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TIMBERLAND BANCORP INC
Form 8-K
July 23, 2008

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): July 22, 2008

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

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))

Item 2.02 Results of Operations and Financial Condition

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On July 22, 2008, Timberland Bancorp, Inc. issued its earnings release for the quarter ended June 30, 2008. 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

(d) Exhibits

99.1 Press Release of Timberland Bancorp, Inc. dated July 22, 2008

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: July 23, 2008

By: /s/ Dean J. Brydon

Dean J. Brydon
Chief Financial Officer

Exhibit 99.1

Timberland Bancorp, Inc.

Contact: Michael R. Sand,
President & CEO
Dean J. Brydon, CFO
(360) 533-4747
www.timberlandbank.com

Timberland Bancorp Announces Fiscal Third Quarter 2008 Results

HOQUIAM, WA--Jul 22, 2008 -- Timberland Bancorp, Inc. (TSBK News)

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("Timberland"), the holding company for Timberland Bank ("Bank"), today reported core operating earnings of \$2.05 million, or \$0.31 per diluted share for the fiscal third quarter ended June 30, 2008, exclusive of the previously announced non-recurring impairment charge of \$2.82 million (\$2.59 million after tax) resulting from the withdrawal of its investment in the AMF family of mutual funds. The non-recurring impairment charge of \$0.39 per diluted share resulted in a net loss of \$0.08 per diluted shares for the fiscal third quarter. In the fiscal second quarter ended March 31, 2008, Timberland earned \$1.59 million, or \$0.24 per diluted share and in the quarter ended June 30, 2007, it earned \$2.14 million, or \$0.31 per diluted share. Timberland's non-performing assets to total assets ratio was 1.55% at June 30, 2008. All per share data has been adjusted to reflect the two-for-one stock split in the form of a 100% stock dividend paid on June 5, 2007.

Fiscal Third Quarter 2008 Highlights: (quarter ended June 30, 2008 compared to the quarter ended June 30, 2007)

- * Core earnings per diluted share were \$0.31.
- * Capital levels remain strong with an 11.3% equity-to-assets ratio and a 10.3% tangible-equity-to-assets ratio.
- * Non-interest income (exclusive of the non-recurring impairment charge) increased 29%.
- * Quarterly cash dividend of \$0.11 per share announced on July 8, 2008. This represents the 42nd consecutive quarter that Timberland will have paid a cash dividend.
- * The loan portfolio increased 12% to \$557 million from \$497 million.
- * Total assets increased 6% to \$664 million from \$624 million.
- * Timberland consistently earns top honors for strong performance and financial stability.
 - * In April 2008, SNL Financial, a leading bank research firm, released their 2007 performance ratings of the nation's 100 largest thrifts. Timberland Bancorp, Inc. ranked seventh overall in the nation.
 - * Timberland Bank also earned a five-star "Superior" rating from Bauer Financial.

"Operationally our third quarter performance reflects the underlying strength of our franchise," said Michael R. Sand, President and Chief Executive Officer.

Operating Results

Fiscal third quarter revenue (net interest income before provision for loan losses plus non-interest income), excluding the non-recurring impairment charge, increased 3% to \$8.4 million compared with \$8.2 million in the like quarter one year ago. Solid growth in fee income more than offset marginally lower net interest income. Net interest income before the provision for loan losses decreased 2% to \$6.5 million from \$6.7 million compared to the like quarter one year ago with interest and dividend income decreasing 4% and interest expense decreasing 7%. Fiscal year to date core operating revenue increased 5% to \$25.1 million from \$23.8 million in the first nine months one year ago with net interest income up 3% and non-interest income increasing 13%. During this challenging interest rate environment, Timberland's net interest margin remained solid at 4.23%, a reduction of 21 basis points from the 4.44% reported for the quarter ended March 31, 2008. The 25 basis point interest rate cut by the Federal Reserve at the end of April 2008 combined with a full quarter's impact from the 200 basis points in cuts during the quarter ended March 31, 2008 compressed margins during the current quarter. The reversal of interest on loans placed on non-accrual status during the quarter accounted for eight basis points of the 21 basis point decrease in the net interest margin. The Company's net interest margin was 4.67% for the same quarter one year ago. Year to date, Timberland's net interest margin was 4.42% compared to 4.72% one year ago.

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In the third fiscal quarter Timberland made a provision of \$500,000 to its allowance for loan losses. This represented a decrease of \$200,000 from the provision made in the quarter immediately prior and an increase of \$240,000 as compared to the like quarter in the prior fiscal year. Net charge-offs for the quarter ended June 30, 2008 totaled \$121,000. Timberland's Safety

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and Soundness Regulatory examination was conducted and concluded in mid May. Timberland's annual independent third party loan review was also conducted and concluded in May.

During the quarter Timberland recognized a non-recurring impairment charge of \$2.82 million on its investment in the AMF family of mutual funds. Due to a continuing decline in the net asset value ("NAV") of the funds primarily as a result of uncertainty in spreads in the bond market for mortgage-related securities and downgrades to a small percentage of the underlying securities, Timberland determined that the funds should be classified as "other than temporarily impaired." "Subsequently, we elected to redeem our \$29.1 million mutual fund investment and received both cash and the underlying securities from the redemption," said Sand. Only \$317,000 were cash charges and the remaining \$2.5 million were non-cash charges to income. It is currently anticipated that a portion of the non-cash charge will be partially offset in each subsequent quarter as principal payments are made to the underlying securities. The redemption of the mutual funds resulted in a capital loss which can only be deducted for tax purposes to the extent that capital gains are realized within a three year carry back period and a five year carry forward period. Timberland has estimated that it will have \$679,000 in capital gains during the allowable tax period to offset the capital loss. The after tax impact of the non-recurring impairment charge is \$2.59 million, or \$0.39 per diluted share.

Non-interest income (excluding the non-recurring impairment charge) increased 29% to \$1.93 million for the third quarter from \$1.50 million for the third quarter of fiscal 2007, primarily due to increased service charges on deposits and increased income from loan sales (gain on sale of loans and servicing income on loans sold). "Our operating income continues to build as we introduce new products and services to our customers. The success of the automated overdraft decisioning system implemented during the quarter increased fee income," said Sand. The increased income from loan sales was primarily a result of an increase in the dollar value of residential mortgage loans sold in the secondary market during the quarter. The sale of fixed rate one-to-four family mortgage loans totaled \$16.0 million for the third quarter of fiscal 2008 compared to \$7.8 million for the same period one year prior.

Timberland's total operating (non-interest) expenses increased by \$158,000 to \$4.92 million for the third quarter from \$4.76 million for the third quarter of fiscal 2007 primarily due to a \$60,000 increase in salaries and employee benefits expense, a \$49,000 increase in deposit related expenses, a \$38,000 increase in advertising expenses and smaller increases in several other categories. The increased salary and benefit expense was primarily the result of annual salary adjustments (effective October 1, 2007). The increased deposit related expenses were primarily a result of expenses associated with several new deposit related programs. The increased advertising expenses were

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primarily attributable to marketing costs designed to gather new deposits. Partially offsetting these increased expenses was a \$38,000 decrease in premises and equipment expense as compared to the like quarter one year ago. The decrease in premises and equipment expense was primarily due to the sale of a building that previously served as a branch facility. The gain on the sale of the building resulted in a \$123,000 decrease to premises and equipment expenses during the quarter. Timberland's efficiency ratio (exclusive of the non-recurring impairment charge) was 58.36% for the quarter ended June 30, 2008 compared to 58.35% for the quarter ended June 30, 2007.

Asset Quality

The non-performing assets ("NPAs") to total assets ratio was 1.55% at June 30, 2008, with \$121,000 in net charge-offs during the quarter. The allowance for loan losses totaled \$7.1 million at June 30, 2008, or 1.26% of loans receivable and 75% of non-performing loans. The allowance for loan losses was \$6.7 million, or 1.21% of loans receivable and \$4.5 million, or 0.90% of loans receivable at March 31, 2008 and June 30, 2007, respectively.

Non-performing loans increased by \$3.0 million during the quarter to \$9.4 million at June 30, 2008, and were comprised of 31 loans including 16 single family speculative loans totaling \$5.6 million (of which the largest has a balance of \$522,000), a \$1.8 million participation interest in a land development loan located in Clark County, eight land loans totaling \$933,000, one commercial real estate loan for \$717,000, three home equity consumer loans totaling \$233,000, one single family home loan for \$101,000 and one commercial business loan for \$14,000. These non-performing loans represent 13 credit relationships. The increase in non-performing loans as compared to the quarter immediately prior was attributable to seven credit relationships which are discussed below.

1. The largest of these seven relationships is with a long-time builder of Timberland's that has five single family speculative loans, four land loans each zoned for the construction of one single family dwelling and one home equity loan outstanding for an aggregate total of \$2.57 million. The collateral for all these loans except the home equity loan is located in rural Thurston County.

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2. Another builder has two loans totaling \$605,000 that are secured by single family speculative homes in Pierce County.
3. A commercial real estate loan of \$717,000 is secured by a medical office building in Kitsap County. The assessed value of the collateral is \$1.02 million and the property is currently listed for sale at \$1.24 million.
4. A loan of \$101,000 is well secured by a house with an assessed value of \$166,000. The collateral is located in Kitsap County.
5. A loan of \$78,000 is partially secured by a building lot. The borrower is an owner builder that is involved in personal litigation which has prevented him from building on the lot. The collateral is located in Grays Harbor County.
6. A loan of \$31,000 is secured by a residential building lot in Grays Harbor County with an assessed value of \$50,000.
7. A \$14,000 loan is secured by a lift truck.

Loans with an aggregate balance of \$173,000 that were non-performing at the

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end of the prior quarter were brought current during the quarter ended June 30, 2008 and one loan was transferred to other real estate owned ("OREO"). OREO increased to \$879,000 at June 30, 2008 and consisted of one single-family residence in Pierce County. Balance Sheet Management Total assets increased 6% on an annualized basis during the quarter to \$663.8 million at June 30, 2008, and increased 6% from \$624.1 million one year ago primarily due to loan portfolio growth.

LOAN PORTFOLIO (\$ in thousands)

| | June 30, 2008 | | March 31, 2008 | | June 30, 2007 | |
|--|------------------|-------------|------------------|-------------|------------------|-------------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Mortgage Loans: | | | | | | |
| One-to-four family (1) | \$105,791 | 17% | \$108,117 | 18% | \$103,883 | 18% |
| Multi-family | 37,465 | 6 | 37,932 | 6 | 31,719 | 6 |
| Commercial | 140,785 | 23 | 136,112 | 22 | 128,118 | 22 |
| Construction and land development | 202,029 | 32 | 197,384 | 32 | 181,157 | 32 |
| Land | 56,489 | 9 | 55,158 | 9 | 53,794 | 9 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total mortgage loans | 542,559 | 87 | 534,703 | 87 | 498,671 | 87 |
| Consumer Loans: | | | | | | |
| Home equity and second mortgage | 46,771 | 7 | 47,003 | 8 | 44,347 | 8 |
| Other | 11,292 | 2 | 10,888 | 2 | 11,735 | 2 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| | 58,063 | 9 | 57,891 | 10 | 56,082 | 10 |
| Commercial business loans | | | | | | |
| | 23,307 | 4 | 20,177 | 3 | 16,625 | 3 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total loans | \$623,929 | 100% | \$612,771 | 100% | \$571,378 | 100% |
| Less: | | | | | | |
| Undisbursed portion of construction loans in process | (57,335) | | (55,447) | | (66,598) | |
| Unearned income | (2,865) | | (2,782) | | (2,921) | |
| Allowance for loan losses | (7,076) | | (6,697) | | (4,529) | |
| | ----- | | ----- | | ----- | |
| Total loans receivable, net | \$556,653 | | \$547,845 | | \$497,330 | |
| | ===== | | ===== | | ===== | |

(1) Includes loans held for sale

CONSTRUCTION LOAN COMPOSITION (\$ in thousands)

| | June 30, 2008 | | March 31, 2008 | | June 30, 2007 | |
|------------|---------------|---------|----------------|---------|---------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Custom and | | | | | | |

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| | | | | | | |
|--------------|-----------|-------|-----------|-------|-----------|-------|
| owner / | | | | | | |
| builder | \$ 48,384 | 24% | \$ 46,311 | 23% | \$ 48,894 | 27% |
| Speculative | 36,979 | 18 | 42,582 | 22 | 43,655 | 24 |
| Commercial | | | | | | |
| real estate | 66,846 | 33 | 56,964 | 29 | 50,729 | 28 |
| Multi-family | 19,044 | 10 | 21,941 | 11 | 19,801 | 11 |
| Land | | | | | | |
| development | 30,776 | 15 | 29,586 | 15 | 18,078 | 10 |
| | ----- | ----- | ----- | ----- | ----- | ----- |
| Total | | | | | | |
| construction | | | | | | |
| loans | \$202,029 | 100% | \$197,384 | 100% | \$181,157 | 100% |

Net loans receivable increased 12% year-over-year to \$556.7 million at June 30, 2008, from \$497.3 million one year ago. During the quarter the loan portfolio increased by \$8.8 million as commercial real estate loans increased by \$4.7 million, commercial business loans increased by \$3.1 million, construction and land development loans (net of the undisbursed portion) increased by \$2.8 million and land loans increased by \$1.3 million. These increases were partially offset by a \$2.3 million

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decrease in one-to four-family mortgage loans and a \$467,000 decrease in multi-family mortgage loans. The Bank's speculative construction portfolio decreased by 13% from the prior quarter.

Loan originations increased 36% to \$80.1 million for the quarter ended June 30, 2008 from \$59.0 million for the quarter ended March 31, 2008 and from \$66.4 million for the quarter ended June 30, 2007. The Bank participated out \$14.5 million of its loan production during the quarter and continues to sell fixed rate one-to four-family mortgage loans into the secondary market for asset-liability management purposes. During the quarter ended June 30, 2008, fixed rate one-to four-family mortgage loan sales totaled \$16.0 million. Timberland's investment securities decreased by \$9.4 million during the quarter to \$33.5 million at June 30, 2008 from \$42.9 million at March 31, 2008 primarily due to the redemption of mutual funds held with the AMF family of mutual funds. During the quarter Timberland redeemed \$29.1 million in mutual funds and received \$22.2 million in underlying securities and \$6.9 million in cash. The investment securities balance also decreased during the quarter as a result of regular amortization and prepayments on mortgage-backed securities.

DEPOSIT BREAKDOWN
(\$ in thousands)

| | June 30, 2008 | | March 31, 2008 | | June 30, 2007 | |
|-------------------------|---------------|---------|----------------|---------|---------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Non-interest bearing | \$ 50,701 | 11% | \$ 50,068 | 11% | \$ 50,580 | 12% |
| N.O.W. checking | 90,476 | 19 | 88,350 | 19 | 80,290 | 18 |
| Savings | 58,604 | 12 | 57,212 | 12 | 59,558 | 14 |
| Money market | 48,082 | 10 | 47,244 | 10 | 46,446 | 11 |
| Certificates of deposit | | | | | | |
| under \$100 | 128,791 | 27 | 137,529 | 29 | 131,803 | 30 |
| Certificates of deposit | | | | | | |
| \$100 and over | 77,343 | 16 | 74,376 | 16 | 64,837 | 15 |
| Certificates of deposit | | | | | | |

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| | | | | | | |
|----------------|-----------|------|-----------|------|-----------|------|
| - brokered | 25,937 | 5 | 15,058 | 3 | -- | -- |
| | ----- | --- | ----- | --- | ----- | --- |
| Total deposits | \$479,934 | 100% | \$469,837 | 100% | \$433,514 | 100% |
| | ===== | === | ===== | === | ===== | === |

Total deposits increased \$10.1 million to \$479.9 million at June 30, 2008 from \$469.8 million at March 31, 2008 primarily due to a \$10.9 million increase in brokered deposit accounts, a \$2.1 million increase in N.O.W. checking accounts, a \$1.4 million increase in savings accounts, an \$838,000 increase in money market accounts and a \$633,000 increase in non-interest bearing accounts. These increases were partially offset by a \$5.8 million decrease in certificates of deposit accounts. Brokered deposits remain a very limited portion of the Bank's funding sources.

Total shareholders' equity decreased \$67,000 to \$74.78 million at June 30, 2008 from \$74.84 million at March 31, 2008. The reduction in shareholders' equity was primarily due to cash dividends of \$758,000 paid to shareholders and a net loss of \$546,000 resulting from the non-recurring impairment charge noted above. These reductions to shareholders' equity were partially offset by a \$991,000 decrease to the accumulated other comprehensive loss category. A significant portion (\$976,000) of the non-recurring impairment charge on the mutual funds reflected in the current quarter's income statement had previously been accounted for as a reduction to shareholders' equity. This reduction was reflected in the accumulated other comprehensive loss line item in the balance sheet. Timberland did not repurchase any shares during the quarter. Timberland remains well capitalized with tier 1 risk based capital of 12.1%, equity to assets of 11.3% and tangible equity to assets of 10.3%.

About Timberland Bancorp, Inc.

Timberland Bancorp operates 21 branches in the state of Washington in Hoquiam, Aberdeen, Ocean Shores, Montesano, Elma, Olympia, Lacey, Tumwater, Yelm, Puyallup, Edgewood, Tacoma, Spanaway (Bethel Station), Gig Harbor, Poulsbo, Silverdale, Auburn, Winlock, and Toledo.

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TIMBERLAND BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
(\$ in thousands, except per share)
(unaudited)

| | Three Months Ended | | | |
|---|-------------------------------|--------------------------|---------------------------|--------------------------|
| | Non-GAAP* June 30, 2008 | GAAP June 30, 2008 | GAAP March 31, 2008 | GAAP June 30, 2007 |
| | ----- | ----- | ----- | ----- |
| Interest and dividend income | | | | |
| Loans receivable | \$ 9,825 | \$ 9,825 | \$ 10,358 | \$ 9,981 |
| Investments and mortgage- backed securities | 235 | 235 | 142 | 350 |
| Dividends from mutual funds and Federal Home Loan Bank ("FHLB") stock | 272 | 272 | 395 | 426 |
| Federal funds sold | 28 | 28 | 27 | 49 |
| Interest bearing deposits | | | | |

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| in banks | 8 | 8 | 4 | 8 |
|---|-----------|-----------|-----------|-----------|
| | ----- | ----- | ----- | ----- |
| Total interest and dividend income | 10,368 | 10,368 | 10,926 | 10,814 |
| Interest expense | | | | |
| Deposits | 2,703 | 2,703 | 3,117 | 2,866 |
| FHLB advances | 1,161 | 1,161 | 1,132 | 1,278 |
| Other borrowings | 4 | 4 | 6 | 12 |
| | ----- | ----- | ----- | ----- |
| Total interest expense | 3,868 | 3,868 | 4,255 | 4,156 |
| | ----- | ----- | ----- | ----- |
| Net interest income | 6,500 | 6,500 | 6,671 | 6,658 |
| Provision for loan losses | 500 | 500 | 700 | 260 |
| | ----- | ----- | ----- | ----- |
| Net interest income after provision for loan losses | 6,000 | 6,000 | 5,971 | 6,398 |
| Non-interest income | | | | |
| Service charges on deposits | 948 | 948 | 648 | 692 |
| Gain on sale of loans, net | 127 | 127 | 144 | 79 |
| Loss on redemption of mutual funds | -- | (2,822) | -- | -- |
| Bank owned life insurance ("BOLI") net earnings | 121 | 121 | 119 | 116 |
| Servicing income on loans sold | 234 | 234 | 179 | 127 |
| ATM transaction fees | 329 | 329 | 302 | 295 |
| Other | 170 | 170 | 162 | 192 |
| | ----- | ----- | ----- | ----- |
| Total non-interest income (loss) | 1,929 | (893) | 1,554 | 1,501 |
| Non-interest expense | | | | |
| Salaries and employee benefits | 2,812 | 2,812 | 2,986 | 2,752 |
| Premises and equipment | 519 | 519 | 650 | 557 |
| Advertising | 228 | 228 | 268 | 190 |
| Loss (gain) from other real estate operations | -- | -- | -- | 1 |
| ATM expenses | 136 | 136 | 142 | 128 |
| Postage and courier | 129 | 129 | 130 | 113 |
| Amortization of core deposit intangible | 62 | 62 | 62 | 71 |
| State and local taxes | 149 | 149 | 147 | 148 |
| Professional fees | 175 | 175 | 145 | 175 |
| Other | 709 | 709 | 676 | 626 |
| | ----- | ----- | ----- | ----- |
| Total non-interest expense | 4,919 | 4,919 | 5,206 | 4,761 |
| Income before federal income taxes | 3,010 | 188 | 2,319 | 3,138 |
| Federal income taxes | 965 | 734 | 734 | 1,000 |
| | ----- | ----- | ----- | ----- |
| Net income (loss) | \$ 2,045 | \$ (546) | \$ 1,585 | \$ 2,138 |
| | ===== | ===== | ===== | ===== |
| Earnings (loss) per common share: | | | | |
| Basic | \$ 0.32 | \$ (0.08) | \$ 0.25 | \$ 0.32 |
| Diluted | \$ 0.31 | \$ (0.08) | \$ 0.24 | \$ 0.31 |
| Weighted average shares outstanding: | | | | |
| Basic | 6,446,303 | 6,446,303 | 6,441,367 | 6,713,777 |
| Diluted | 6,524,818 | 6,524,818 | 6,560,806 | 6,910,165 |

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* Non-GAAP column excludes non-recurring loss on redemption of mutual funds.

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TIMBERLAND BANCORP INC. AND SUBSIDIARIES CONSOLIDATED INCOME STATEMENT

| (\$ in thousands, except per share) (unaudited) | Nine Months Ended | | |
|--|-------------------------------|--------------------------|--------------------------|
| | Non-GAAP* June 30, 2008 | GAAP June 30, 2008 | GAAP June 30, 2007 |
| Interest and dividend income | | | |
| Loans receivable | \$ 30,947 | \$ 30,947 | \$ 28,050 |
| Investments and mortgage-backed securities | 625 | 625 | 1,185 |
| Dividends from mutual funds and FHLB stock | 1,090 | 1,090 | 1,259 |
| Federal funds sold | 87 | 87 | 192 |
| Interest bearing deposits in banks | 22 | 22 | 61 |
| | 32,771 | 32,771 | 30,747 |
| Interest expense | | | |
| Deposits | 9,153 | 9,153 | 8,113 |
| FHLB advances | 3,510 | 3,510 | 3,173 |
| Other borrowings | 18 | 18 | 39 |
| | 12,681 | 12,681 | 11,325 |
| Total interest expense | 12,681 | 12,681 | 11,325 |
| Net interest income | 20,090 | 20,090 | 19,422 |
| Provision for loan losses | 2,400 | 2,400 | 416 |
| | 17,690 | 17,690 | 19,006 |
| Net interest income after provision for loan losses | 17,690 | 17,690 | 19,006 |
| Non-interest income | | | |
| Service charges on deposits | 2,292 | 2,292 | 2,061 |
| Gain on sale of loans, net | 364 | 364 | 250 |
| Loss on redemption of mutual funds | - | (2,822) | - |
| BOLI net earnings | 360 | 360 | 343 |
| Servicing income on loans sold | 531 | 531 | 373 |
| ATM transaction fees | 930 | 930 | 830 |
| Other | 504 | 504 | 548 |
| | 4,981 | 2,159 | 4,405 |
| Total non-interest income | 4,981 | 2,159 | 4,405 |
| Non-interest expense | | | |
| Salaries and employee benefits | 8,718 | 8,718 | 8,303 |
| Premises and equipment | 1,634 | 1,634 | 1,827 |
| Advertising | 678 | 678 | 569 |
| Loss (gain) from real estate operations | - | - | (14) |
| ATM expenses | 426 | 426 | 354 |
| Postage and courier | 376 | 376 | 347 |
| Amortization of core deposit intangible | 186 | 186 | 214 |
| State and local taxes | 447 | 447 | 420 |
| Professional fees | 467 | 467 | 524 |
| Other | 2,044 | 2,044 | 2,052 |
| | 2,044 | 2,044 | 2,052 |

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| | | | |
|--------------------------------------|-----------|-----------|-----------|
| Total non-interest expense | 14,976 | 14,976 | 14,596 |
| Income before federal income taxes | 7,695 | 4,873 | 8,815 |
| Federal income taxes | 2,449 | 2,218 | 2,806 |
| | ----- | ----- | ----- |
| Net income | \$ 5,246 | \$ 2,655 | \$ 6,009 |
| | ===== | ===== | ===== |
| Earnings per common share: | | | |
| Basic | \$ 0.81 | \$ 0.41 | \$ 0.88 |
| Diluted | \$ 0.80 | \$ 0.40 | \$ 0.85 |
| Weighted average shares outstanding: | | | |
| Basic | 6,467,874 | 6,467,874 | 6,863,253 |
| Diluted | 6,587,120 | 6,587,120 | 7,080,530 |

* Non-GAAP column excludes non-recurring loss on redemption of mutual funds.

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| | | | |
|---|------------|------------|------------|
| TIMBERLAND BANCORP, INC. | | | |
| CONSOLIDATED BALANCE SHEET | | | |
| (\$ in thousands) (unaudited) | | | |
| | June 30, | March 31, | June 30, |
| | 2008 | 2008 | 2007 |
| | ----- | ----- | ----- |
| Assets | | | |
| Cash and due from financial institutions: | | | |
| Non-interest bearing | \$ 14,776 | \$ 12,165 | \$ 11,798 |
| Interest-bearing deposits in banks | 3,196 | 883 | 1,188 |
| Federal funds sold | 5,565 | 1,220 | 205 |
| | ----- | ----- | ----- |
| | 23,537 | 14,268 | 13,191 |
| Investments and mortgage-backed securities: | | | |
| Held to maturity | 14,684 | 60 | 72 |
| Available for sale | 18,828 | 42,868 | 64,911 |
| FHLB stock | 5,705 | 5,705 | 5,705 |
| | ----- | ----- | ----- |
| | 39,217 | 48,633 | 70,688 |
| Loans receivable | | | |
| Loans held for sale | 562,664 | 549,593 | 500,694 |
| Less: Allowance for loan losses | 1,065 | 4,949 | 1,165 |
| | (7,076) | (6,697) | (4,529) |
| | ----- | ----- | ----- |
| Net loans receivable | 556,653 | 547,845 | 497,330 |
| Accrued interest receivable | | | |
| Premises and equipment | 2,932 | 3,055 | 3,177 |
| Other real estate owned ("OREO") and other repossessed items | 16,286 | 16,470 | 16,557 |
| BOLI | 879 | -- | 68 |
| Goodwill | 12,775 | 12,654 | 12,294 |
| Core deposit intangible | 5,650 | 5,650 | 5,650 |
| Mortgage servicing rights | 1,034 | 1,096 | 1,292 |
| Other assets | 1,277 | 1,145 | 1,018 |
| | 3,514 | 3,697 | 2,881 |
| | ----- | ----- | ----- |
| Total Assets | \$ 663,754 | \$ 654,513 | \$ 624,146 |

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| | ===== | ===== | ===== |
|--|------------|------------|------------|
| Liabilities and Shareholders' Equity | | | |
| Non-interest-bearing deposits | \$ 50,697 | \$ 50,068 | \$ 50,580 |
| Interest-bearing deposits | 429,237 | 419,769 | 382,934 |
| | ----- | ----- | ----- |
| Total deposits | 479,934 | 469,837 | 433,514 |
| FHLB advances | 104,645 | 105,663 | 112,463 |
| Other borrowings: repurchase agreements | 1,007 | 815 | 775 |
| Other liabilities and accrued expenses | 3,393 | 3,356 | 3,402 |
| | ----- | ----- | ----- |
| Total Liabilities | 588,979 | 579,671 | 550,154 |
| | ----- | ----- | ----- |
| Shareholders' Equity | | | |
| Common stock- \$.01 par value; 50,000,000 shares authorized; June 30, 2008 - 6,901,453 shares issued and outstanding March 31, 2008 - 6,876,653 shares issued and outstanding June 30, 2007 - 7,025,360 shares issued and outstanding | 69 | 69 | 70 |
| Additional paid in capital | 8,706 | 8,527 | 11,425 |
| Unearned shares- Employee Stock Ownership Plan | (2,842) | (2,908) | (3,521) |
| Retained earnings | 68,822 | 70,125 | 66,915 |
| Accumulated other comprehensive income (loss) | 20 | (971) | (897) |
| | ----- | ----- | ----- |
| Total Shareholders' Equity | 74,775 | 74,842 | 73,992 |
| | ----- | ----- | ----- |
| Total Liabilities and Shareholders' Equity | \$ 663,754 | \$ 654,513 | \$ 624,146 |
| | ===== | ===== | ===== |

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KEY FINANCIAL RATIOS AND DATA

(\$ in thousands, except per share amounts) (unaudited)

| | Three Months Ended | | | |
|-------------------------------------|--------------------|----------|-----------|----------|
| | ----- | ----- | ----- | ----- |
| | Core Results | GAAP | GAAP | GAAP |
| | June 30, | June 30, | March 31, | June 30, |
| | 2008 (a) | 2008 | 2008 | 2007 |
| | ----- | ----- | ----- | ----- |
| PERFORMANCE RATIOS: | | | | |
| Return (loss) on average assets (b) | 1.24% | (0.33%) | 0.98% | 1.38% |
| Return (loss) on average equity (b) | 10.91% | (2.91%) | 8.48% | 11.24% |
| Net interest margin (b) | 4.23% | 4.23% | 4.44% | 4.67% |
| Efficiency ratio | 58.36% | 87.73% | 63.29% | 58.35% |

Nine Months Ended

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| | Core Results June 30, 2008 (a) | GAAP June 30, 2008 | GAAP June 30, 2007 |
|------------------------------|--------------------------------------|--------------------------|--------------------------|
| Return on average assets (b) | 1.07% | 0.54% | 1.34% |
| Return on average equity (b) | 9.34% | 4.73% | 10.36% |
| Net interest margin (b) | 4.42% | 4.42% | 4.72% |
| Efficiency ratio | 59.73% | 67.31% | 61.26% |

| | June 30, 2008 | March 31, 2008 | June 30, 2007 |
|---|------------------|-------------------|------------------|
| ASSET QUALITY RATIOS: | | | |
| Non-performing loans | \$ 9,391 | \$ 6,388 | \$ 982 |
| OREO and other repossessed assets | 879 | -- | 68 |
| Total non-performing assets | \$ 10,270 | \$ 6,388 | \$ 1,050 |
| Non-performing assets to total assets | 1.55% | 0.98% | 0.17% |
| Allowance for loan losses to non-performing loans | 75% | 105% | 461% |
| Restructured loans | \$ -- | \$ 2,491 | \$ -- |
| CAPITAL RATIOS: | | | |
| Tier 1 leverage capital | 10.41% | 10.53% | 10.92% |
| Tier 1 risk based capital | 12.10% | 12.08% | 13.08% |
| Total risk based capital | 13.35% | 13.28% | 13.96% |
| Equity to assets | 11.27% | 11.43% | 11.85% |
| Tangible equity to assets (e) | 10.26% | 10.40% | 10.74% |
| Book value per share (c) | \$ 10.83 | \$ 10.88 | \$ 10.53 |
| Book value per share (d) | \$ 11.46 | \$ 11.53 | \$ 11.19 |
| Tangible book value per share (c) (e) | \$ 9.87 | \$ 9.90 | \$ 9.54 |
| Tangible book value per share (d) (e) | \$ 10.44 | \$ 10.49 | \$ 10.14 |

- (a) Calculation excludes non-recurring loss on redemption of mutual funds that occurred during 6/30/2008 quarter
- (b) Annualized
- (c) Calculation includes ESOP shares not committed to be released
- (d) Calculation excludes ESOP shares not committed to be released
- (e) Calculation subtracts goodwill and core deposit intangible from the equity component

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AVERAGE BALANCE SHEET:

| | Three Months Ended | | |
|---------------------------------------|--------------------|-------------------|------------------|
| | June 30, 2008 | March 31, 2008 | June 30, 2007 |
| Average total loans | \$ 560,515 | \$ 546,349 | \$ 494,137 |
| Average total interest earning assets | 614,383 | 600,872 | 570,597 |
| Average total assets | 659,998 | 647,851 | 619,120 |

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| | | | |
|--|---------|---------|---------|
| Average total interest bearing deposits | 415,495 | 411,465 | 388,610 |
| Average FHLB advances and other borrowings | 110,903 | 107,572 | 98,467 |
| Average shareholders' equity | 74,956 | 74,741 | 76,087 |

| | Nine Months Ended | |
|--|-------------------|------------------|
| | June 30, 2008 | June 30, 2007 |
| | ----- | ----- |
| Average total loans | \$ 548,346 | \$ 466,200 |
| Average total interest earning assets | 605,949 | 548,942 |
| Average total assets | 652,804 | 598,688 |
| Average total interest bearing deposits | 412,904 | 381,946 |
| Average FHLB advances and other borrowings | 109,794 | 82,139 |
| Average shareholders' equity | 74,901 | 77,364 |

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.