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TIMBERLAND BANCORP INC
Form 8-K
November 10, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 9, 2004

Timberland Bancorp, Inc.
(Exact name of registrant as specified in its charter)

| | | |
|---|---------------------------|---|
| Washington | 0-23333 | 91-1863696 |
| ----- | ----- | ----- |
| State or other jurisdiction Of incorporation | Commission File Number | (I.R.S. Employer Identification No.) |

| | |
|--|------------|
| 624 Simpson Avenue, Hoquiam, Washington | 98550 |
| ----- | ----- |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number (including area code) (360) 533-4747

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions.

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 2.02. Results of Operations and Financial Condition

On November 9, 2004, Timberland Bancorp, Inc. issued its earnings release for the quarter ended September 30, 2004. A copy of the earnings release is attached hereto as Exhibit 99.1, which is incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits

99.1 Press Release of Timberland Bancorp, Inc. dated November 9, 2004

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

TIMBERLAND BANCORP, INC.

DATE: November 10, 2004

By: /s/ Dean J. Brydon

Dean J. Brydon
Chief Financial Officer

Exhibit 99.1

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PRESS RELEASE: FOR IMMEDIATE PUBLICATION
For further information contact: Michael R. Sand, President
Dean Brydon, CFO
At (360) 533-4747

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Timberland Bancorp, Inc. Announces Fourth Quarter Earnings

- * Loan Portfolio Increases by \$10.5 Million During Quarter
- * Net Interest Margin increases to 4.92% for Quarter
- * Deposits Increase by \$12.0 Million During Quarter
- * Non-Performing Asset Ratio Decreases by 32% During Quarter

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* Acquisition of 7 Branches Closes in October

HOQUIAM, Wash. - November 9, 2004 - Timberland Bancorp, Inc. (Nasdaq: TSBK), ("Company") the holding company for Timberland Bank, ("Bank"), today reported net income of \$1.33 million, or \$0.36 per diluted share, for the quarter ended September 30, 2004. This compares to \$0.36 per diluted share that the Company earned for the quarter ended September 30, 2003. Income for the quarter ended September 30, 2004 was reduced by approximately \$143,000 (\$94,000 net of income tax) when compared to the same quarter in the prior fiscal year due to expenses associated with the Venture Bank branch acquisition and the addition to loan loss reserves as a consequence of loan growth.

"During the quarter our efforts were focused on taking advantage of an improving Northwest economy by growing our loan portfolio and deposit base while preparing for the acquisition of seven branch offices formerly owned by Venture Bank," stated President Michael Sand. "The increase in the Bank's loan portfolio combined with an increase in non-interest bearing and NOW accounts supported an escalation in the net interest margin to 4.92%. We were also successful in decreasing the non-performing assets ratio by 32% to 0.40% of assets."

Branch Acquisition

On October 9, 2004 Timberland completed the acquisition of seven branch offices and related deposits in three Western Washington counties from Venture Bank. Timberland acquired approximately \$86 million in deposits, which represents a 27% increase in its deposit base. In addition, Timberland acquired real estate, branch infrastructure, and employees for seven offices in Toledo, Winlock, Elma, Montesano, Hoquiam, Aberdeen and Panorama City. "This acquisition complements our branching strategy and is a very good fit for us, adding additional branches, a solid customer base, productive employees and stable low-cost deposits," said Sand. "The branch locations offer an ideal mix of in-market offices and new territory. Five of the branches are located within our existing geographic footprint and show solid prospects for generating operating synergies with our current system. The offices acquired in Hoquiam and Montesano will be consolidated with existing Timberland locations. The branches in Toledo and Winlock allow us to expand into Lewis County. Entering this new market reflects the commitment to our community banking philosophy, where decisions are made locally, and community involvement is encouraged."

Of the approximately \$86 million in acquired deposits, 56% are in N.O.W. checking, savings, and money market accounts, 16% are non-interest-bearing deposits and 28% are time certificates. As we deploy deposits into loans in the communities we serve, we anticipate this transaction will contribute to earnings. We believe the acquisition will be accretive (net of the initial transaction expenses) within one

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year following full integration of the new branches into our system. This acquisition, which is the first we have completed since going public in 1998, brings solid potential to generate long-term earnings growth and also complements our efforts to enhance shareholder value through dividends and share repurchases.

The Company incurred approximately \$70,000 (\$46,000 net of income tax) in expenses related to this acquisition in the quarter ended September 30, 2004

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and estimates that it will incur approximately \$200,000 (\$132,000 net of income tax) in additional acquisition related expenses during the December 31, 2004 quarter.

Disclaimer

This report contains certain "forward-looking statements." The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protection of such safe harbor with forward looking statements. These forward-looking statements may describe future plans or strategies and include the Company's expectations of future financial results. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results to differ materially from stated objectives. These risk factors include but are not limited to the effect of interest rate changes, competition in the financial services market for both deposits and loans as well as regional and general economic conditions. The words "believe," "expect," "anticipate," "estimate," "project," and similar expressions identify forward-looking statements. The Company's ability to predict results or the effect of future plans or strategies is inherently uncertain and undue reliance should not be placed on such statements.

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
For the three months and years ended September 30, 2004 and 2003
(Dollars in thousands, except per share data)
(Unaudited)

| | Three Months Ended September 30, | | Year Ended September 30, | |
|---|-------------------------------------|---------|-----------------------------|----------|
| | 2004 | 2003 | 2004 | 2003 |
| Interest and Dividend Income | | | | |
| Loans receivable | \$6,288 | \$6,226 | \$24,898 | \$25,391 |
| Investments and mortgage-backed securities | 217 | 176 | 934 | 873 |
| Dividends from investments | 259 | 258 | 1,021 | 1,064 |
| Interest bearing deposits in banks | 18 | 88 | 115 | 395 |
| | ----- | | ----- | |
| Total interest and dividend income | 6,782 | 6,748 | 26,968 | 27,723 |
| Interest Expense | | | | |
| Deposits | 969 | 1,209 | 4,168 | 5,570 |
| Federal Home Loan Bank advances | 774 | 855 | 3,157 | 3,376 |
| | ----- | | ----- | |
| Total interest expense | 1,743 | 2,064 | 7,325 | 8,946 |
| | ----- | | ----- | |
| Net interest income | 5,039 | 4,684 | 19,643 | 18,777 |
| Provision for Loan Losses | 73 | - - | 167 | 347 |
| | ----- | | ----- | |
| Net interest income after provision for loan losses | 4,966 | 4,684 | 19,476 | 18,430 |
| Non-Interest Income | | | | |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| Service charges on deposits | 518 | 487 | 1,927 | 2,009 |
| Gain on sale of loans, net | 57 | 264 | 642 | 1,451 |
| Gain (loss) on sale of securities | - - | - - | (6) | 135 |
| BOLI net earnings | 124 | 130 | 462 | 530 |
| Escrow fees | 35 | 62 | 140 | 267 |
| Servicing income (expense) on loans sold | (66) | (63) | (87) | 183 |
| ATM transaction fees | 174 | 136 | 636 | 723 |
| Other | 125 | 199 | 465 | 709 |
| | ----- | | ----- | |
| Total non-interest income | 967 | 1,215 | 4,179 | 6,007 |
| Non-interest Expense | | | | |
| Salaries and employee benefits | 2,233 | 2,191 | 8,794 | 8,301 |
| Premises and equipment | 526 | 486 | 1,879 | 1,799 |
| Advertising | 170 | 180 | 729 | 730 |
| Loss (gain) from real estate operations | 24 | 23 | (3) | 164 |
| ATM expenses | 93 | 94 | 396 | 564 |
| Other | 966 | 890 | 3,780 | 3,274 |
| | ----- | | ----- | |
| Total non-interest expense | 4,012 | 3,864 | 15,575 | 14,832 |
| Income before federal income taxes | 1,921 | 2,035 | 8,080 | 9,605 |
| Federal Income Taxes | 588 | 595 | 2,492 | 2,966 |
| | ----- | | ----- | |
| Net Income | \$ 1,333 | \$ 1,440 | \$ 5,588 | \$ 6,639 |
| | ===== | | ===== | |
| Earnings Per Common Share: | | | | |
| Basic | \$ 0.38 | \$ 0.38 | \$ 1.54 | \$ 1.74 |
| Diluted | \$ 0.36 | \$ 0.36 | \$ 1.46 | \$ 1.66 |
| Weighted average shares outstanding: | | | | |
| Basic | 3,507,811 | 3,797,140 | 3,637,510 | 3,814,344 |
| Diluted | 3,668,134 | 4,014,391 | 3,827,997 | 4,004,201 |

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
SUMMARY BALANCE SHEETS
September 30, 2004 and September 30, 2003
(Dollars in thousands)
(unaudited)

| | September 30, 2004 | September 30, 2003 |
|--|-----------------------|-----------------------|
| | ----- | |
| ASSETS | | |
| Cash and due from financial institutions | \$ 15,268 | \$ 8,587 |
| Interest bearing deposits in banks | 3,385 | 29,511 |
| Fed funds sold | 1,180 | - - |
| Investments and mortgage-backed securities - held to maturity | 174 | 279 |
| Investments and mortgage-backed securities - available for sale | 59,889 | 54,031 |
| Federal Home Loan Bank stock | 5,682 | 5,454 |
| Loans receivable | 347,975 | 325,126 |

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| | | |
|---|------------|------------|
| Loans held for sale | 610 | 1,001 |
| Less: Allowance for loan losses | (3,991) | (3,891) |
| | ----- | ----- |
| Total loans | 344,594 | 322,236 |
| Accrued interest receivable | 1,828 | 1,687 |
| Premises and equipment | 13,913 | 13,429 |
| Real estate owned and other repossessed items | 421 | 1,258 |
| Bank owned life insurance ("BOLI") | 11,028 | 10,566 |
| Other assets | 3,057 | 2,595 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 460,419 | \$ 449,633 |
| | ===== | ===== |

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES

| | | |
|--|------------|------------|
| Deposits | \$ 319,570 | \$ 307,672 |
| Federal Home Loan Bank advances | 65,421 | 61,605 |
| Other liabilities and accrued expenses | 2,611 | 2,745 |
| | ----- | ----- |
| TOTAL LIABILITIES | 387,602 | 372,022 |
| | ----- | ----- |

SHAREHOLDERS' EQUITY

| | | |
|---|------------|------------|
| Common stock - \$.01 par value; 50,000,000 shares authorized; September 30, 2004 - 3,882,070 shares issued and outstanding | | |
| September 30, 2003 - 4,251,680 shares issued and outstanding | 39 | 43 |
| Additional paid in capital | 24,908 | 33,775 |
| Unearned shares - Employee Stock Ownership Plan | (4,362) | (4,891) |
| Unearned shares Management Recognition & Development Plan | (537) | (1,182) |
| Retained earnings | 52,926 | 49,699 |
| Accumulated other comprehensive income (loss) | (157) | 167 |
| | ----- | ----- |
| TOTAL SHAREHOLDERS' EQUITY | 72,817 | 77,611 |
| | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 460,419 | \$ 449,633 |
| | ===== | ===== |

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
KEY FINANCIAL RATIOS AND DATA
(Dollars in thousands, except per share data)

| | Three Months Ended | | Year Ended | |
|------------------------------|--------------------|-------|---------------|-------|
| | September 30, | | September 30, | |
| | 2004 | 2003 | 2004 | 2003 |
| | ----- | ----- | ----- | ----- |
| PERFORMANCE RATIOS: | | | | |
| Return on average assets (1) | 1.19% | 1.28% | 1.24% | 1.52% |
| Return on average equity (1) | 7.40% | 7.46% | 7.52% | 8.67% |
| Net interest margin (1) | 4.92% | 4.49% | 4.77% | 4.61% |

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Efficiency ratio 66.79% 65.50% 65.38% 59.85%

| | September 30, 2004 | September 30, 2003 | |
|--|-----------------------|-----------------------|--|
| | ----- | ----- | |
| ASSET QUALITY RATIOS: | | | |
| Non-performing loans | \$ 1,442 | \$ 3,895 | |
| REO & other repossessed assets | 421 | 1,258 | |
| Total non-performing assets | 1,863 | 5,153 | |
| Non-performing assets to total assets | 0.40% | 1.15% | |
| Allowance for loan losses to non-performing loans | 276.77% | 99.90% | |
| Book Value Per Share (2) | \$ 18.76 | \$ 18.25 | |
| Book Value Per Share (3) | \$ 20.28 | \$ 19.77 | |

-
- (1) Annualized
 - (2) Calculation includes ESOP shares not committed to be released
 - (3) Calculation excludes ESOP shares not committed to be released

| | Three Months Ended September 30, | | Year Ended September 30, | | |
|--|-------------------------------------|------------|-----------------------------|------------|--|
| | 2004 | 2003 | 2004 | 2003 | |
| | ----- | | ----- | | |
| AVERAGE BALANCE SHEET: | | | | | |
| Average Total Loans | \$ 342,150 | \$ 322,900 | \$ 338,752 | \$ 319,583 | |
| Average Total Interest Earning Assets | 409,504 | 416,886 | 411,858 | 407,456 | |
| Average Total Assets | 447,160 | 448,746 | 449,703 | 437,809 | |
| Average Total Interest Bearing Deposits | 281,701 | 271,947 | 283,517 | 270,265 | |
| Average FHLB Advances | 57,770 | 61,653 | 57,778 | 61,715 | |
| Average Shareholders' Equity | 72,070 | 77,218 | 74,293 | 76,557 | |

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Comparison of Financial Condition at September 30, 2004 and September 30, 2003

Total Assets: Total assets increased \$10.8 million to \$460.4 million at September 30, 2004 from \$449.6 million at September 30, 2003 primarily due to a \$22.4 million increase in total loans, a \$6.7 million increase in cash and due from financial institutions, a \$5.8 million increase in investment securities and a \$1.2 million increase in fed funds sold. Partially offsetting these increases was a \$26.1 million decrease in interest bearing deposits in banks. The net asset growth was primarily funded by increased deposits and FHLB advances.

Investments and Overnight Funds: Investments, interest bearing deposits in banks, and fed funds sold decreased by \$19.2 million to \$64.6 million at September 30, 2004 from \$83.8 million at September 30, 2003, as a portion of the Company's short-term deposits were used to fund loan growth and the Company's stock repurchase program.

Loans: Net loans receivable, including loans held-for-sale, increased by \$22.4 million to \$344.6 million at September 30, 2004 from \$322.2 million at

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September 30, 2003. The increase in the portfolio was primarily a result of a \$5.3 million increase in commercial real estate loans, a \$4.8 million increase in consumer loans, a \$4.5 million increase in one-to-four family mortgage loans, a \$4.3 million increase in land loans, a \$3.3 million increase in construction loans (net of undisbursed portion), and a \$1.6 million increase in commercial business loans. These increases were partially offset by a \$1.1 million decrease in multi-family loans.

Loan originations totaled \$66.8 million and \$200.4 million for the three and twelve months ended September 30, 2004, compared to \$65.2 million and \$255.5 million for the same periods a year earlier. The Bank sold \$2.5 million and \$35.7 million in fixed rate one-to-four family mortgage loans for the three and twelve months ended September 30, 2004, compared to \$20.8 million and \$108.8 million for the same periods a year earlier.

Deposits: Deposits increased by \$11.9 million to \$319.6 million at September 30, 2004 from \$307.7 million at September 30, 2003, primarily due to a \$19.6 million increase in N.O.W. checking accounts, an \$8.0 million increase in non-interest bearing accounts, and a \$2.2 million increase in money market accounts. These increases were partially offset by a \$16.6 million decrease in the Bank's certificate of deposit accounts and a \$1.4 million decrease in savings accounts. The Bank continues to focus on attracting transaction accounts rather than higher-rate time deposits. Transaction accounts represent a stronger core deposit relationship than other types of deposit accounts.

Shareholders' Equity: Total shareholders' equity decreased by \$4.9 million to \$72.8 million at September 30, 2004 from \$77.6 million at September 30, 2003, primarily due to the repurchase of 482,016 shares of the Company's stock for \$11.1 million and the payment of \$2.3 million in dividends to shareholders. Partially offsetting these decreases to equity, were net income of \$5.6 million and a \$1.7 million increase to additional paid in capital from the exercise of stock options. Also affecting shareholders' equity were decreases of \$645,000 and \$529,000 in the equity components related to unearned shares issued to the Management Recognition and Development Plan and the Employee Stock Ownership Plans.

On February 27, 2004, the Company announced a plan to repurchase 360,670 shares of the Company's stock. This marked the Company's 12th stock repurchase plan. As of September 30, 2004, the Company has repurchased 214,086 of these shares at an average price of \$22.83 per share. Cumulatively the Company has repurchased 3,192,687 (48.3%) of the 6,612,500 shares that were issued when the Company went public in January 1998 at an average price of \$14.96 per share.

Comparison of Operating Results for the Three Months and Years Ended September 30, 2004 and 2003

Net Income: Net income for the quarter ended September 30, 2004 was \$1.33 million, or \$0.36 per diluted share (\$0.38 per basic share) compared to \$1.44 million, or \$0.36 per diluted share (\$0.38 per basic share) for the quarter ended September 30, 2003. Net income for the current quarter was \$107,000 lower than the same period a year ago, but earnings per share remained level as a result of the lower number of weighted average shares outstanding due to share repurchases. The decrease in net income was primarily a result of decreased non-interest income and increased non-

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interest expenses, which were partially offset by increased net interest income. During the quarter, the Company also incurred expenses of \$70,000 in connection with the acquisition of seven Venture Bank branches.

Net income for the year ended September 30, 2004 was \$5.59 million, or \$1.46 per diluted share (\$1.54 per basic share) compared to \$6.64 million, or \$1.66 per diluted share (\$1.74 per basic share) for the year ended September 30, 2003. The \$0.20 per share decrease in earnings for the year ended September 30, 2004 was primarily a result of the \$1.83 million (\$1.21 million net of income tax - \$0.32 per diluted share) decrease in non-interest income and the \$743,000 (\$490,000 net of income tax - \$0.13 per diluted share) increase in non-interest expense. These items were partially offset by a \$1.05 million (\$690,000 net of income tax - \$0.18 per diluted share) increase in net interest income after provision for loan losses and a lower number of weighted average shares outstanding which increased diluted earnings per share by approximately \$0.07.

Net Interest Income: Net interest income increased \$355,000 to \$5.04 million for the quarter ended September 30, 2004 from \$4.68 million for the quarter ended September 30, 2003, primarily due to a decrease in the Company's funding costs and increased yields on the Company's earning asset portfolio. Total interest expense decreased by \$321,000 to \$1.74 million for the quarter ended September 30, 2004 from \$2.06 million for the quarter ended September 30, 2003 as the Company's total cost of funds decreased to 2.05% from 2.47%. The lower funding costs were due in part to a change in the composition of interest-bearing liabilities, as average certificate of deposit accounts and FHLB advances decreased while N.O.W. checking accounts, a lower cost source of funds, increased. Also contributing to the increased net interest income was increased interest income. Total interest income increased \$34,000 to \$6.78 million for the quarter ended September 30, 2004 from \$6.75 million for the quarter ended September 30, 2003, primarily due to an increase in average yields on earning assets. The yield on earning assets was 6.63% for the quarter ended September 30, 2004 compared to 6.47% for the quarter ended September 30, 2003. The increased yield was due in part to a change in the composition of interest earnings assets, as average loans increased while lower yielding overnight investments decreased. As a result of these changes, the net interest margin increased to 4.92% for the quarter ended September 30, 2004 from 4.49% for the quarter ended September 30, 2003.

Net interest income increased \$866,000 to \$19.64 million for the year ended September 30, 2004 from \$18.78 million for the year ended September 30, 2003, primarily due to a decrease in the Company's funding costs. Total interest expense decreased by \$1.62 million to \$7.33 million for the year ended September 30, 2004 from \$8.95 million for the year ended September 30, 2003 as the Company's total cost of funds decreased to 2.14% from 2.69%. Total interest income decreased \$755,000 to \$26.97 million for the year ended September 30, 2004 from \$27.72 million for the year ended September 30, 2003, primarily due to a reduction in average yields on earning assets. The yield on earning assets was 6.55% for the year ended September 30, 2004 compared to 6.80% for the year ended September 30, 2003. As a result of these changes, the net interest margin increased to 4.77% for the year ended September 30, 2004 from 4.61% for the year ended September 30, 2003.

Provision for Loan Losses: The provision for loan losses for the quarter ended September 30, 2004 was \$73,000, while no provision was made for the comparable quarter in 2003. The provision for loan losses for the year ended September 30, 2004 decreased by \$180,000 to \$167,000 from \$347,000 for the year ended September 30, 2003. Management deemed the allowance for loan losses of \$3.99 million at September 30, 2004 (1.15% of loans receivable and

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276.8% of non-performing loans) adequate to provide for probable losses based on an evaluation of known and inherent risks in the loan portfolio at that date. The allowance for loan losses was \$3.89 million (1.20% of loans receivable and 99.9% of non-performing loans) at September 30, 2003.

The Company had a net charge-off of \$9,000 for the current quarter compared to a net charge-off of \$47,000 in the same quarter of 2003. For the year ended September 30, 2004 and 2003, net charge-offs were \$67,000 and \$86,000, respectively. The Company's net charge-offs to outstanding loans ratio was a minimal .02% for the year ended September 30, 2004 and during the last ten fiscal years has averaged less than .09% per year.

The Company's non-performing assets to total assets ratio decreased to 0.40% at September 30, 2004 from 0.59% at June 30, 2004 and 1.15% at September 30, 2003. The non-performing loan total of \$1.44 million at September 30, 2004

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consisted of \$640,000 in commercial real estate loans, \$430,000 in one-to-four family loans, \$322,000 in land loans, \$27,000 in commercial business loans, and \$23,000 in consumer loans.

Non-interest Income: Total non-interest income decreased \$248,000 to \$967,000 for the quarter ended September 30, 2004 from \$1.22 million for the quarter ended September 30, 2003, primarily due to a \$210,000 decrease in income from loan sales (gain on sale of loans and servicing income on loans sold), and a \$36,000 decrease in loan related fees. Income from loan sales decreased as mortgage banking activity slowed. The Bank sold \$2.5 million in fixed rate one-to-four family mortgages during the quarter ended September 30, 2004 compared to \$20.8 million for the same period a year ago.

Total non-interest income decreased \$1.83 million to \$4.18 million for the year ended September 30, 2004 from \$6.01 million for the year ended September 30, 2003, primarily due to a \$1.08 million decrease in income from loan sales (gain on sale of loans and servicing income on loans sold), a \$141,000 decrease in gain on sale of securities, a \$127,000 decrease in escrow fees, a \$104,000 decrease in loan application fees, an \$87,000 decrease in ATM transaction fees, an \$82,000 decrease in services charges on deposits, and a \$68,000 decrease in BOLI income. Income from loan sales decreased as mortgage banking activity slowed. The Bank sold \$35.7 million in fixed rate one-to-four mortgages during the year ended September 30, 2004 compared to \$108.8 million for the same period a year ago.

Non-interest Expense: Total non-interest expense increased by \$148,000 to \$4.01 million for the quarter ended September 30, 2004 from \$3.86 million for the quarter ended September 30, 2003. The increase is primarily a result of \$70,000 in expenses related to the acquisition of Venture Bank branches, a \$42,000 increase in salaries and employee benefits, and a \$40,000 increase in premises and equipment expenses.

Total non-interest expense increased by \$743,000 to \$15.58 million for the year ended September 30, 2004 from \$14.83 million for the year ended September 30, 2003. The increase is primarily a result of a \$493,000 increase in employee expenses, a \$91,000 increase in audit and Sarbanes-Oxley related expenses, an \$80,000 increase in premises and equipment expenses, and \$70,000 in expenses related to the Bank's acquisition of Venture Bank branches. The increased employee expenses are primarily due to a larger employee base,

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annual salary adjustments, and increased medical insurance costs.

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES LOANS RECEIVABLE BREAKDOWN (Dollars in thousands)

The following table sets forth the composition of the Company's loan portfolio by type of loan.

| | At September 30, 2004 | | At September 30, 2003 | |
|--|--------------------------|---------|--------------------------|---------|
| | Amount | Percent | Amount | Percent |
| | ----- | | ----- | |
| Mortgage Loans: | | | | |
| One-to-four family (1) | \$ 99,835 | 25.25% | \$ 95,371 | 26.21% |
| Multi family | 17,160 | 4.34 | 18,241 | 5.01 |
| Commercial | 108,276 | 27.39 | 102,972 | 28.30 |
| Construction and land development | 106,241 | 26.88 | 94,117 | 25.87 |
| Land | 19,895 | 5.03 | 15,628 | 4.30 |
| | ----- | | ----- | |
| Total mortgage loans | 351,407 | 88.89 | 326,329 | 89.69 |
| Consumer Loans: | | | | |
| Home equity and second mortgage | 23,549 | 5.96 | 19,233 | 5.29 |
| Other | 9,270 | 2.34 | 8,799 | 2.42 |
| | ----- | | ----- | |
| | 32,819 | 8.30 | 28,032 | 7.71 |
| Commercial business loans | 11,098 | 2.81 | 9,475 | 2.60 |
| | ----- | | ----- | |
| Total loans | 395,324 | 100.00% | 363,836 | 100.00% |
| Less: | | | | |
| Undisbursed portion of loans in process | (43,563) | | (34,785) | |
| Unearned income | (3,176) | | (2,924) | |
| Allowance for loan losses | (3,991) | | (3,891) | |
| | ----- | | ----- | |
| Total loans receivable, net | \$344,594 | | \$322,236 | |
| | ===== | | ===== | |

(1) Includes loans held-for-sale.

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES DEPOSIT BREAKDOWN (Dollars in thousands)

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The following table sets forth the balances of deposits in the various types of accounts offered by the Bank.

| | September 30, 2004 ----- | September 30, 2003 ----- |
|---|-----------------------------|-----------------------------|
| Non-interest bearing | \$ 37,150 | \$ 29,133 |
| N.O.W checking | 77,242 | 57,614 |
| Savings | 48,200 | 49,572 |
| Money market accounts | 41,652 | 39,444 |
| Certificates of deposit under \$100,000 | 93,750 | 109,720 |
| Certificates of deposit \$100,000 and over | 21,576 ----- | 22,189 ----- |
| Total deposits | \$319,570 ===== | \$307,672 ===== |

Timberland Bancorp, Inc. stock trades on the NASDAQ national market under the symbol "TSBK." The Bank owns and operates branches in the state of Washington in Hoquiam, Aberdeen, Ocean Shores, Montesano, Elma, Olympia, Lacey, Panorama City, Tumwater, Yelm, Puyallup, Edgewood, Tacoma, Spanaway (Bethel Station), Gig Harbor, Poulsbo, Silverdale, Auburn, Winlock, and Toledo.

CONTACT:

Timberland Bancorp, Inc.

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