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TIMBERLAND BANCORP INC  
Form 8-K  
November 05, 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): November 4, 2008

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

|   |                           |   |
|---|---------------------------|---|
| Washington                                      | 0-23333                   | 91-1863696                              |
| -----   | -----                     | -----                                   |
| State or other jurisdiction<br>Of incorporation | Commission<br>File Number | (I.R.S. Employer<br>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 November 4, 2008, Timberland Bancorp, Inc. issued its earnings release for the quarter ended September 30, 2008. A copy of the earnings release is

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attached hereto as Exhibit 99.1, which is incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits  
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(d) Exhibits

99.1 Press Release of Timberland Bancorp, Inc. dated November 4, 2008

SIGNATURES  
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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 5, 2008

By: /s/Dean J. Brydon  
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Dean J. Brydon  
Chief Financial Officer

Exhibit 99.1

Contact: Michael R. Sand,  
President & CEO  
Dean J. Brydon, CFO  
(360) 533-4747  
www.timberlandbank.com  
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Timberland Bancorp Earns \$1.35 Million in Fiscal Fourth Quarter 2008

HOQUIAM, WA--November 4, 2008 -- Timberland Bancorp, Inc. (NASDAQ:TSBK) ("Timberland"), the holding company for Timberland Bank ("Bank"), today reported fiscal fourth quarter profits of \$1.35 million, or \$0.21 per diluted share after a \$1.50 million addition to its loan loss reserves, compared to earnings of \$2.16 million, or \$0.32 per diluted share for the fiscal fourth quarter of 2007. For the fiscal year ended September 30, 2008, Timberland reported earnings of \$4.01 million, or \$0.61 per diluted share compared to earnings of \$8.16 million, or \$1.17 per diluted share for the fiscal year ended September 30, 2007. Profit for the year ended September 30, 2008 reflects the non-recurring charge of \$2.59 million (\$0.39 per diluted share) taken in June as a result of the Company's withdrawal of its investment in the AMF family of mutual funds. 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

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5, 2007.

Fiscal Fourth Quarter 2008 Highlights: (quarter ended September 30, 2008 compared to the quarter ended September 30, 2007)

- Capital levels remain well above the regulatory threshold for a well capitalized designation with a 13.62% total risk based capital ratio.
- Net interest margin remained strong at 4.36% (an increase of 13 basis points from prior quarter).
- Non-interest income increased 30%.
- Quarterly cash dividend of \$0.11 per share announced on October 29, 2008. This represents the 43rd consecutive quarter that Timberland has paid a cash dividend.
- The loan portfolio increased 8% to \$558 million from \$515 million.
- Total deposits increased 7% to \$499 million from \$467 million
- Total assets increased 6% to \$682 million from \$645 million.
- The one-to-four family speculative construction portfolio decreased by 16% from the prior quarter, accounting for only 5% of the total loan portfolio.

"While the economic environment in our markets along Washington's coast continue to be relatively stable, we are seeing considerable stress in some parts of the Puget Sound market," said Michael R. Sand, President and CEO. "We are continuing to monitor our loan portfolio and to work with builders who have inventory on the market. At September 30th, speculative one-to-four family residential construction loans represented only 5% of the Bank's loan portfolio, residential land development loans represented 5% of the portfolio, and condominium construction loans represented 6% of the portfolio. We are making appropriate provisions to loan loss reserves in accordance with the results of our loan loss reserve analysis. An article in the Wall Street Journal on October 28, 2008 indicated that the Seattle Metro area was judged to have an 8.8 month supply of home inventory on the market. This compares quite favorably to many parts of the country some of which appear to have a supply in excess of 15 months. The Bank's core business remains strong. We continue to look for opportunities to prudently grow the loan portfolio, to control operating costs and to reduce our interest expense. The recent news that the Boeing machinist strike is settled is a welcome development for the regional outlook, with more than 27,000 workers returning to work."

### Capital Ratios and Asset Quality

Timberland remains well capitalized with total risk based capital of 13.62%, equity to assets of 10.98% and tangible equity to assets of 10.00%. "While we are well capitalized and have a strong capital base, we are evaluating the opportunity to increase capital through the Treasury's TARP program to provide for additional loan growth in accordance with the intent of the program," Sand noted. "We are currently weighing the costs and benefits of participation."

The non-performing assets ("NPAs") to total assets ratio was 1.83% at September 30, 2008, with \$526,000 in net charge-offs during the quarter and \$648,000 in net charge-offs for the fiscal year. The allowance for loan losses totaled \$8.1 million at September 30, 2008, or 1.42% of loans receivable and 67% of non-performing loans. The allowance for loan losses was \$7.1

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million, or 1.26% of loans receivable and \$4.8 million, or 0.92% of loans

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receivable at June 30, 2008 and September 30, 2007, respectively.

Non-performing loans ("NPLs") increased to \$11.99 million at September 30, 2008, and were comprised of 34 loans and 17 credit relationships. Included in NPLs are 17 single family speculative loans totaling \$5.4 million (of which the largest has a balance of \$408,000), a \$3.1 million land development loan in Kennewick, Washington, a \$1.4 million participation interest in a land development loan located in Clark County, Washington, seven individual lot (land) loans totaling \$726,000, one commercial real estate loan in Kitsap County, Washington for \$714,000, three single family home loans totaling \$300,000, three home equity consumer loans totaling \$160,000 and one commercial business loan for \$250,000.

Loans with an aggregate balance of \$316,000 that were non-performing at the end of the prior quarter were brought current during the September quarter. "We sold the property held at June 30, 2008 as other real estate owned ("OREO") for \$970,000 and added a single residential property to OREO during the quarter ended September 30, 2008," Sand stated. OREO and other repossessed assets decreased to \$511,000 at September 30, 2008 and consisted of one single-family residence in Pierce County and two vehicles.

### Balance Sheet Management

Total assets increased 11% on an annualized basis during the quarter to \$681.9 million at September 30, 2008, and increased 6% from \$644.8 million one year ago. The increase in assets during the current quarter was a result of an increase in liquid assets as cash equivalents increased to \$42.9 million at September 30, 2008 from \$23.5 million at June 30, 2008.

### LOAN PORTFOLIO

| (\$ in thousands)                                    | Sept. 30, 2008 |         | June 30, 2008 |         | Sept. 30, 2007 |         |
|--|----------------|---------|---------------|---------|----------------|---------|
|  | Amount         | Percent | Amount        | Percent | Amount         | Percent |
|  | -----          | -----   | -----         | -----   | -----          | -----   |
| <b>Mortgage Loans:</b>                               |                |         |               |         |                |         |
| One-to-four family (1)                               | \$112,299      | 18%     | \$105,791     | 17%     | \$102,434      | 17%     |
| Multi-family   | 25,927         | 4       | 37,465        | 6       | 35,157         | 6       |
| Commercial   | 146,223        | 24      | 140,785       | 23      | 127,866        | 22      |
| Construction and land development                    | 186,344        | 31      | 202,029       | 32      | 186,261        | 32      |
| Land   | 60,701         | 10      | 56,489        | 9       | 60,706         | 10      |
|  | -----          | -----   | -----         | -----   | -----          | -----   |
| Total mortgage loans                                 | 531,494        | 87      | 542,559       | 87      | 512,424        | 87      |
| <b>Consumer Loans:</b>                               |                |         |               |         |                |         |
| Home equity and second mortgage                      | 48,690         | 8       | 46,771        | 7       | 47,269         | 8       |
| Other  | 10,635         | 2       | 11,292        | 2       | 10,922         | 2       |
|  | -----          | -----   | -----         | -----   | -----          | -----   |
| Total consumer loans                                 | 59,325         | 10      | 58,063        | 9       | 58,191         | 10      |
| Commercial business loans                            | 21,018         | 3       | 23,307        | 4       | 18,164         | 3       |
|  | -----          | -----   | -----         | -----   | -----          | -----   |
| Total loans  | \$611,837      | 100%    | \$623,929     | 100%    | \$588,779      | 100%    |
| <b>Less:</b>   |                |         |               |         |                |         |
| Undisbursed portion of construction loans in process | (43,353)       |         | (57,335)      |         | (65,673)       |         |
| Unearned income                                      | (2,747)        |         | (2,865)       |         | (2,968)        |         |
| Allowance for loan losses                            | (8,050)        |         | (7,076)       |         | (4,797)        |         |
|  | -----          |         | -----         |         | -----          |         |
| Total loans receivable, net                          | \$557,687      |         | \$556,653     |         | \$515,341      |         |
|  | =====          |         | =====         |         | =====          |         |

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(1) Includes loans held for sale

### CONSTRUCTION LOAN COMPOSITION (\$ in thousands)

|                            | Sept. 30, 2008 |                           | June 30, 2008 |                           | Sept. 30, 2007 |                           |
|----------------------------|----------------|---------------------------|---------------|---------------------------|----------------|---------------------------|
|                            | Amount         | Percent of Loan Portfolio | Amount        | Percent of Loan Portfolio | Amount         | Percent of Loan Portfolio |
| Custom and owner / builder | \$ 47,168      | 8%                        | \$ 48,384     | 8                         | \$ 52,375      | 9%                        |
| Speculative                | 30,895         | 5                         | 36,979        | 6                         | 43,012         | 7                         |
| Commercial real estate     | 39,620         | 7                         | 47,215        | 8                         | 40,998         | 7                         |

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|                                 |                  |   |                  |   |                  |   |
|---------------------------------|------------------|---|------------------|---|------------------|---|
| Condominium                     | 39,196           | 6 | 36,538           | 6 | 27,584           | 5 |
| Multi-family                    | 1,313            | - | 2,137            | - | -                | - |
| Land development                | 28,152           | 5 | 30,776           | 5 | 22,292           | 4 |
| <b>Total construction loans</b> | <b>\$186,344</b> |   | <b>\$202,029</b> |   | <b>\$186,261</b> |   |

Net loans receivable increased 8% year-over-year to \$557.7 million at September 30, 2008, from \$515.3 million one year ago. During the quarter the loan portfolio increased by \$1.0 million as one-to-four family loans increased by \$6.5 million, commercial real estate loans increased by \$5.4 million, land loans increased by \$4.2 million and consumer loans increased by \$1.3 million. These increases were partially offset by an \$11.5 million decrease in multi-family loans, a \$2.3 million decrease in commercial business loans and a \$1.7 million decrease in construction and land development loans (net of the undisbursed portion).

Loan originations decreased to \$50.0 million for the quarter ended September 30, 2008 from \$80.1 million for the quarter ended June 30, 2008 and from \$66.3 million for the quarter ended September 30, 2007. The Bank continues to sell fixed rate one-to four-family mortgage loans into the secondary market for asset-liability management purposes. During the quarter ended September 30, 2008, fixed rate one-to four-family mortgage loan sales totaled \$9.4 million.

Timberland's investment securities decreased by \$2.2 million during the quarter to \$31.3 million at September 30, 2008 from \$33.5 million at June 30, 2008, primarily as a result of regular amortization and prepayments on mortgage-backed securities.

### DEPOSIT BREAKDOWN (\$ in thousands)

|                                      | Sept. 30, 2008 |         | June 30, 2008 |         | Sept. 30, 2007 |         |
|--------------------------------------|----------------|---------|---------------|---------|----------------|---------|
|                                      | Amount         | Percent | Amount        | Percent | Amount         | Percent |
| Non-interest bearing N.O.W. checking | \$ 51,955      | 11%     | \$ 50,701     | 11%     | \$ 54,962      | 12%     |
|                                      | 90,468         | 18      | 90,476        | 19      | 80,372         | 17      |

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|   |           |       |           |       |           |       |
|---|-----------|-------|-----------|-------|-----------|-------|
| Savings                                   | 56,391    | 11    | 58,604    | 12    | 56,412    | 12    |
| Money market                              | 70,379    | 14    | 48,082    | 10    | 48,068    | 10    |
| Certificates of deposit<br>under \$100    | 130,313   | 26    | 128,791   | 27    | 135,528   | 29    |
| Certificates of deposit<br>\$100 and over | 73,107    | 15    | 77,343    | 16    | 67,316    | 15    |
| Certificates of deposit<br>- brokered     | 25,959    | 5     | 25,937    | 5     | 24,077    | 5     |
|   | -----     | ----- | -----     | ----- | -----     | ----- |
| Total deposits                            | \$498,572 | 100%  | \$479,934 | 100%  | \$466,735 | 100%  |
|   | =====     | ===== | =====     | ===== | =====     | ===== |

Total deposits increased \$18.7 million to \$498.6 million at September 30, 2008 from \$479.9 million at June 30, 2008 primarily as a result of a \$22.3 million increase in money market accounts and a \$1.3 million increase in non-interest bearing checking accounts. These increases were partially offset by a \$2.7 million decrease in non-brokered certificates of deposit accounts and a \$2.2 million decrease in savings accounts. The increase in money market accounts was partially a result of a \$10.5 million short-term deposit by a commercial customer that was transferred from the deposit base into the Bank's Certificate of Deposit Registry Service (CDARS) program in early October 2008.

Total shareholders' equity increased \$66,000 to \$74.84 million at September 30, 2008 from \$74.78 million at June 30, 2008. The increase in shareholders' equity was primarily due to net income of \$1.35 million, which was partially offset by cash dividends of \$762,000 paid to shareholders and a \$481,000 change in the accumulated other comprehensive loss category as a result of market value declines in the Company's available for sale investment portfolio.

### Operating Results

Fiscal fourth quarter revenue (net interest income before provision for loan losses plus non-interest income), increased 7% to \$8.9 million compared with \$8.3 million in the like quarter one year ago. The increase was a result of a \$462,000 increase in non-interest income and a \$91,000 increase in net interest income. Net interest income before the provision for loan losses increased 1% to \$6.8 million for the quarter ended September 30, 2008 from \$6.7 million compared to the like quarter one year ago with interest and dividend income decreasing 6% and interest expense decreasing 16%. Fiscal 2008 core operating revenue (excluding the non-recurring impairment charge incurred in June 2008) increased 6% to \$33.9 million from \$32.1 million in

### Timberland Q4 Earnings

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fiscal 2007, with net interest income up 3% and non-interest income increasing 17%. During this challenging interest rate environment, Timberland's net interest margin remained solid at 4.36% for the current quarter, an increase of 13 basis points from the 4.23% reported for the quarter ended June 30, 2008 and a decrease of 24 basis points from the 4.60% reported for the quarter ended September 30, 2007. For fiscal 2008 Timberland's net interest margin was 4.41% compared to 4.69% for fiscal 2007.

In the fourth fiscal quarter Timberland made a provision of \$1.5 million to its allowance for loan losses, up from \$500,000 in the quarter immediately prior and \$270,000 in the like quarter in the prior fiscal year. Net

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charge-offs for the quarter ended September 30, 2008 totaled \$526,000, compared to \$121,000 in the immediately prior quarter and \$2,000 in the like quarter one year ago. Total net charge-offs in fiscal 2008 were \$648,000 compared to \$11,000 in fiscal 2007.

Non-interest income increased 30% to \$2.0 million for the fourth fiscal quarter from \$1.6 million for the fourth quarter of fiscal 2007, primarily due to increased service charges on deposits. "We continue to benefit from the overdraft decisioning software installed this year," stated Sand. For fiscal 2008 non-interest income (excluding the non-recurring impairment charge incurred in June 2008) increased 17% to \$7.0 million from \$6.0 million for fiscal 2007.

Timberland's total operating (non-interest) expenses increased by \$543,000 to \$5.40 million for the fourth fiscal quarter from \$4.85 million for the fourth quarter of fiscal 2007 primarily due to a \$228,000 increase in salaries and employee benefits expense, a \$224,000 increase in deposit related expenses and an \$86,000 increase in professional fees. The increased salary and benefit expense was primarily the result of annual salary adjustments (effective October 1, 2007) and increased employee insurance expenses. The increased deposit related expenses were primarily a result of expenses associated with several new deposit related programs implemented during the year and an increase in FDIC insurance expense recorded as the Bank's credit with the FDIC was fully depleted during the quarter ended June 30, 2008. Timberland's fiscal 2008 total operating expenses increased 5% to \$20.4 million from \$19.5 million for fiscal year 2007 primarily due to increased salaries and employee benefits expense and increased deposit related expenses. Timberland's efficiency ratio was 60.96% for the quarter ended September 30, 2008 compared to 58.47% for the quarter ended September 30, 2007. Timberland's efficiency ratio (excluding the non-recurring impairment charge) was 60.06% for the year ended September 30, 2008 compared to 60.54% for the year ended September 30, 2007.

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.

Timberland Q4 Earnings

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### TIMBERLAND BANCORP INC. AND SUBSIDIARIES

#### CONSOLIDATED INCOME STATEMENT

| (\$ in thousands, except per share)<br>(unaudited)                    | Three Months Ended |                  |                   |
|---|--------------------|------------------|-------------------|
|   | Sept. 30,<br>2008  | June 30,<br>2008 | Sept. 30,<br>2007 |
|   | -----              | -----            | -----             |
| Interest and dividend income  |                    |                  |                   |
| Loans receivable  | \$ 9,977           | \$ 9,825         | \$ 10,335         |
| Investments and mortgage-backed securities                            | 439                | 235              | 344               |
| Dividends from mutual funds and Federal Home Loan Bank ("FHLB") stock | 33                 | 272              | 433               |
| Federal funds sold  | 104                | 28               | 69                |
| Interest bearing deposits in banks                                    | 14                 | 8                | 16                |
|   | -----              | -----            | -----             |

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Total interest and dividend income                     | 10,567    | 10,368    | 11,197    |
| Interest expense                                       |           |           |           |
| Deposits   | 2,609     | 2,703     | 3,180     |
| FHLB advances  | 1,121     | 1,161     | 1,262     |
| Other borrowings                                       | 2         | 4         | 11        |
|  | -----     | -----     | -----     |
| Total interest expense                                 | 3,732     | 3,868     | 4,453     |
|  | -----     | -----     | -----     |
| Net interest income                                    | 6,835     | 6,500     | 6,744     |
| Provision for loan losses                              | 1,500     | 500       | 270       |
|  | -----     | -----     | -----     |
| Net interest income after provision<br>for loan losses | 5,335     | 6,000     | 6,474     |
| Non-interest income                                    |           |           |           |
| Service charges on deposits                            | 1,201     | 948       | 715       |
| Gain on sale of loans, net                             | 68        | 127       | 106       |
| Loss on redemption of mutual funds                     | --        | (2,822)   | --        |
| Bank owned life insurance ("BOLI") net<br>earnings     | 126       | 121       | 120       |
| Servicing income on loans sold                         | 138       | 234       | 133       |
| ATM transaction fees                                   | 321       | 329       | 307       |
| Other  | 165       | 170       | 176       |
|  | -----     | -----     | -----     |
| Total non-interest income (loss)                       | 2,019     | (893)     | 1,557     |
| Non-interest expense                                   |           |           |           |
| Salaries and employee benefits                         | 2,852     | 2,812     | 2,624     |
| Premises and equipment                                 | 674       | 519       | 625       |
| Advertising  | 218       | 228       | 274       |
| Loss (gain) from other real estate<br>operations       | (4)       | --        | 1         |
| ATM expenses   | 150       | 136       | 143       |
| Postage and courier                                    | 138       | 129       | 131       |
| Amortization of core deposit intangible                | 62        | 62        | 71        |
| State and local taxes                                  | 175       | 149       | 152       |
| Professional fees                                      | 211       | 175       | 125       |
| Other  | 921       | 709       | 708       |
|  | -----     | -----     | -----     |
| Total non-interest expense                             | 5,397     | 4,919     | 4,854     |
| Income before federal income taxes                     | 1,957     | 188       | 3,177     |
| Federal income taxes                                   | 607       | 734       | 1,022     |
|  | -----     | -----     | -----     |
| Net income (loss)                                      | \$ 1,350  | \$ (546)  | \$ 2,155  |
|  | =====     | =====     | =====     |
| Earnings (loss) per common share:                      |           |           |           |
| Basic  | \$ 0.21   | \$ (0.08) | \$ 0.33   |
| Diluted  | \$ 0.21   | \$ (0.08) | \$ 0.32   |
| Weighted average shares outstanding:                   |           |           |           |
| Basic  | 6,475,385 | 6,446,303 | 6,516,381 |
| Diluted  | 6,570,492 | 6,524,818 | 6,690,048 |



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### TIMBERLAND BANCORP INC. AND SUBSIDIARIES CONSOLIDATED INCOME STATEMENT

|   | Year Ended                     |                           |                           |
|---|--------------------------------|---------------------------|---------------------------|
| (\$ in thousands, except per share)<br>(unaudited)  | Non-GAAP*<br>Sept. 30,<br>2008 | GAAP<br>Sept. 30,<br>2008 | GAAP<br>Sept. 30,<br>2007 |
|   |                                |                           |                           |
| Interest and dividend income                        |                                |                           |                           |
| Loans receivable                                    | \$ 40,924                      | \$ 40,924                 | \$ 38,386                 |
| Investments and mortgage-backed securities          | 1,064                          | 1,064                     | 1,529                     |
| Dividends from mutual funds and FHLB stock          | 1,123                          | 1,123                     | 1,692                     |
| Federal funds sold                                  | 191                            | 191                       | 260                       |
| Interest bearing deposits in banks                  | 36                             | 36                        | 77                        |
|   |                                |                           |                           |
| Total interest and dividend income                  | 43,338                         | 43,338                    | 41,944                    |
| Interest expense                                    |                                |                           |                           |
| Deposits  | 11,763                         | 11,763                    | 11,292                    |
| FHLB advances                                       | 4,628                          | 4,628                     | 4,437                     |
| Other borrowings                                    | 22                             | 22                        | 49                        |
|   |                                |                           |                           |
| Total interest expense                              | 16,413                         | 16,413                    | 15,778                    |
|   |                                |                           |                           |
| Net interest income                                 | 26,925                         | 26,925                    | 26,166                    |
| Provision for loan losses                           | 3,900                          | 3,900                     | 686                       |
|   |                                |                           |                           |
| Net interest income after provision for loan losses | 23,025                         | 23,025                    | 25,480                    |
| Non-interest income                                 |                                |                           |                           |
| Service charges on deposits                         | 3,493                          | 3,493                     | 2,776                     |
| Gain on sale of loans, net                          | 432                            | 432                       | 356                       |
| Loss on redemption of mutual funds                  | --                             | (2,822)                   | --                        |
| BOLI net earnings                                   | 486                            | 486                       | 464                       |
| Servicing income on loans sold                      | 669                            | 669                       | 505                       |
| ATM transaction fees                                | 1,251                          | 1,251                     | 1,138                     |
| Other   | 669                            | 669                       | 723                       |
|   |                                |                           |                           |
| Total non-interest income                           | 7,000                          | 4,178                     | 5,962                     |
| Non-interest expense                                |                                |                           |                           |
| Salaries and employee benefits                      | 11,569                         | 11,569                    | 10,928                    |
| Premises and equipment                              | 2,307                          | 2,307                     | 2,452                     |
| Advertising   | 897                            | 897                       | 843                       |
| Loss (gain) from other real estate operations       | (3)                            | (3)                       | (13)                      |
| ATM expenses  | 576                            | 576                       | 497                       |
| Postage and courier                                 | 514                            | 514                       | 478                       |
| Amortization of core deposit intangible             | 249                            | 249                       | 285                       |
| State and local taxes                               | 622                            | 622                       | 571                       |
| Professional fees                                   | 678                            | 678                       | 650                       |
| Other   | 2,965                          | 2,965                     | 2,760                     |
|   |                                |                           |                           |
| Total non-interest expense                          | 20,374                         | 20,374                    | 19,451                    |
| Income before federal income taxes                  | 9,651                          | 6,829                     | 11,991                    |
| Federal income taxes                                | 3,055                          | 2,824                     | 3,828                     |
|   |                                |                           |                           |
| Net income  | \$ 6,596                       | \$ 4,005                  | \$ 8,163                  |
|   |                                |                           |                           |

Earnings per common share:

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|  |           |           |           |
|--|-----------|-----------|-----------|
| Basic  | \$ 1.02   | \$ 0.62   | \$ 1.20   |
| Diluted  | \$ 1.00   | \$ 0.61   | \$ 1.17   |
| Weighted average shares outstanding:   |           |           |           |
| Basic  | 6,475,385 | 6,475,385 | 6,775,822 |
| Diluted  | 6,570,492 | 6,570,492 | 6,982,107 |
| * 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)

|  | Sept. 30,<br>2008 | June 30,<br>2008 | Sept. 30,<br>2007 |
|--|-------------------|------------------|-------------------|
| Assets   | -----             | -----            | -----             |
| Cash and due from financial institutions:                    |                   |                  |                   |
| Non-interest bearing   | \$ 14,013         | \$ 14,776        | \$ 10,813         |
| Interest-bearing deposits in banks                           | 3,431             | 3,196            | 2,082             |
| Federal funds sold   | 25,430            | 5,565            | 3,775             |
|  | -----             | -----            | -----             |
|  | 42,874            | 23,537           | 16,670            |
| Investments and mortgage-backed securities:                  |                   |                  |                   |
| Held to maturity   | 14,233            | 14,684           | 71                |
| Available for sale   | 17,098            | 18,828           | 63,898            |
| FHLB stock   | 5,705             | 5,705            | 5,705             |
|  | -----             | -----            | -----             |
|  | 37,036            | 39,217           | 69,674            |
| Loans receivable   | 563,964           | 562,664          | 519,381           |
| Loans held for sale  | 1,773             | 1,065            | 757               |
| Less: Allowance for loan losses                              | (8,050)           | (7,076)          | (4,797)           |
|  | -----             | -----            | -----             |
| Net loans receivable   | 557,687           | 556,653          | 515,341           |
| Accrued interest receivable                                  | 2,870             | 2,932            | 3,424             |
| Premises and equipment                                       | 16,884            | 16,286           | 16,575            |
| Other real estate owned ("OREO") and other repossessed items | 511               | 879              | --                |
| BOLI   | 12,902            | 12,775           | 12,415            |
| Goodwill   | 5,650             | 5,650            | 5,650             |
| Core deposit intangible                                      | 972               | 1,034            | 1,221             |
| Mortgage servicing rights                                    | 1,306             | 1,277            | 1,051             |
| Other assets   | 3,191             | 3,514            | 2,827             |
|  | -----             | -----            | -----             |
| Total Assets   | \$ 681,883        | \$ 663,754       | \$ 644,848        |
|  | =====             | =====            | =====             |
| Liabilities and Shareholders' Equity                         |                   |                  |                   |
| Non-interest-bearing deposits                                | \$ 51,955         | \$ 50,697        | \$ 54,962         |

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|   |            |            |            |
|---|------------|------------|------------|
| Interest-bearing deposits                                     | 446,617    | 429,237    | 411,773    |
|   | -----      | -----      | -----      |
| Total deposits  | 498,572    | 479,934    | 466,735    |
| FHLB advances   | 104,628    | 104,645    | 99,697     |
| Other borrowings: repurchase agreements                       | 758        | 1,007      | 595        |
| Other liabilities and accrued expenses                        | 3,084      | 3,393      | 3,274      |
|   | -----      | -----      | -----      |
| Total Liabilities   | 607,042    | 588,979    | 570,301    |
|   | -----      | -----      | -----      |
| Shareholders' Equity  |            |            |            |
| Common stock - \$.01 par value; 50,000,000 shares authorized; |            |            |            |
| Sept. 30, 2008 - 6,967,579 shares issued and outstanding      |            |            |            |
| June 30, 2008 - 6,901,453 shares issued and outstanding       |            |            |            |
| Sept. 30, 2007 - 6,953,360 shares issued and outstanding      |            |            |            |
|   | 70         | 69         | 70         |
| Additional paid in capital                                    | 8,602      | 8,706      | 9,923      |
| Unearned shares - Employee Stock Ownership Plan               | (2,776)    | (2,842)    | (3,040)    |
| Retained earnings   | 69,406     | 68,822     | 68,378     |
| Accumulated other comprehensive income (loss)                 | (461)      | 20         | (784)      |
|   | -----      | -----      | -----      |
| Total Shareholders' Equity                                    | 74,841     | 74,775     | 74,547     |
|   | -----      | -----      | -----      |
| Total Liabilities and Shareholders' Equity                    | \$ 681,883 | \$ 663,754 | \$ 644,848 |
|   | =====      | =====      | =====      |

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### KEY FINANCIAL RATIOS AND DATA

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

|                                     | Three Months Ended        |                                      |                          |                           |
|-------------------------------------|---------------------------|--------------------------------------|--------------------------|---------------------------|
|                                     | GAAP<br>Sept. 30,<br>2008 | Core Results<br>June 30,<br>2008 (a) | GAAP<br>June 30,<br>2008 | GAAP<br>Sept. 30,<br>2007 |
|                                     | -----                     | -----                                | -----                    | -----                     |
| PERFORMANCE RATIOS:                 |                           |                                      |                          |                           |
| Return (loss) on average assets (b) | 0.80%                     | 1.24%                                | (0.33%)                  | 1.36%                     |
| Return (loss) on average equity (b) | 7.22%                     | 10.91%                               | (2.91%)                  | 11.66%                    |
| Net interest margin (b)             | 4.36%                     | 4.23%                                | 4.23%                    | 4.60%                     |
| Efficiency ratio                    | 60.96%                    | 58.36%                               | 87.73%                   | 58.47%                    |
|                                     | Year Ended                |                                      |                          |                           |
|                                     | -----                     | -----                                | -----                    | -----                     |

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|                              | Core Results | GAAP      | GAAP      |
|------------------------------|--------------|-----------|-----------|
|                              | Sept. 30,    | Sept. 30, | Sept. 30, |
|                              | 2008 (a)     | 2008      | 2007      |
|                              | -----        | -----     | -----     |
| Return on average assets (b) | 1.00%        | 0.61%     | 1.34%     |
| Return on average equity (b) | 8.81%        | 5.35%     | 10.67%    |
| Net interest margin (b)      | 4.41%        | 4.41%     | 4.69%     |
| Efficiency ratio             | 60.06%       | 65.50%    | 60.54%    |

|   | Sept. 30, | June 30,  | Sept. 30, |
|---|-----------|-----------|-----------|
|   | 2008      | 2008      | 2007      |
|   | -----     | -----     | -----     |
| ASSET QUALITY RATIOS:                             |           |           |           |
| Non-performing loans                              | \$ 11,990 | \$ 9,391  | \$ 1,490  |
| OREO and other repossessed assets                 | 511       | 879       | --        |
|   | -----     | -----     | -----     |
| Total non-performing assets                       | \$ 12,501 | \$ 10,270 | \$ 1,490  |
| Non-performing assets to total assets             | 1.83%     | 1.55%     | 0.23%     |
| Allowance for loan losses to non-performing loans | 67%       | 75%       | 322%      |
| Restructured loans                                | \$ 272    | \$ --     | \$ --     |

|                                       |          |          |          |
|---------------------------------------|----------|----------|----------|
| CAPITAL RATIOS:                       |          |          |          |
| Tier 1 leverage capital               | 10.28%   | 10.41%   | 10.73%   |
| Tier 1 risk based capital             | 12.37%   | 12.10%   | 12.73%   |
| Total risk based capital              | 13.62%   | 13.35%   | 13.64%   |
| Equity to assets                      | 10.98%   | 11.27%   | 11.56%   |
| Tangible equity to assets (e)         | 10.00%   | 10.26%   | 10.49%   |
| Book value per share (c)              | \$ 10.74 | \$ 10.83 | \$ 10.72 |
| Book value per share (d)              | \$ 11.34 | \$ 11.46 | \$ 11.39 |
| Tangible book value per share (c) (e) | \$ 9.79  | \$ 9.87  | \$ 9.73  |
| Tangible book value per share (d) (e) | \$ 10.34 | \$ 10.44 | \$ 10.34 |

(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 |            |            |
|---------------------|--------------------|------------|------------|
|                     | Sept. 30,          | June 30,   | Sept. 30,  |
|                     | 2008               | 2008       | 2007       |
|                     | -----              | -----      | -----      |
| Average total loans | \$ 564,145         | \$ 560,515 | \$ 509,166 |

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|  |         |         |         |
|--|---------|---------|---------|
| Average total interest earning assets      | 626,574 | 614,383 | 586,056 |
| Average total assets                       | 674,354 | 659,998 | 634,762 |
| Average total interest bearing deposits    | 438,496 | 415,495 | 405,078 |
| Average FHLB advances and other borrowings | 106,074 | 110,903 | 96,442  |
| Average shareholders' equity               | 74,803  | 74,956  | 73,916  |

|  | Year Ended        |                   |
|--|-------------------|-------------------|
|  | Sept. 30,<br>2008 | Sept. 30,<br>2007 |
|  | -----             | -----             |
| Average total loans                        | \$ 552,318        | \$ 477,029        |
| Average total interest earning assets      | 611,135           | 558,298           |
| Average total assets                       | 658,221           | 607,781           |
| Average total interest bearing deposits    | 419,338           | 387,505           |
| Average FHLB advances and other borrowings | 108,858           | 85,599            |
| Average shareholders' equity               | 74,875            | 76,497            |

### 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.