights based on interest rates and the term of the underlying loans. The amount of impairment recognized is the amount, if any, by which the amortized cost of the rights for each stratum exceeds their fair value.

Foreclosed real estate: Real estate properties acquired through, or in lieu of, loan foreclosure are initially recorded at their fair value less estimated costs to sell at the date of foreclosure, establishing a new cost basis. Any write-down to fair value less estimated costs to sell at the time of transfer to foreclosed real estate is charged to the allowance for loan loss. Costs relating to improvement of property are capitalized, whereas costs relating to the holding of property are expensed. Valuations are periodically performed by management, and charge-offs to expense are made if the carrying value of a property exceeds its estimated fair value less estimated costs to sell.

Transfers of financial assets: Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the entity, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the entity does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising: Advertising costs are expensed as incurred.

Premises and equipment: Land is carried at cost. Bank premises, leasehold improvements, and furniture, fixtures and equipment are carried at cost, less accumulated depreciation and amortization. Bank premises and furniture, fixtures and equipment are depreciated using the straight-line method over the estimated useful lives of the assets ranging from 10 to 40 years for bank premises and three to seven years for furniture, fixtures and equipment. The cost of leasehold improvements is being amortized using the straight-line method over the terms of the related leases, generally seven to 10 years.

Comprehensive income: Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported on the consolidated statement of comprehensive income (loss). Such items, along with net income, are components of comprehensive income (loss). Gains and losses on available-for-sale securities are reclassified to net income as the gains or losses are realized upon sale of the securities. Other-than-temporary impairment charges are reclassified to net income at the time of the charge.

Income taxes: Deferred taxes are provided on an asset and liability method, whereby deferred tax assets are recognized for deductible temporary differences and operating loss or tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. The Company is allowed bad-debt deductions based on actual charge-offs. Deferred tax assets are reduced by a valuation allowance when management determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Note 1. Summary of Significant Accounting Policies (Continued)

Earnings per share: Basic earnings per common share are computed based upon the weighted-average number of common shares outstanding during each year. Dilutive per share amounts assume conversion, exercise or issuance of all potential common stock instruments, unless the effect is to reduce a loss or increase income per common share.

Employee stock plans: The Company accounts for stock-based compensation plans under the recognition and measurement principles of Equity and Compensation—Stock Compensation topics of the Accounting Standards Codification (ASC), which require that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. The effect of these topics is to require entities to measure the cost of employee services received in exchange for stock awards based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award.

Fair value of financial instruments: The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amounts reported for cash and cash equivalents approximate their fair values.

Certificates of deposit: Due to the short duration of the instruments, the carrying amounts reported for certificates of deposit approximate their fair values.

Federal funds sold: The carrying amounts reported for federal funds sold approximate their fair values.

Securities available for sale: The fair value of debt securities was generally determined based on matrix pricing. Matrix pricing is a mathematical technique that utilizes observable market inputs including, for example, yield curves, credit ratings and prepayment speeds. The fair value of government-sponsored enterprise equity securities is determined based on documented trade history.

Federal Home Loan Bank stock: The carrying amount approximates fair value.

Loans held for sale: Fair values are based on quoted market prices of similar loans sold on the secondary market.

Loans and accrued interest receivable: For variable-rate loans that reprice frequently and that have experienced no significant change in credit risk, fair values are based on carrying values. Fair values for all other loans are estimated based on discounted cash flows, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality. The carrying amount of accrued interest receivable approximates its fair value.

Mortgage servicing rights: Fair values are estimated using discounted cash flows based on current market rates and conditions.

Note 1. Summary of Significant Accounting Policies (Continued)

Deposits and other liabilities: The fair values disclosed for demand deposits and savings accounts are, by definition, equal to their carrying amounts, which represent the amounts payable on demand. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on those certificates. The carrying amounts of advances by borrowers for taxes and insurance and accrued interest payable approximate their fair values.

Borrowed funds: The fair value of long-term fixed-rate borrowed funds is estimated by using a discounted cash flow analysis based on current incremental borrowing rates for similar types of borrowing arrangements.

Off-balance-sheet instruments: Since the majority of the Company's off-balance-sheet instruments consist of non–fee-producing commitments to originate and sell loans, the Company has determined they do not have a significant fair value.

Derivatives—rate-lock commitments: The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate-lock commitment). Rate-lock commitments on mortgage loans held for sale are derivatives. Derivative instruments are recognized in the consolidated balance sheet at fair value, and changes in the fair value thereof are recognized in the consolidated statement of income. The Company originates single-family residential loans for sale pursuant to programs primarily with the Federal Home Loan Mortgage Corporation (FHLMC). Under the structure of the programs, at the time the Company initially issues a loan commitment in connection with such programs, it does not lock in a specific interest rate. At the time the interest rate is locked in by the borrower, the Company concurrently enters into a forward loan sale agreement with respect to the sale of such loan at a set price in an effort to manage the interest rate risk inherent in the locked loan commitment.

The forward loan sale agreement also meets the definition of a derivative instrument. Any change in the fair value of the loan commitment after the borrower locks in the interest rate is substantially offset by the corresponding change in the fair value of the forward loan sale agreement related to such loan. The period from the time the borrower locks in the interest rate to the time the Company funds the loan and sells it to FHLMC is generally 60 days. The fair value of each instrument will rise or fall in response to changes in market interest rates subsequent to the dates the interest rate locks and forward loan sale agreements are entered into. In the event that interest rates rise after the Company enters into an interest rate lock, the fair value of the loan commitment will decline. However, the fair value of the forward loan sale agreement related to such loan commitment should increase by substantially the same amount, effectively eliminating the Company's interest rate and price risk.

At December 31, 2014, the Company had $1,698 of loan commitments outstanding related to loans being originated for sale, all of which were subject to interest rate locks and forward loan sale agreements as described above. The fair values of outstanding interest rate-lock commitments and forward sale commitments were considered immaterial to the Company's consolidated financial statements as of December 31, 2014 and 2013, and therefore, are not recognized in the consolidated financial statements and are not included in the disclosures in Note 17.

Note 1. Summary of Significant Accounting Policies (Continued)

Fair value measurements: The Fair Value topic of the ASC defines fair value, establishes a framework for measuring fair value, and requires certain disclosures about fair value measurement. This topic also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy, with the highest priority being quoted prices in active markets. Fair value measurements are disclosed by level within that hierarchy.

Recent accounting pronouncements: In January 2014, the FASB issued guidance that requires an entity to derecognize the loan receivable and recognize the real estate property when it has received physical possession of residential real estate property collateralizing a consumer mortgage loan upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require annual disclosures. This guidance is effective for the Company for fiscal years beginning after December 15, 2014. The adoption of this guidance is not expected to have a material impact on our consolidated financial statements.

In September 2014, the FASB issued ASU No. 2014-09, *Revenue Recognition – Revenue from Contracts with Customers (Topic 606).* This ASU provides guidance on when to recognize revenue from contracts with customers. The objective of this ASU is to eliminate diversity in practice related to this topic and to develop guidance that would streamline and enhance revenue recognition requirements. The ASU defines five steps to recognize revenue including, identify the contract with a customer, identify the performance obligations in the contract, determine a transaction price, allocate the transaction price to the performance obligations and then recognize the revenue when or as the entity satisfies a performance obligation. This update is effective for public entities annual reporting periods beginning after December 15, 2016, and the Company is currently assessing the potential impact to the consolidated financial statements.

Segment reporting: The Company's activities are considered to be a single industry segment for financial reporting purposes. The Company is engaged in commercial and retail banking, investment and insurance services with operations in southern Minnesota. Substantially all income is derived from a diverse base of commercial and retail lending activities.

Wells Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements
(Dollars in Thousands, Except Per Share Data)

Note 2. Certificates of Deposit

Certificates of deposit with a carrying value of $4,181 and $3,695 at December 31, 2014, and 2013, respectively, had weighted-average yields of 0.41 percent 0.80 percent at December 31, 2014, and 2013, respectively and contractual maturities of less than one year.

Note 3. Securities Available for Sale

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed agencies	$ 22,677	$ 60	$ (191)	$ 22,545
Small business administration commercial pools	1,835	6	(9)	1,832
Obligations of state and political subdivisions	9,474	250	(26)	9,698
Government-sponsored enterprise equity	40	62	-	102
	$ 34,026	$ 378	$ (226)	$ 34,177

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential mortgage-backed agencies	$ 31,801	$ 60	$ (819)	$ 31,042
Small business administration commercial pools	2,112	7	(7)	2,112
Obligations of state and political subdivisions	8,071	222	(79)	8,214
Government-sponsored enterprise equity	40	161	-	201
	$ 42,024	$ 450	$ (905)	$ 41,569

Wells Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements
(Dollars in Thousands, Except Per Share Data)

Note 3. Securities Available for Sale (Continued)

Contractual maturities: The amortized cost and fair value of securities available for sale as of December 31, 2014, by contractual maturity are shown below. Maturities may differ from contractual maturities in residential mortgage-backed securities and Small Business Administration (SBA) pools because the mortgages underlying the securities may be called or repaid without any penalties. In addition, government-sponsored enterprise equity securities have no maturity. Therefore, these securities are not included in the maturity categories in the following maturity summary.

	December 31, 2014	
	Amortized Cost	Fair Value
Due in one year or less	$ 200	$ 200
Due in one to five years	4,241	4,310
Due after five through 10 years	2,674	2,694
Due after 10 years	2,359	2,494
	9,474	9,698
Residential mortgage-backed agencies	22,677	22,545
SBA pools	1,835	1,832
Government-sponsored enterprise equity	40	102
	$ 34,026	$ 34,177

Pledged securities: Securities with a carrying value of $20,961 and $21,554 at December 31, 2014 and 2013, respectively, were pledged to secure borrowed funds and for other purposes as required or permitted by law.

Changes in other comprehensive income (loss) — unrealized gains on securities available for sale:

	Years Ended December 31	
	2014	2013
Balance, beginning	$ (264)	$ 420
Unrealized gains (losses) during the year	605	(1,160)
Deferred tax effect relating to unrealized gains (losses)	(248)	476
Balance, ending	$ 93	$ (264)

Wells Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements
(Dollars in Thousands, Except Per Share Data)

Note 3. Securities Available for Sale (Continued)

Temporarily impaired securities:

	December 31, 2014					
	Continuous Unrealized Losses Existing 12 Months or Less		Continuous Unrealized Losses Existing Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Residential mortgage-backed agencies	$ 5,679	$ 20	$ 10,566	$ 172	$ 16,245	$ 191
SBA pools	-	-	1,250	9	1,250	9
Obligations of states and political subdivisions	1,495	6	1,180	20	2,675	26
	$ 7,174	$ 26	$ 12,996	$ 201	$ 20,170	$ 226

	December 31, 2013					
	Continuous Unrealized Losses Existing 12 Months or Less		Continuous Unrealized Losses Existing Greater Than 12 Months		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Residential mortgage-backed agencies	$ 25,441	$ 819	$ -	$ -	$ 25,441	$ 819
SBA pools	1,380	7	-	-	1,380	7
Obligations of states and political subdivisions	82,327	72	126	7	82,453	79
	$ 109,148	$ 898	$ 126	$ 7	$ 109,274	$ 905

There were 37 and 42 securities in unrealized loss positions as of December 31, 2014 and 2013, respectively.

Unrealized losses are deemed to be temporary. Most of these underlying securities consist of mortgage-backed securities. Market fluctuations are caused primarily by changes in interest rates and prepayments of underlying mortgages. Volatility in economic conditions influences the prices of these securities. Gross realized gains and losses on the sale of available-for-sale securities during the years ended December 31, 2014 and 2013 were not significant.

Wells Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements
(Dollars in Thousands, Except Per Share Data)

Note 4. Loans Receivable and Loans Held for Sale

Composition of loans receivable:

	December 31	
	2014	2013
Residential real estate	$ 56,674	$ 54,370
Commercial real estate	30,653	28,537
Agricultural real estate	38,128	33,854
Commercial construction real estate	4,035	548
Residential construction real estate	940	2,130
Home equity, home improvement and second mortgages	32,741	32,036
Commercial operating and term	5,718	3,494
Agricultural operating and term	7,714	4,753
Vehicle	1,671	1,542
Consumer	6,279	6,268
Total loans	184,553	167,532
Net deferred loan origination fees	(345)	(407)
Allowance for loan loss	(2,158)	(1,724)
Loans receivable, net	$ 182,050	$ 165,401

Note 4. Loans Receivable and Loans Held for Sale (Continued)

Loans are made to individuals as well as commercial and tax-exempt entities. Specific loan terms vary as to interest rate, repayment and collateral requirements based on the type of loan requested and the creditworthiness of the prospective borrower. Credit risk tends to be geographically concentrated in that a majority of the loan customers are located in the markets serviced by the Company.

The Company's extension of credit is governed by the individual loan policies that were established to control the quality of the Company's loans. These policies and procedures are reviewed and approved by the Board of Directors on a regular basis.

Residential real estate loans: The Company originates residential real estate loans in its service area and also originates loans throughout Minnesota through its correspondent bank relationships. These loans are one to four family loans. Currently, the majority of residential real estate loans being originated are sold to the secondary market and are reported in the financial statements as loans held for sale.

Commercial real estate loans: The Company's goal is to create and maintain a high-quality portfolio of commercial real estate loans with customers who meet the quality and relationship profitability objectives of the Company. Commercial real estate loans are subject to underwriting standards and processes similar to commercial operating and term loans. These loans are underwritten using historical and projected cash flows, and the repayment of these loans is largely dependent on the successful operation of the property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market, such as geographic location and property type.

Agricultural real estate loans: The Company originates loans secured by agricultural real estate in its service area. Agricultural land in the Company's service area is considered to be prime agricultural land. These loans are underwritten using both a cash flow analysis and appraised values. These are amortizing loans, and loan-to-value ratios generally do not exceed 60 percent at loan inception.

Commercial construction real estate loans: The Company defines construction loans as loans where the loan proceeds are controlled by the Company and used exclusively for the improvement of real estate in which the Company holds a mortgage. Commercial construction loans are underwritten based on projected cash flows and value of the construction project, generally up to 80% of cost or appraised value, whichever is less. Construction cost over-runs and construction delays may have a negative impact on the property valuation when completed. Due to the inherent risk in this type of loan, they are subject to other industry-specific policy guidelines outlined in the Company's credit risk policy and are monitored closely.

Residential construction real estate loans: Residential construction loans originated by the Company generally are limited to six-month terms. When construction is completed, these loans are converted to permanent financing or sold to the secondary market. Construction cost over-runs and construction delays may have a negative impact on the property valuation when completed and prevent the Company from selling the permanent financing to the secondary market.

Commercial operating and term loans: Commercial operating and term loans are originated in the Company's primary service area. These loans are made to individuals, partnerships, corporations, limited liability partnerships and limited liability companies for the purpose of assisting in the development of a business enterprise. Loans to closely held businesses will generally be guaranteed in full or for a

(Dollars in Thousands, Except Per Share Data)

Note 4. Loans Receivable and Loans Held for Sale (Continued)

meaningful amount by the businesses' major owners. Commercial loans are made based primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not perform as forecasted, and collateral securing loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for all commercial loan types.

Agricultural operating and term loans: Agricultural operating and term loans are originated in the Company's primary service area and are generally used to purchase agricultural equipment or crop inputs. These loans are primarily secured by agricultural real estate and agricultural equipment or crops. Agricultural term and operating loans are made based primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral. Based on an analysis of the customer's credit, the Company will lend up to 85% of the current market value of the collateral. The cash flows of borrowers, however, may not behave as forecasted, and collateral securing loans may fluctuate in value due to economic or individual performance factors.

Consumer loans, including home equity, home improvement and second mortgages, and vehicle loans: The Company originates direct consumer loans, including home equity lines and loans, credit cards, and vehicle loans, using a scoring-based credit analysis as part of the underwriting process. Each loan type has a separate specified scoring that consists of several factors, including debt to income, type of collateral and loan-to-collateral value, credit history, and Company relationship with the borrower.

Loans receivable:

	December 31, 2014					
	Current	30–59 Days Past Due	60–89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Total
Residential real estate	$ 54,698	$ 782	$ 507	$ 687	$ 1,975	$ 56,674
Commercial real estate	30,653	-	-	-	-	30,653
Agricultural real estate	37,843	285	-	-	285	38,128
Commercial construction real estate	4,035	-	-	-	-	4,035
Residential construction real estate	940	-	-	-	-	940
Home equity, home improvement and second mortgages	32,291	193	2	255	450	32,741
Commercial operating and term	5,569	82	-	67	149	5,718
Agricultural operating and term	7,674	40	-	-	40	7,714
Vehicle	1,661	8	1	1	10	1,671
Consumer	6,243	26	10	-	36	6,279
Total loans	$ 181,607	$ 1,416	$ 520	$ 1,010	$ 2,945	$ 184,553
Nonperforming loans	$ -	$ -	$ -	$ 1,010	$ 1,010	$ 1,010

Wells Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements
(Dollars in Thousands, Except Per Share Data)

Note 4. Loans Receivable and Loans Held for Sale (Continued)

	December 31, 2013					
	Current	30–59 Days Past Due	60–89 Days Past Due	Loans Past Due 90 Days or More	Total Past Due	Total
Residential real estate	$ 50,794	$ 2,548	$ 291	$ 737	$ 3,576	$ 54,370
Commercial real estate	28,365	172	-	-	172	28,537
Agricultural real estate	33,097	360	-	397	757	33,854
Commercial construction real estate	548	-	-	-	-	548
Residential construction real estate	2,130	-	-	-	-	2,130
and second mortgages	31,427	347	169	93	609	32,036
Commercial operating and term	3,421	-	-	73	73	3,494
Agricultural operating and term	4,753	-	-	-	-	4,753
Vehicle	1,525	12	5	-	17	1,542
Consumer	6,230	20	18	-	38	6,268
Total loans	$ 162,290	$ 3,459	$ 483	$ 1,300	$ 5,242	$ 167,532
Nonperforming loans	$ -	$ -	$ -	$ 1,300	$ 1,300	$ 1,300

Recorded investment in nonaccrual loans and loans past due 90 days or more and still accruing by class of loans as of December 31, 2014 and 2013, were as follows:

	December 31, 2014	
	Nonaccrual	Loans Past Due 90 Days or More and Still Accruing
Residential real estate	$ 687	$ -
Commercial real estate	-	-
Agricultural real estate	-	-
Commercial construction real estate	-	-
Residential construction real estate	-	-
Home equity, home improvement and second mortgages	255	-
Commercial operating and term	67	-
Agricultural operating and term	-	-
Vehicle	1	-
Consumer	-	-
Total	$ 1,010	$ -

Wells Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements
(Dollars in Thousands, Except Per Share Data)

Note 4. Loans Receivable and Loans Held for Sale (Continued)

	December 31, 2013	
	Nonaccrual	Loans Past Due 90 Days or More and Still Accruing
Residential real estate	$ 737	$ -
Commercial real estate	-	-
Agricultural real estate	397	-
Commercial construction real estate	-	-
Residential construction real estate	-	-
Home equity, home improvement and second mortgages	93	-
Commercial operating and term	73	-
Agricultural operating and term	-	-
Vehicle	-	-
Consumer	-	-
Total	$ 1,300	$ -

No interest income was recognized on nonaccrual loans for the years ended December 31, 2014 and 2013.

The Company utilizes an internal asset classification system as a means of reporting problem and potential problem loans. Under the Company's risk-rating system, the Company classifies problem and potential problem loans as "Special Mention," "Substandard" and "Doubtful," which correspond to risk ratings five, six and seven, respectively. Substandard loans include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as Doubtful, or risk-rated seven, have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans that do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management's close attention, are deemed to be Special Mention, or risk-rated five. Risk ratings are updated any time the situation warrants.

(Dollars in Thousands, Except Per Share Data)

Note 4. Loans Receivable and Loans Held for Sale (Continued)

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass-rated loans. Loans listed as not rated are included in groups of homogeneous loans with similar risk and loss characteristics. The following tables present the risk category of loans by class of loans based on the most recent analyses performed and the contractual aging as of December 31, 2014 and 2013:

	December 31, 2014				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate	$ 26,449	$ 3,556	$ 648	$ -	$ 30,653
Commercial construction real estate	4,035	-	-	-	4,035
Commercial operating and term	5,426	-	292	-	5,718
Agricultural operating and term	7,714	-	-	-	7,714
Total	$ 43,624	$ 3,556	$ 940	$ -	$ 48,120

	December 31, 2013				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate	$ 23,252	$ 4,086	$ 1,199	$ -	$ 28,537
Commercial construction real estate	548	-	-	-	548
Commercial operating and term	3,071	-	423	-	3,494
Agricultural operating and term	4,753	-	-	-	4,753
Total	$ 31,624	$ 4,086	$ 1,622	$ -	$ 37,332

For consumer, residential real estate, agricultural real estate, home equity, vehicle and residential construction loan classes, the Company collectively evaluates loans for impairment. The Company evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. Loans where credit quality and aging indicate potential weakness are placed on nonaccrual and are deemed to be nonperforming.

Impaired loans also include loans modified in a troubled debt restructuring where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collections. The following tables present troubled debt restructurings by class of loans for the years ended December 31, 2014 and 2013:

(Dollars in Thousands, Except Per Share Data)

Note 4. Loans Receivable and Loans Held for Sale (Continued)

	Year Ended December 31, 2014		
	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Total debt restructuring:			
Home equity, home improvement and second mortgages	1	$ 46	$ 46
Modified payment terms			

	Year Ended December 31, 2013		
	Number of Contracts	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Total debt restructuring:			
Residential real estate	2	$ 50	$ 44
Modified payment terms and Interest rates			

There were no loans modified in a troubled debt restructuring that subsequently defaulted for the years ended December 31, 2014 and 2013.

Loans individually evaluated for impairment by class of loans as of December 31, 2014 and 2013, are as follows:

	December 31, 2014				
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	$ 461	$ 461	$ -	$ 505	$ 27
With an allowance recorded:					
Residential real estate	822	822	115	830	34
Commercial real estate	2,637	2,637	341	2,690	99
Home equity, home improvement and second mortgages	73	73	73	74	2
Commercial operating and term	63	63	32	-	2
Consumer	16	16	12	16	2
Total	$ 4,072	$ 4,072	$ 573	$ 4,115	$ 166

(Dollars in Thousands, Except Per Share Data)

Note 4. Loans Receivable and Loans Held for Sale (Continued)

	December 31, 2013				
	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential real estate	$ 1,045	$ 1,045	$ -	$ 1,093	$ 62
Commercial real estate	605	605	-	616	31
Home equity, home improvement and second mortgages	12	12	-	14	1
With an allowance recorded:					
Residential real estate	563	563	53	584	22
Commercial real estate	2,725	2,725	273	2,139	69
Commercial operating and term	72	72	36	81	5
Consumer	114	114	15	115	1
Total	$ 5,136	$ 5,136	$ 377	$ 4,642	$ 191

Allowance for loan losses:

	Year Ended December 31, 2014				
	Balance, Beginning	Charge-offs	Recoveries	Provision	Balance, Ending
Residential real estate	$ 433	$ (6)	$ 11	$ 107	$ 545
Commercial real estate	624	-	7	91	722
Agricultural real estate	130	-	-	25	155
Commercial construction real estate	2	-	-	10	12
Residential construction real estate	11	-	-	2	13
Home equity, home improvement and second mortgages	254	(183)	39	321	431
Commercial operating and term	87	(1)	-	23	109
Agricultural operating and term	18	-	-	13	31
Vehicle	30	-	3	(5)	28
Consumer	135	(28)	72	(67)	112
Total	$ 1,724	$ (218)	$ 132	$ 520	$ 2,158

(Dollars in Thousands, Except Per Share Data)

Note 4. Loans Receivable and Loans Held for Sale (Continued)

	Year Ended December 31, 2013				
	Balance, Beginning	Charge-offs	Recoveries	Provision	Balance, Ending
Residential real estate	$ 437	$ (140)	$ 4	$ 132	$ 433
Commercial real estate	507	(468)	66	519	624
Agricultural real estate	153	-	-	(23)	130
Commercial construction real estate	1	-	-	1	2
Residential construction real estate	8	-	-	3	11
Home equity, home improvement and second mortgages	422	(160)	48	(56)	254
Commercial operating and term	29	(44)	26	76	87
Agricultural operating and term	29	-	-	(11)	18
Vehicle	41	(3)	4	(12)	30
Consumer	111	(38)	51	11	135
Total	$ 1,738	$ (853)	$ 199	$ 640	$ 1,724

The allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2014 and 2013, are as follows:

	December 31, 2014		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Allowance for loan losses:			
Residential real estate	$ 115	$ 430	$ 545
Commercial real estate	341	381	722
Agricultural real estate	-	155	155
Commercial construction real estate	-	12	12
Residential construction real estate	-	13	13
Home equity, home improvement and second mortgages	73	358	431
Commercial operating and term	32	77	109
Agricultural operating and term	-	31	31
Vehicle	-	28	28
Consumer	12	100	112
Total	$ 573	$ 1,585	$ 2,158

(Dollars in Thousands, Except Per Share Data)

Note 4. Loans Receivable and Loans Held for Sale (Continued)

	December 31, 2014		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Loans:			
Residential real estate	$ 1,283	$ 55,390	$ 56,673
Commercial real estate	2,637	28,016	30,653
Agricultural real estate	-	38,128	38,128
Commercial construction real estate	-	4,035	4,035
Residential construction real estate	-	940	940
Home equity, home improvement/second mortgages	73	32,668	32,741
Commercial operating and term	63	5,655	5,718
Agricultural operating and term	-	7,714	7,714
Vehicle	-	1,671	1,671
Consumer	16	6,263	6,279
Total	$ 4,072	$ 180,481	$ 184,553

	December 31, 2013		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Allowance for loan losses:			
Residential real estate	$ 53	$ 380	$ 433
Commercial real estate	273	351	624
Agricultural real estate	-	130	130
Commercial construction real estate	-	2	2
Residential construction real estate	-	11	11
Home equity, home improvement/second mortgages	-	254	254
Commercial operating and term	36	51	87
Agricultural operating and term	-	18	18
Vehicle	-	30	30
Consumer	15	120	135
Total	$ 377	$ 1,347	$ 1,724

(Dollars in Thousands, Except Per Share Data)

Note 4. Loans Receivable and Loans Held for Sale (Continued)

	December 31, 2013		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
Loans:			
Residential real estate	$ 1,608	$ 52,762	$ 54,370
Commercial real estate	3,330	25,207	28,537
Agricultural real estate	-	33,854	33,854
Commercial construction real estate	-	548	548
Residential construction real estate	-	2,130	2,130
Home equity, home improvement/second mortgages	12	32,024	32,036
Commercial operating and term	72	3,422	3,494
Agricultural operating and term	-	4,753	4,753
Vehicle	-	1,542	1,542
Consumer	114	6,154	6,268
Total	$ 5,136	$ 162,396	$ 167,532

Loans with a carrying value of $96,740 and $89,258 at December 31, 2014 and 2013, respectively, were pledged to secure borrowed funds.

Related-party loans: The Company has entered into transactions with its executive officers, directors, significant shareholders, and their affiliates (related parties). The aggregate amounts of loans to such related parties at December 31, 2014 and 2013, were $342 and $415, respectively. During 2014 and 2013, new loans to such related parties were $185 and $133, respectively, repayments were $67 and $166, respectively, and reduced by $191 and zero because of officer and director retirements, respectively. In the opinion of management, these loans have terms similar to other customer loans and do not present more than normal risk of collection.

Loans held for sale: As of December 31, 2014 and 2013, the Company's loans held for sale were $1,707 and $1,952, respectively, and consisted of one- to four-family residential real estate loans.

Interest rate lock commitments related to the origination of mortgage loans that will be sold are considered derivative instruments. The Company estimates the fair value of these derivatives using the difference between the guaranteed interest rate in the commitments and the current market interest rate. To reduce the net interest rate exposure arising from its loan sale activity, the Company enters into a commitment to sell these loans at the same time that the interest rate lock commitment is quoted. The commitments to sell loans are also considered derivative instruments, with offsetting estimated fair values based on changes in current market rates. These commitments are not designated as hedging instruments and, therefore, changes in fair value are recognized immediately into income. The fair values of the Company's derivative instruments are offsetting and deemed to be immaterial. The net gain on the derivative instruments was $247 and $520 in 2014 and 2013, respectively, and is included in the caption, gain on sale of loans held for sale, in the consolidated statements of income.

(Dollars in Thousands, Except Per Share Data)

Note 5. Loan Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans as of December 31, 2014 and 2013, were $332,075 and $350,234, respectively, and consist of one- to four-family residential real estate loans. These loans are serviced primarily for the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank and Federal National Mortgage Association.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in advances from borrowers for taxes and insurance, were $2,347 and $2,308 at December 31, 2014 and 2013, respectively.

Mortgage servicing rights are summarized as follows for the years ended December 31, 2014 and 2013:

	2014	2013
Balance at beginning of year, net	$ 1,952	$ 1,940
Mortgage servicing rights capitalized	258	442
Amortization expense	(324)	(430)
Valuation provision	-	-
Balance at end of year, net	$ 1,886	$ 1,952

The estimated fair value of mortgage servicing rights was $2,578 and $2,948 at December 31, 2014 and 2013, respectively. At December 31, 2014 and 2013, the valuation allowance was $15 and $15, respectively.

The following table indicates the estimated future amortization expense for mortgage servicing rights. The estimated amortization expense is based on existing asset balances. The timing of amortization expense actually recognized in future periods may differ significantly depending upon prepayment speeds affected by economic conditions, mortgage interest rates, and other matters.

Years Ending December 31,	
2015	$ 388
2016	343
2017	302
2018	264
2019	228
Thereafter	361
	$ 1,886

(Dollars in Thousands, Except Per Share Data)

Note 6. Premises and Equipment

	December 31	
	2014	2013
Land	$ 464	$ 464
Buildings and improvements	4,631	4,444
Leasehold improvements	473	473
Furniture, fixtures and equipment	3,018	2,891
	8,586	8,272
Less accumulated depreciation and amortization	5,414	5,232
	$ 3,172	$ 3,040

Note 7. Foreclosed Real Estate

An analysis of activity for foreclosed real estate is as follows:

	Years Ended December 31	
	2014	2013
Balance at beginning of year	$ 4,340	$ 3,601
Transfers from loans	726	2,733
Capitalized expenses	143	19
Proceeds from sales	(1,291)	(1,694)
Charge-offs/write-downs	(302)	(304)
Net gain (loss) on sales	40	(15)
Balance at end of year	$ 3,656	$ 4,340

Expenses applicable to foreclosed real estate include the following amounts reported in other real estate owned expense:

	Years Ended December 31	
	2014	2013
Net (gain) loss on sales	$ (40)	$ 15
Impairment	302	304
Operating expenses, net of rental income	237	411
	$ 499	$ 730

(Dollars in Thousands, Except Per Share Data)

Note 8. Deposits

	December 31	
	2014	2013
Demand deposits, noninterest-bearing	$ 16,610	$ 13,506
NOW and money market accounts	95,775	85,132
Savings accounts	42,133	38,126
Certificates of deposit	67,454	77,606
	$ 221,972	$ 214,370

The aggregate amount of certificates of deposit over $250 was $826 and $573 at December 31, 2014 and 2013, respectively.

A summary of scheduled maturities of certificates of deposit is as follows:

Years Ending December 31,	
2014	$ 50,744
2015	8,339
2016	5,655
2017	2,716
	$ 67,454

Note 9. Borrowed Funds

The Company has a variable-rate $1,500 revolving line of credit from United Bankers Bank. The interest is based on the lender's variable base rate (4.0% as of December 31, 2014). The note is secured by stock of the Bank and it matures on May 20, 2015. There was no outstanding balance on this note at both December 31, 2014 and 2013. The Company has no outstanding advances from the FHLB of Des Moines as of December 31, 2014 and 2013. The maximum borrowing capacity from the FHLB of Des Moines was $72,460 as of December 31, 2014.

Wells Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements
(Dollars in Thousands, Except Per Share Data)

Note 10. Income Tax Matters

The components of income tax expense are as follows:

	Years Ended December 31	
	2014	2013
Federal:		
Current	$ 599	$ 654
Deferred	(147)	(52)
	452	602
State:		
Current	220	199
Deferred	(49)	(15)
	171	184
Total	$ 623	$ 786

Total income tax expense differed from the amounts computed by applying the statutory U.S. federal income tax rate (35 percent) to income before income taxes as a result of the following:

	Years Ended December 31	
	2014	2013
Computed expected tax expense	$ 674	$ 690
State income taxes, net of federal benefit	118	120
Effect of graduated rates	(19)	(20)
Other	(150)	(4)
Income tax expense	$ 623	$ 786

The Company utilizes a two-step process to recognize and measure uncertain tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50 percent likely of being realized upon ultimate settlement. The Company and its subsidiary file consolidated federal and state income tax returns. At December 31, 2014, the federal and Minnesota tax returns that the Company files are open for examination by taxing authorities for the years 2011, 2012 and 2013. The Company considers many factors when evaluating and estimating the Company's tax positions, which may require periodic adjustments. At December 31, 2014, the Company did not record any liabilities for uncertain tax positions.

The Company recognizes accrued penalty and interest on uncertain tax positions, if any, as a component of its income tax expense.

(Dollars in Thousands, Except Per Share Data)

Note 10. Income Tax Matters (Continued)

The net deferred tax assets (liabilities) included in the accompanying consolidated balance sheets in other assets includes the following:

	December 31	
	2014	2013
Deferred tax assets:		
Allowance for loan losses	$ 873	$ 682
Management stock bonus plan	6	3
Accrued compensation	15	13
Impairment of securities	196	196
Repossessed property	664	711
Unaccreted discount	48	60
Other	47	8
Securities available for sale	-	191
Total deferred tax assets	1,849	1,864
Deferred tax liabilities:		
Premises and equipment	99	110
FHLB stock	131	131
Mortgage servicing rights	763	790
Deferred loan origination fees	31	31
Securities available for sale	58	-
Prepaid expenses	77	59
Accrued real estate taxes	40	39
Other	74	75
Total deferred tax liabilities	1,273	1,235
Net deferred tax assets	$ 576	$ 629

Retained earnings include approximately $1,839 related to the pre-1987 allowance for loan losses for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad-debt deductions for tax purposes only. If the Bank no longer qualifies as a bank or in the event of a liquidation of the Bank, income would be created for tax purposes only, which would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount for financial statement purposes was approximately $736.

Note 11. Equity, Regulatory Capital and Dividend Restrictions

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory—and possibly additional discretionary—actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

(Dollars in Thousands, Except Per Share Data)

Note 11. Equity, Regulatory Capital and Dividend Restrictions (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, the most recent notification of the Federal Deposit Insurance Corporation categorized the Bank as “well capitalized” under the regulatory framework for Prompt Corrective Action. To be categorized as “well capitalized,” the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The following table summarizes the Bank’s compliance with its regulatory capital requirements:

	Actual		Minimum for Capital Adequacy Purposes		Minimum to Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Percent	Amount	Percent	Amount	Percent
As of December 31, 2014:						
Tier I capital (to average assets)	$ 25,380	9.90%	$ 10,255	4.00%	$ 12,819	5.00%
Tier I capital (to risk-weighted assets)	25,380	13.58%	7,478	4.00%	11,217	6.00%
Total capital (to risk-weighted assets)	27,566	14.74%	14,956	8.00%	18,695	10.00%
As of December 31, 2013:						
Tier I capital (to average assets)	25,464	10.36%	9,841	4.00%	13,201	5.00%
Tier I capital (to risk-weighted assets)	25,464	14.90%	6,834	4.00%	10,251	6.00%
Total capital (to risk-weighted assets)	27,260	15.96%	13,668	8.00%	17,085	10.00%

In July 2013, the federal banking agencies issued a final rule revising the regulatory capital rules applicable to most national bank and federal savings associations as well as their holding companies generally beginning on January 1, 2015. The rule implements the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. The final rule implements a revised definition of regulatory capital, a new common equity Tier 1 minimum capital requirement of 4.50%, and a higher minimum Tier 1 capital requirement of 6.00% (which is an increase from 4.00%). Under the final rule, the total capital ratio remains at 8.00% and the minimum leverage ratio (Tier 1 capital to total assets) for all banking organizations, regardless of supervisory rating, is 4.00%.

(Dollars in Thousands, Except Per Share Data)

Note 11. Equity, Regulatory Capital and Dividend Restrictions (Continued)

Additionally, under the final rule, in order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a banking organization must hold a capital conservation buffer composed of common equity Tier 1 capital above its minimum risk-based capital requirements. The buffer is measured relative to risk-weighted assets. The final rule also enhances risk sensitivity and addresses weaknesses identified by the regulators over recent years with the measure of risk weighted assets, including through new measures of creditworthiness to replace references to credit ratings, consistent with the requirements of the Dodd-Frank Act.

Except for the largest internationally active banking organizations (which are subject to the "advanced approaches" provisions of the final rule), the new minimum capital requirements generally become effective for all banking organizations on January 1, 2015, whereas the capital conservation buffer and the deductions from common equity Tier 1 capital phase in over time, beginning on January 1, 2016. Similarly, non-qualifying capital instruments phase out over time.

Note 12. Earnings Per Share

A reconciliation of the income and common stock share amounts used in the calculation of basic and diluted earnings per share follows:

	Year Ended December 31, 2014		
	Income	Weighted-average Shares	Per Share Amount
Basic earnings per share:			
Net income	$ 1,303	755,781	$ 1.72
Effect of dilutive securities:			
Stock options	-	1,360	
Diluted earnings per share:			
Net income plus assumed conversions	$ 1,303	757,141	$ 1.72

	Year Ended December 31, 2013		
	Income	Weighted-average Shares	Per Share Amount
Basic earnings per share:			
Net income	$ 1,186	770,035	$ 1.54
Effect of dilutive securities:			
Stock options	-	403	
Diluted earnings per share:			
Net income plus assumed conversions	$ 1,186	770,438	$ 1.54

As of December 31, 2014 and 2013, 15,850 options are not included in the dilutive earnings per share computation in each year because their inclusion would be antidilutive.

Note 13. Employee Benefit Plans

Defined contribution 401(k) plan: The Bank provides a 401(k) plan that covers substantially all of the Bank's employees who are eligible as to age and length of service. A participant may elect to make contributions of up to 15 percent of the participant's annual compensation. At the discretion of the Board of Directors, the Bank may make matching and other contributions to the plan. Discretionary matching contributions of $75 and $75 (up to 3 percent of participant annual compensation) were made for the years ended December 31, 2014 and 2013, respectively.

Employee stock ownership plan: An employee stock ownership plan (ESOP) was adopted in 1995, covering all full-time employees of the Company who have attained age 21 and completed one year of service during which they worked at least 1,500 hours.

The Company makes annual discretionary contributions to the ESOP. As these funds are available, the ESOP acquires shares of Company stock and allocates the shares to ESOP participants. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings. In 2014 and 2013, 7,570 and 4,526 shares, respectively, were purchased, and 2,839 and 3,081 shares, respectively, were allocated to ESOP participants at a cost of approximately $64 for both 2014 and 2013, which was charged to compensation expense.

The ESOP held 95,602 shares of Company stock at December 31, 2014 and 2013. At December 31, 2014 and 2013, 89,304 and 94,035 shares, respectively, have been released for allocation to participants. Allocated shares held by the ESOP are treated as outstanding in computing earnings per share.

The Company is subject to a put option on ESOP shares distributed to participants. The put option is a right to demand that the Company buy shares of its stock held by the participant for which there is no market. The put price is representative of the fair market value of the stock, which is approximately $26.50 and $24.50 per share per independent valuation as of December 31, 2014 and 2013, respectively. The Company must pay for the purchase within a five-year period. Since this put right is outside the control of the Company, this results in the classification of these shares as redeemable common stock in the mezzanine equity section of the balance sheet at their fair value, with changes to fair value recorded in retained earnings. The fair value of unreleased shares as of December 31, 2014 and 2013 was $167 and $38, respectively.

Stock option plans:

Wells Financial Corp. 2003 Stock Option Plan: In 2003 the Company approved the Wells Financial Corp. 2003 Stock Option Plan (the Plan). Pursuant to the Plan, stock options for 120,000 common shares may be granted to officers, directors, employees and other persons providing services to the Company. The Plan options have a maximum term of 10 years and are granted with an exercise price equal to the market price on the grant date. Awards to nonemployee directors are exercisable on the grant date. Awards to employees are generally exercisable on the grant date subject to employment conditions.

Options granted under the Plan may be options that qualify as Incentive Stock Options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended, or options that do not so qualify.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Grant-date fair values were computed using the following assumptions: estimated life (in years), risk-free interest rate, expected volatility and dividend rate. The expected volatility is based on historical volatility for the estimated term of the award. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

(Dollars in Thousands, Except Per Share Data)

Note 13. Employee Benefit Plans (Continued)

Stock option activity and balances as of December 31, 2014 and 2013, and during the years then ended are presented below:

	Years Ended December 31				
	2014			2013	
Fixed Options	Aggregate Intrinsic Value	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding, beginning of year	$ -	27,700	$ 29.29	66,937	$ 29.16
Granted	-	-	-	-	-
Exercised	-	(2,850)	19.10	(3,237)	17.00
Forfeited	-	(7,900)	33.38	(36,000)	30.15
Outstanding, end of year	-	16,950	$ 29.10	27,700	$ 29.29

The aggregate intrinsic value of a stock option in the table above represents the total pretax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders, had all option holders exercised their options on December 31, 2014. The intrinsic value changes based on changes in the market value of the Company's stock. The total intrinsic value of options exercised during 2014 and 2013 was $25 and $15, respectively. The Company has purchased treasury stock and uses these shares for options exercised.

The status of the 16,950 options outstanding at December 31, 2014, is presented below:

Date of Award	Shares	Exercise Price	Remaining Contractual Life (Years)	Number Exercisable	Exercisable Intrinsic Value
April 19, 2005	7,900	30.00	0.2	7,900	-
March 20, 2007	7,950	29.60	2.2	7,950	-
May 18, 2010	1,100	19.10	5.4	1,100	9

For the years ended December 31, 2014 and 2013, the Company recognized $8 and $20 in compensation expense related to awards issued under this plan.

Management stock bonus plan: The Bank adopted the Wells Federal Bank 2003 Stock Bonus Plan in 2003 (the 2003 Plan). The Company authorized nonvested stock awards of up to 50,000 shares to directors, officers and employees of the Bank. These awards vest at the rate of 25 percent per year of continuous service with the Bank. The 2003 Plan expired in 2013 resulting in any unawarded shares being forfeited.

(Dollars in Thousands, Except Per Share Data)

Note 13. Employee Benefit Plans (Continued)

The status of nonvested shares outstanding as of December 31, 2014 and 2013, and the changes during the years then ended are presented below:

	Years Ended December 31	
	2014	2013
Outstanding at beginning of year	2,618	932
Granted	-	2,175
Forfeited	-	-
Vested	(837)	(489)
Outstanding at end of year	1,781	2,618

The total fair value of shares vested during the years ended December 31, 2014 and 2013, was $17 and $9, respectively. The Bank recorded compensation expense of $25 and $4 related to this plan for the years ended December 31, 2014 and 2013, respectively. At December 31, 2014, there was a total of $22 of unrecognized compensation expense related to stock-based compensation arrangements granted under this plan. The expense expected to be recognized is $13 in 2015, $7 in 2016 and $3 in 2017. The total tax benefit recognized in the consolidated financial statements for the years ended December 31, 2014 and 2013, related to shares granted under the plan was $17 and $10, respectively. The total tax benefit realized on the tax returns for the years ended December 31, 2014 and 2013, was $21 and $6, respectively.

Note 14. Commitments and Contingencies

The Company leases certain branch facilities under operating leases. Some leases require the Company to pay related insurance, maintenance and repairs, and real estate taxes. The Company also has an agreement with its data processor whereby the processor agrees to provide certain data and item processing services that expire in 2016. The agreement automatically renews in five-year intervals unless terminated by either party. Future minimum rental and data processing commitments under these agreements as of December 31, 2014, are estimated as follows:

Years Ending December 31,	Rental	Data Processing
2015	$ 112	$ 690
2016	70	604
2017	34	561
2018	-	561
2019	-	561
Thereafter	-	140

Note 14. Commitments and Contingencies

Total rental expense related to operating leases was approximately $172 and $194 for the years ended December 31, 2014 and 2013, respectively. Total data processing expense related to servicing agreements was $962 and $812 for the years ended December 31, 2014 and 2013, respectively.

In the normal course of business, the Company may be involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the consolidated financial statements.

Note 15. Financial Instruments With Off-Balance-Sheet Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include primarily commitments to extend credit. Those instruments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, standby letters of credit, and financial guarantees written is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit on loans totaled approximately $38,110 and $39,820 at December 31, 2014 and 2013, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if it is deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but normally includes real estate and personal property.

Note 16. Concentrations

Concentration by geographic location: The Company makes agricultural, commercial, residential and consumer loans to customers primarily in south central Minnesota and northern Iowa. Although the Company's loan portfolio is diversified, there is a relationship in this region between the agricultural economy and the economic performance of loans made to nonagricultural customers. The Company's lending policies for agricultural and nonagricultural customers require loans to be well-collateralized and supported by cash flows. Collateral for agricultural loans includes equipment, crops, livestock and land. Credit losses from loans related to the agricultural economy are consistent with credit losses experienced in the portfolio as a whole. The concentration of credit in the regional agricultural economy is taken into consideration by management in determining the allowance for loan losses.

Concentration by institution: The nature of the Company's business requires that it maintain amounts due from banks that, at times, may exceed federally insured limits. The Company has not experienced any losses in such amounts. At December 31, 2014 and 2013, the Company had $7,411 and $11,073, respectively, on deposit with United Bankers Bank, which is included in cash and cash equivalents and federal funds sold on the consolidated balance sheets. The Company has evaluated its customers and has not identified any major customers as defined by generally accepted accounting principles.

Note 17. Fair Value Measurements

ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Investment securities available for sale: The fair values of exchange-listed equity securities are based on quoted market prices and are categorized as Level 1 of the fair value hierarchy. The fair values of debt securities were generally determined based on matrix pricing. Matrix pricing is a mathematical technique that utilizes observable market inputs including, for example, yield curves, credit ratings and prepayment speeds. Fair values determined using matrix pricing are categorized as Level 2 in the fair value hierarchy.

Note 17. Fair Value Measurements (Continued)

Redeemable common stock: The Company has certain shares of common stock outstanding whereby the holder may put its shares to the Company for cash. This redeemable common stock is recorded at its fair value in the mezzanine equity section of our consolidated balance sheets and changes in fair value are recorded in retained earnings. The fair value of a share of common stock was determined by applying a market valuation approach based upon comparative financial and pricing analysis of the Company with a peer group of publicly traded financial institutions. The comparative financial analysis is based on three types of market pricing ratios: price to earnings, price to book (or price to tangible book) and price to assets, with a greater emphasis given to price to earnings and price to book value. Valuations include assumptions not observable in the marketplace, and the related fair value measurements have been categorized as level 3 measurements.

The Company is required, on a nonrecurring basis, to adjust the carrying value of certain assets or provide valuation allowances related to certain assets, using fair value measurements in accordance with generally accepted accounting principles.

Impaired loans: The specific reserves for collateral-dependent impaired loans are based on the fair value of the collateral less estimated costs to sell. The fair value of collateral was determined based on appraisals, with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal, and changes in the market and in the collateral. As these significant adjustments are based on unobservable inputs, the resulting fair value measurements have been categorized as Level 3 measurements.

Foreclosed real estate: Foreclosed real estate is recorded at fair value based on property appraisals, less estimated selling costs, at the date of transfer. The carrying value of foreclosed real estate is not remeasured to fair value on a recurring basis, but is subject to fair value adjustments when the carrying value exceeds the fair value, less estimated selling costs. Property appraisals are based on assumptions generally not observable in the marketplace, and the related nonrecurring fair value measurement adjustments have been classified as Level 3.

Mortgage servicing rights: Mortgage servicing rights are initially measured at fair value in the Company's consolidated balance sheet. The Company utilizes the amortization method to subsequently measure its capitalized servicing assets. In accordance with ASC Topic 860, the Company must record impairment charges when the carrying value of certain strata exceeds their estimated fair value. To estimate the fair value of servicing rights, the Company computes the present value of expected future cash flows associated with the servicing rights using assumptions that market participants would use in estimating future servicing income and expense. Such assumptions include estimates of the cost of servicing loans, loan default rates, an appropriate discount rate, and prepayment speeds. For purposes of evaluating and measuring impairment of capitalized servicing rights, the Company stratifies such assets based on the predominant risk characteristics of the underlying financial instruments that are expected to have the most impact on projected prepayments, cost of servicing, and other factors affecting future cash flows associated with the servicing rights. Such factors may include financial asset or loan type, note rate and term. The amount of impairment recognized is the amount by which the carrying value of the capitalized servicing rights for a stratum exceeds estimated fair value. Impairment is recognized through a valuation allowance. The determination of fair value of capitalized servicing rights is considered a Level 2 valuation.

(Dollars in Thousands, Except Per Share Data)

Note 17. Fair Value Measurements (Continued)

The following tables summarize assets and (liabilities) measured at fair value as of December 31, 2014 and 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	December 31, 2014			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Recurring:				
Investment securities available for sale:				
Residential mortgage-backed securities	$ -	$ 22,545	$ -	$ 22,545
SBA pools	-	1,832	-	1,832
Obligations of states and political subdivisions	-	9,698	-	9,698
Government-sponsored enterprise equity securities	-	102	-	102
Redeemable common stock	-	-	(2,342)	(2,342)
Nonrecurring:				
Foreclosed real estate	-	-	3,656	3,656
Collateral-dependent impaired loans	-	-	3,002	3,002
Mortgage servicing rights	-	646	-	646

	December 31, 2013			
	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Total Fair Value
Recurring:				
Investment securities available for sale:				
Residential mortgage-backed securities	$ -	$ 31,042	$ -	$ 31,042
SBA pools	-	2,112	-	2,112
Obligations of states and political subdivisions	-	8,214	-	8,214
Government-sponsored enterprise equity securities	-	201	-	201
Redeemable common stock	-	-	(2,533)	(2,533)
Nonrecurring:				
Foreclosed real estate	-	-	4,340	4,340
Collateral-dependent impaired loans	-	-	3,097	3,097
Mortgage servicing rights	-	750	-	750

(Dollars in Thousands, Except Per Share Data)

Note 17. Fair Value Measurements (Continued)

Changes in the fair value of redeemable common stock, which is a recurring fair value measurements using significant unobservable inputs (Level 3), for the fiscal years ended December 31, 2013 and 2014 were as follows:

Balance as of December 31, 2012	$ 2,008
Change in fair value related to redeemable common stock	334
Balance as of December 31, 2013	2,342
Change in fair value related to redeemable common stock	191
Balance as of December 31, 2014	$ 2,533

For the fiscal years ended December 31, 2013 and 2014 there were no transfers in or out of Levels 1, 2, and 3.

ASC Topic 825 requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not recognized at fair value on a recurring basis or nonrecurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are recognized at fair value on a recurring or nonrecurring basis are discussed above. The methodologies for financial assets and financial liabilities are discussed in Note 1.

The estimated fair values of the Company's financial instruments are as follows:

		December 31			
		2014		2013	
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$ 14,373	$ 14,373	$ 12,625	$ 12,625
Certificates of deposit	Level 2	4,181	4,181	3,695	3,695
Federal funds sold	Level 2	2,000	2,000	5,000	5,000
Securities available for sale	Level 2	34,177	34,177	41,569	41,569
FHLB stock	Level 2	2,079	2,079	2,021	2,021
Loans held for sale	Level 2	1,707	1,707	1,952	1,952
Loans receivable, net	Level 2	182,050	183,219	165,401	167,751
Accrued interest receivable	Level 2	834	834	804	804
Mortgage servicing rights	Level 2	1,886	2,578	1,952	2,948
Financial liabilities:					
Deposits	Level 2	221,972	215,199	214,370	212,605
Advances from borrowers for taxes and insurance	Level 2	2,630	2,630	2,614	2,614
Accrued interest payable	Level 2	17	17	6	6

(Dollars in Thousands, Except Per Share Data)

Note 17. Fair Value Measurements (Continued)

Interest rate risk: The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to manage interest rate risk. However, borrowers with fixed-rate obligations are more likely to prepay in a falling-rate environment and less likely to prepay in a rising-rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising-rate environment and less likely to do so in a falling-rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

The fair value of commitments to extend credit is based on fees currently charged to enter into similar agreements with comparable credit risks and the current creditworthiness of the parties. Commitments are generally short-term in nature and, if drawn upon, are issued under current market terms and conditions for credits with comparable risks. Therefore, the fair values of these financial instruments are not significant.

Note 18. Additional Cash Flow Information

	Years Ended December 31	
	2014	2013
Cash flows from securities:		
Available-for-sale securities		
Maturities and calls	$ 12,435	$ 6,689
Sale of securities	3,155	908
Purchases	(7,803)	(27,439)
	$ 7,787	$ (19,842)
Supplemental disclosures of cash flow information:		
Cash payments for:		
Interest	$ 586	$ 787
Income taxes	460	900
Supplemental schedule of noncash investing and financing activities:		
Loans originated in sale of foreclosed real estate	$ 223	$ 280
Foreclosed real estate acquired in settlement of loans	726	2,733

On August 15, 2014, the Company purchased selected assets and assumed selected liabilities of a branch office located in Minnesota Lake, Minnesota from Frandsen Bank & Trust. The transaction, which did not meet the definition of a business combination, included loans of $6,247, building of $87 and deposits of $12,428.

(Dollars in Thousands, Except Per Share Data)

Note 19. Financial Information of Wells Financial Corp. (Parent Only)

The Company's condensed statements of financial condition as of December 31, 2014 and 2013 and related condensed statements of income and cash flows for each of those years in the two year period ended December 31, 2014 are as follows:

Condensed Balance Sheets

Assets	2014	2013
Cash	$ 740	$ 564
Prepaid fees and other assets	218	141
Investment in Wells Federal Bank	25,661	25,395
Total Assets	$ 26,619	$ 26,100
Liabilities and Stockholders' Equity		
Liabilities	$ -	$ 17
Mezzanine equity	2,533	2,342
Stockholders' equity	24,086	23,741
Total liabilities and stockholders' equity	$ 26,619	$ 26,100

Condensed Statements of Income

	2014	2013
Interest expense	$ -	$ 1
Compensation and benefits	22	17
Other expense	49	30
Loss before income taxes	71	48
Income tax benefit	13	16
Net loss before dividends and equity in undistributed income of subsidiary	(58)	(32)
Dividends from subsidiary	1,477	1,250
Equity in undistributed income of subsidiary	(116)	(32)
Net income	$ 1,303	$ 1,186

(Dollars in Thousands, Except Per Share Data)

Note 19. Financial Information of Wells Financial Corp. (Parent Only) (Continued)

Condensed Statements of Cash Flows

	2014	2013
Cash Flows From Operating Activities		
Net Income	$ 1,303	$ 1,186
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary	116	32
Other assets	(70)	19
Other liabilities	(17)	(134)
Net cash provided by operating activities	1,332	1,103
Cash Flows From Financing Activities		
Purchase of treasury stock	(703)	(139)
Dividends paid	(453)	(461)
Net cash used in financing activities	(1,156)	(600)
Net increase in cash	176	503
Cash and Cash Equivalents		
Beginning	564	61
Ending	$ 740	$ 564

Note 20. Subsequent Event

On January 26, 2015 the Bank was granted regulatory approval to pay a $1.6 million dividend to the Company. This dividend represents 58.9% ($717,000) of the Bank's 2013 net income and 64.9% ($883,000) of the Bank's 2014 net income. This dividend was paid on February 17, 2015. On February 24, 2015 the Company declared a $0.18 per share dividend, payable on March 27, 2015 to shareholders of record on March 13, 2015.

Other Corporate Information

Wells Financial Corp. (Company) and Wells Federal Bank (Bank)
53 First Street SW, P.O. Box 310, Wells, MN 56097

The Company and the Bank are incorporated in the State of Minnesota. The Company had 742,252 of its common stock, $0.10 par value, outstanding at December 31, 2014. The Company trades on the Over the Counter Bulletin Board under the symbol "WEFP". There are no broker/dealers affiliated with the Company and the quotation is not being published on behalf of the Company. The Company's transfer agent is: Computershare, 211 Quality Circle, Suite 210, College Station, TX 77845.

The Company acquired all of the capital stock that the Bank issued upon its conversion from mutual to stock form of ownership. The Company's business activities are limited to its investment in the Bank. The Bank is a State chartered commercial bank headquartered in Wells, Minnesota. The Bank has nine full service offices. The Bank owns the facilities at five of its locations and leases the other four locations. The Bank attracts deposits from the general public and uses such deposits to invest in residential lending on owner occupied properties, commercial real estate and construction loans, agricultural real estate and operating loans, home equity and other consumer loans. The Bank had two subsidiaries at December 31, 2014, Greater Minnesota Mortgage (GMM) and Wells Insurance Agency (WIA). GMM ceased operations on February 1, 2012 and its operations were transferred to the Bank. GMM originated loans through referrals from community commercial banks and, primarily, sold these loans to the secondary market. WIA is a full service insurance agency that sells property, casualty, life and health insurance products.

Board of Directors of Wells Financial Corp.

Randel I. Bichler, Chairman of the Board	David Buesing
Dale E. Stallkamp	Gerald D. Bastian
James D. Moll	Richard Mueller

Executive Officers of Wells Financial Corp.

James D. Moll, CPA Interim President and Chief Executive Officer	James D. Moll, CPA Treasurer and Principal Financial and Accounting Officer	Richard Mueller Secretary

Corporate Counsel: Randel I. Bichler, Esq. 28 South Broadway Wells, Minnesota 56097	Independent Auditors: McGladrey, LLP Suite 300 310 Broadway Avenue South Rochester, Minnesota 55904	Special Counsel: Jones Walker, LLP 1227 25th Street NW Suite 200 West Washington, DC 20037

The Company's Annual Report for the fiscal year ended December 31, 2014 is available without charge upon written request. For a copy of the Annual Report or any other investor information, please write to the Secretary of the Company, at the Company's corporate office in Wells, Minnesota. The annual meeting of stockholders will be held on April 21, 2015 at 4:00 p.m. at the Corporate Offices, 53 First Street SW, Wells, Minnesota.

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