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TIMBERLAND BANCORP INC
Form 8-K
July 26, 2006

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 25, 2006

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

On July 25, 2006, Timberland Bancorp, Inc. issued its earnings release

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for the quarter ended June 30, 2006. 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 June 25, 2006

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 25, 2006

By: /s/Dean J. Brydon

Dean J. Brydon
Chief Financial Officer

Exhibit 99.1

Timberland Bancorp, Inc. Announces Record Earnings

PRESS RELEASE: FOR IMMEDIATE PUBLICATION

For further information contact: Michael R. Sand, President & CEO
Dean J. Brydon, CFO
At (360) 533-4747

Timberland Bancorp, Inc. Announces Record Earnings

- * Net Income Increases by 12%
- * Diluted Earnings Per Share Increases by 10%
- * Quarterly Dividend Increases by 13%

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HOQUIAM, Wash. -July 25, 2006--Timberland Bancorp, Inc. Timberland Bancorp, Inc. (NASDAQ:TSBK - News), ("Company") the holding company for Timberland Bank, ("Bank"), today reported record net income of \$2.06 million, or \$0.56 per diluted share, for the quarter ended June 30, 2006. This compares to net income of \$1.84 million, or \$0.51 per diluted share that the Company earned for the quarter ended June 30, 2005. The increased earnings per share was primarily a result of increased net interest income.

"We are pleased to announce increases of 12% and 10% respectively in the Company's net income and diluted earnings per share when compared to the same period in the prior fiscal year," stated Michael Sand, Timberland's President and CEO. "We were also pleased to announce the 13% increase in the quarterly dividend to \$0.18 per share as well as the addition of Robert Drugge and John Norawong to Timberland's management team. Robert and John's experience working with significant loan relationships and their management capabilities will assist in the future growth of the Company," Sand also stated.

Robert Drugge was hired to oversee the Bank's expanding business banking presence in Pierce, Kitsap and southern King Counties. He brings nearly 20 years of in-market experience most recently managing relationships with companies having sales between \$10 million and \$2 billion. Bob's lending and management expertise have been shaped by his career affiliation with Seafirst and its successor, the Bank of America.

John Norawong will manage the Bank's mortgage lending operations. Mr. Norawong comes to Timberland after serving seven years with KeyBank where he was most recently Senior Vice President and Department Manager. During his tenure with KeyBank Mr. Norawong managed all aspects of Corporate Banking activities in Tacoma, Washington. Concurrent with his responsibilities in Tacoma he established and managed a new commercial banking team for KeyBank in San Francisco, California, to serve the California market. "These two individuals will complement and strengthen our existing management team and we are pleased to have them associated with Timberland Bank," Sand further stated.

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 and nine months ended June 30, 2006 and 2005
(Dollars in thousands, except per share data)
(Unaudited)

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|-----------------------------|---------|----------------------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| Interest and dividend income | | | | |
| Loans receivable | \$8,036 | \$7,170 | \$23,144 | \$20,271 |
| Investments and mortgage-backed securities | 529 | 550 | 1,642 | 1,459 |
| Dividends | 370 | 270 | 1,036 | 788 |
| Federal funds sold | 121 | 34 | 292 | 196 |
| Interest bearing deposits in banks | 18 | 13 | 54 | 56 |
| Total interest and dividend income | 9,074 | 8,037 | 26,168 | 22,770 |
| Interest expense | | | | |
| Deposits | 2,058 | 1,382 | 5,554 | 3,819 |
| Federal Home Loan Bank ("FHLB") advances | 718 | 839 | 2,201 | 2,325 |
| Other borrowings | 10 | 7 | 36 | 22 |
| Total interest expense | 2,786 | 2,228 | 7,791 | 6,166 |
| Net interest income | 6,288 | 5,809 | 18,377 | 16,604 |
| Provision for loan losses | -- | 96 | -- | 116 |
| Net interest income after provision for loan losses | 6,288 | 5,713 | 18,377 | 16,488 |
| Non-interest income | | | | |
| Service charges on deposits | 769 | 723 | 2,226 | 2,062 |
| Gain on sale of loans, net | 60 | 181 | 264 | 613 |
| BOLI net earnings | 112 | 111 | 333 | 320 |
| Escrow fees | 32 | 38 | 87 | 97 |
| Servicing income on loans sold | 80 | 110 | 266 | 199 |
| ATM transaction fees | 266 | 223 | 742 | 632 |
| Other | 209 | 162 | 674 | 503 |
| Total non-interest income | 1,528 | 1,548 | 4,592 | 4,426 |
| Non-interest expense | | | | |
| Salaries and employee benefits | 2,727 | 2,528 | 8,095 | 7,726 |

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| | | | | |
|---|-----------|-----------|-----------|-----------|
| Premises and equipment | 589 | 597 | 1,828 | 1,675 |
| Advertising | 185 | 187 | 501 | 565 |
| Loss (gain) from real estate operations | (1) | 19 | (93) | (11) |
| ATM expenses | 105 | 134 | 299 | 350 |
| Postage and courier | 123 | 80 | 370 | 381 |
| Amortization of core deposit intangible | 82 | 94 | 246 | 273 |
| State and local taxes | 138 | 116 | 427 | 322 |
| Professional fees | 222 | 133 | 611 | 496 |
| Other | 621 | 577 | 1,863 | 2,119 |
| | ----- | | | |
| Total non-interest expense | 4,791 | 4,465 | 14,147 | 13,896 |
| Income before federal income taxes | 3,025 | 2,796 | 8,822 | 7,018 |
| Federal income taxes | 964 | 961 | 2,809 | 2,238 |
| | ----- | | | |
| Net income | \$2,061 | \$1,835 | \$6,013 | \$4,780 |
| | ===== | | | |
| Earnings per common share: | | | | |
| Basic | \$0.58 | \$0.54 | \$1.70 | \$1.37 |
| Diluted | \$0.56 | \$0.51 | \$1.65 | \$1.31 |
| Weighted average shares outstanding: | | | | |
| Basic | 3,570,850 | 3,415,644 | 3,529,058 | 3,486,589 |
| Diluted | 3,691,438 | 3,574,410 | 3,652,502 | 3,645,658 |

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
June 30, 2006 and September 30, 2005
(Dollars in thousands)

| ASSETS | June 30, 2006 | September 30, 2005 |
|---|------------------|-----------------------|
| | ----- | |
| Cash and due from financial institutions | (Unaudited) | |
| Non-interest bearing | \$13,720 | \$ 20,015 |
| Interest-bearing deposits in banks | 2,565 | 3,068 |
| Federal funds sold | 10,450 | 5,635 |
| | ----- | |
| | 26,735 | 28,718 |
| Investments and mortgage-backed securities: | | |
| Held to maturity | 86 | 104 |
| Available for sale | 84,822 | 89,595 |
| FHLB stock | 5,705 | 5,705 |
| | ----- | |
| | 90,613 | 95,404 |
| Loans receivable | 401,014 | 389,853 |

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| | | |
|---|-----------|-----------|
| Loans held for sale | 1,024 | 2,355 |
| Less: Allowance for loan losses | (4,120) | (4,099) |
| | ----- | ----- |
| Net loans receivable | 397,918 | 388,109 |
| Accrued interest receivable | 2,416 | 2,294 |
| Premises and equipment | 16,416 | 15,862 |
| Real estate owned ("REO") and other repossessed items | 112 | 509 |
| Bank owned life insurance ("BOLI") | 11,835 | 11,502 |
| Goodwill | 5,650 | 5,650 |
| Core deposit intangible | 1,588 | 1,834 |
| Mortgage servicing rights | 888 | 928 |
| Other assets | 2,373 | 1,955 |
| | ----- | ----- |
| TOTAL ASSETS | \$556,544 | \$552,765 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Non-interest-bearing deposits | \$54,372 | \$51,791 |
| Interest-bearing deposits | 365,012 | 359,874 |
| | ----- | ----- |
| Total deposits | 419,384 | 411,665 |
| FHLB advances | 53,776 | 62,353 |
| Other borrowings: repurchase agreements | 1,152 | 781 |
| Other liabilities and accrued expenses | 3,409 | 3,324 |
| | ----- | ----- |
| TOTAL LIABILITIES | 477,721 | 478,123 |
| | ----- | ----- |
| SHAREHOLDERS' EQUITY | | |
| Common stock - \$.01 par value; 50,000,000 shares authorized; June 30, 2006 - 3,785,576 shares issued and outstanding September 30, 2005 - 3,759,937 shares issued and outstanding | 38 | 38 |
| Additional paid in capital | 22,111 | 22,040 |
| Unearned shares - Employee Stock Ownership Plan ("ESOP") | (3,437) | (3,833) |
| Retained earnings | 61,471 | 57,268 |
| Accumulated other comprehensive loss | (1,360) | (871) |
| | ----- | ----- |
| TOTAL SHAREHOLDERS' EQUITY | 78,823 | 74,642 |
| | ----- | ----- |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$556,544 | \$552,765 |
| | ===== | ===== |

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

| | |
|-----------------------------|----------------------------|
| Three Months Ended June 30, | Nine Months Ended June 30, |
| 2006 | 2006 |
| 2005 | 2005 |

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PERFORMANCE RATIOS:

| | | | | |
|------------------------------|--------|--------|--------|--------|
| Return on average assets (1) | 1.49% | 1.35% | 1.45% | 1.20% |
| Return on average equity (1) | 10.57% | 10.19% | 10.48% | 8.77% |
| Net interest margin (1) | 5.00% | 4.74% | 4.90% | 4.62% |
| Efficiency ratio | 61.30% | 60.69% | 61.59% | 66.08% |

June 30, 2006 September 30, 2005

ASSET QUALITY RATIOS:

| | | |
|---|---------|---------|
| Non-performing loans | \$1,935 | \$2,926 |
| REO & other repossessed assets | 112 | 509 |
| Total non-performing assets | \$2,047 | \$3,435 |
| Non-performing assets to total assets | 0.37% | 0.62% |
| Allowance for loan losses to non-performing loans | 212.92% | 140.09% |
| Book value per share (2) | \$20.82 | \$19.85 |
| Book value per share (3) | \$22.16 | \$21.30 |
| Tangible book value per share (2) (4) | \$18.91 | \$17.86 |
| Tangible book value per share (3) (4) | \$20.13 | \$19.16 |

(1) Annualized

(2) Calculation includes ESOP shares not committed to be released

(3) Calculation excludes ESOP shares not committed to be released

(4) Calculation subtracts goodwill and core deposit intangible from the equity component

Three Months Ended June 30, 2006 2005 Nine Months Ended June 30, 2006 2005

AVERAGE BALANCE SHEET:

| | | | | |
|--|-----------|-----------|-----------|-----------|
| Average total loans | \$399,849 | \$385,592 | \$396,141 | \$372,183 |
| Average total interest earning assets | 502,804 | 490,359 | 499,624 | 479,551 |
| Average total assets | 554,716 | 544,149 | 552,100 | 532,025 |
| Average total interest bearing deposits | 366,228 | 355,367 | 363,246 | 353,622 |
| Average FHLB advances & other borrowings | 55,597 | 68,345 | 58,218 | 59,455 |
| Average shareholders' equity | 77,969 | 72,027 | 76,478 | 72,708 |

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Total Assets: Total assets increased \$3.77 million to \$556.54 million at June 30, 2006, from \$552.77 million at September 30, 2005, primarily due to a \$9.81 million increase in net loans receivable. This increase was partially offset by a \$4.79 million decrease in investment securities and a \$1.98 million decrease in cash and due from financial institutions.

Investments: Investment securities decreased by \$4.79 million to \$90.61 million at June 30, 2006, from \$95.40 million at September 30, 2005, due to regular amortization and prepayments on mortgage-backed securities.

Loans: Net loans receivable increased by \$9.81 million to \$397.92 million at June 30, 2006, from \$388.11 million at September 30, 2005. The increase in the portfolio was primarily a result of a \$12.95 million increase in construction loans (net of undisbursed portion), a \$4.55 million increase in consumer loans, and a \$4.28 million increase in land loans. Partially offsetting these increases were decreases of \$5.94 million in one-to-four family mortgage loans, \$2.88 million in commercial real estate loans, \$1.86 million commercial business loans, and \$1.59 million in multi-family loans.

Loan demand remained strong as loan originations totaled \$60.06 million and \$169.82 million for the three and nine months ended June 30, 2006, compared to \$58.25 million and \$168.63 million for the three and nine months ended June 30, 2005. The Bank also continued to sell longer-term fixed rate loans for asset liability management purposes. The Bank sold fixed rate one-to-four family mortgage loans totaling \$4.54 million and \$17.60 million for the three and nine months ended June 30, 2006, compared to \$8.30 million and \$16.26 million for the three and nine months ended June 30, 2005.

Deposits: Deposits increased by \$7.71 million to \$419.38 million at June 30, 2006, from \$411.67 million at September 30, 2005. The deposit increase was primarily due to a \$21.65 million increase in certificate of deposit accounts and a \$2.58 million increase in non-interest bearing accounts. These increases were partially offset by decreases of \$11.33 million in money market accounts, \$3.40 million in savings accounts, and \$1.78 million in N.O.W. checking accounts.

Shareholders' Equity: Total shareholders' equity increased by \$4.18 million to \$78.82 million at June 30, 2006, from \$74.64 million at September 30, 2005, primarily due to net income of \$6.01 million and a \$1.82 million increase in additional paid in capital from the exercise of stock options and vesting associated with the Company's benefit plans. Also increasing shareholders' equity was a decrease of \$396,000 in the equity component related to unearned shares issued to the Employee Stock Ownership Plan. Partially offsetting these increases to shareholders' equity were the payment of \$1.81 million in dividends to shareholders, the repurchase of 58,200 shares of the Company's stock for \$1.75 million, and a \$489,000 increase in accumulated other comprehensive loss.

On April 7, 2005, the Company announced a plan to repurchase up to 5% of the Company's outstanding shares, or 187,955 shares. This represents the Company's 13th stock repurchase plan. As of June 30, 2006, the Company had repurchased 86,050 of these shares at an average price of \$27.79. During the quarter ended June 30, 2006, the Company purchased 50,000 shares at an average price of \$31.06. Cumulatively the Company has repurchased 3,425,321 (51.8%) of the 6,612,500 shares that were issued when the Company went public in January 1998. The 3,425,321 shares have been repurchased at an average price of \$15.64 per share.

Comparison of Operating Results for the Three and Nine Months Ended June 30, 2006 and 2005

Net Income: Net income for the quarter ended June 30, 2006, increased to \$2.06 million, or \$0.56 per diluted share (\$0.58 per basic share) from \$1.84

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million, or \$0.51 per diluted share (\$0.54 per basic share) for the quarter ended June 30, 2005. The \$0.05 increase in diluted earnings per share for the quarter ended June 30, 2006, was primarily a result of a \$575,000 (\$380,000 net of income tax -- \$0.11 per diluted share) increase in net interest income after provision for loan losses. This increase was partially offset by a \$326,000 (\$215,000 net of income tax -- \$0.06 per diluted share) increase in non-interest expense.

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Net income for the nine months ended June 30, 2006, increased \$1.23 million to \$6.01 million, or \$1.65 per diluted share (\$1.70 per basic share) from \$4.78 million, or \$1.31 per diluted share (\$1.37 per basic share) for the nine months ended June 30, 2005. The \$0.34 increase in diluted earnings per share for the nine months ended June 30, 2006, was primarily the result of a \$1.89 million (\$1.25 million net of income tax -- \$0.35 per diluted share) increase in net interest income after provision for loan losses and a \$166,000 (\$110,000 net of income tax -- \$0.03 per diluted share) increase in non-interest income. These items were partially offset by a \$251,000 (\$166,000 net of income tax -- \$0.04 per diluted share) increase in non-interest expense.

Net Interest Income: Net interest income increased \$479,000 to \$6.29 million for the quarter ended June 30, 2006, from \$5.81 million for the quarter ended June 30, 2005, primarily due to a larger interest earning asset base and the collection of \$216,000 in prepayment penalties on two participation loans that paid off during the current quarter. The prepayment penalties were recorded as interest income and contributed 17 basis points to the quarterly net interest margin. Total interest income increased \$1.03 million to \$9.07 million for the quarter ended June 30, 2006, from \$8.04 million for the quarter ended June 30, 2005, as average total interest earning assets increased by \$12.45 million. The yield on interest earning assets increased to 7.22% for the quarter ended June 30, 2006, from 6.56% for the quarter ended June 30, 2005. Total interest expense increased by \$558,000 to \$2.79 million for the quarter ended June 30, 2006, from \$2.23 million for the quarter ended June 30, 2005, as the average rate paid on interest bearing liabilities increased to 2.65% for the quarter ended June 30, 2006, from 2.10% for the quarter ended June 30, 2005. Partially offsetting the increased rate on interest-bearing liabilities was a \$1.89 million decrease in the average balance of interest-bearing liabilities during the current quarter. The net interest margin increased to 5.00% for the quarter ended June 30, 2006 from 4.74% for the quarter ended June 30, 2005.

Net interest income increased \$1.78 million to \$18.38 million for the nine months ended June 30, 2006, from \$16.60 million for the nine months ended June 30, 2005, primarily due to a larger interest earning asset base and an increase in the Company's interest rate spread. Total interest income increased \$3.40 million to \$26.17 million for the nine months ended June 30, 2006, from \$22.77 million for the nine months ended June 30, 2005, as average total interest earning assets increased by \$20.07 million. The yield on interest earning assets was 6.98% for the nine months ended June 30, 2006, compared to 6.33% for the nine months ended June 30, 2005. Total interest expense increased by \$1.63 million to \$7.79 million for the nine months ended June 30, 2006, from \$6.17 million for the nine months ended June 30, 2005, as average interest bearing liabilities increased by \$8.39 million. The average rate paid on interest bearing liabilities increased to 2.47% for the nine months ended June 30, 2006, from 2.00% for the nine months ended June 30, 2005. The net interest margin increased to 4.90% for the nine months ended June 30, 2006, from 4.62% for the nine months ended June 30, 2005.

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Provision for Loan Losses: There was no provision for loan losses made during the nine months ended June 30, 2006, as credit quality remained strong. The allowance for loan losses, however, did increase during this period due to a net recovery of \$21,000. Based on its comprehensive analysis, management deemed the allowance for loan losses of \$4.12 million at June 30, 2006, (1.03% of loans receivable and 212.92% 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 \$4.01 million (1.05% of loans receivable and 137.87% of non-performing loans) at June 30, 2005. The Company had net recovery of \$1,000 for the three months ended June 30, 2006, and did not have any charge-offs for the three months ended June 30, 2005. The Company had a net recovery of \$21,000 for the nine months ended June 30, 2006, compared to a net charge-off of \$4,000 for the nine months ended June 30, 2005.

The Company's non-performing assets to total assets ratio decreased to 0.37% at June 30, 2006, from 0.39% at March 31, 2006, and 0.61% at June 30, 2005. The non-performing loan total of \$1.94 million at June 30, 2006, consisted of a \$1.36 million commercial construction loan, \$542,000 in one-to-four family mortgage loans, \$29,000 in consumer loans, and an \$8,000 land loan.

Non-interest Income: Total non-interest income decreased \$20,000 to \$1.53 million for the quarter ended June 30, 2006, from \$1.55 million for the quarter ended June 30, 2005, primarily due to \$121,000 decrease in gains on sale of loans and a \$30,000 decrease in servicing income on loans sold. These decreases were partially offset by a \$48,000 increase in fees

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from the sale of non-deposit investment products, a \$46,000 increase in service charges on deposits, and a \$43,000 increase in ATM transaction fees.

Total non-interest income increased by \$166,000 to \$4.59 million for the nine months ended June 30, 2006, from \$4.43 million for the nine months ended June 30, 2005, primarily due to a \$227,000 increase in fees from the sale of non-deposit investment products, a \$164,000 increase in service charges on deposits, and a \$110,000 increase in ATM transaction fees. These increases were partially offset by a \$349,000 decrease in gains from loan sales. Income from loan sales was larger in the period a year ago in part due to the sale of the Bank's credit card portfolio in December 2004, which resulted in a gain of \$245,000.

Non-interest Expense: Total non-interest expense increased by \$326,000 to \$4.79 million for the quarter ended June 30, 2006, from \$4.47 million for the quarter ended June 30, 2005. The increase was primarily a result of increases in salary expense, professional fees, and postage and courier expense.

Total non-interest expense increased by \$251,000 to \$14.15 million for the nine months ended June 30, 2006, from \$13.90 million for the nine months ended June 30, 2005. Non-interest expense was higher in the current year primarily due to increases in salary and benefit expense, premises and equipment expense, professional fees, and state and local taxes. The Company also began expensing stock options under SFAS 123, which became effective for the Company on October 1, 2005. Total stock option expenses of \$37,000 were recorded for the nine months ended June 30, 2006.

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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.

| | June 30, 2006 | | September 30, 2005 | |
|--|---------------|---------|--------------------|---------|
| | Amount | Percent | Amount | Percent |
| Mortgage Loans: | | | | |
| One-to-four family (1) | \$ 95,828 | 21.02% | \$ 101,763 | 23.24% |
| Multi family | 18,582 | 4.08 | 20,170 | 4.61 |
| Commercial | 121,966 | 26.75 | 124,849 | 28.51 |
| Construction and land development | 133,977 | 29.38 | 112,470 | 25.68 |
| Land | 29,259 | 6.42 | 24,981 | 5.71 |
| | ----- | ----- | ----- | ----- |
| Total mortgage loans | 399,612 | 87.65 | 384,233 | 87.75 |
| Consumer Loans: | | | | |
| Home equity and second mortgage | 35,935 | 7.88 | 32,298 | 7.38 |
| Other | 10,239 | 2.24 | 9,330 | 2.13 |
| | ----- | ----- | ----- | ----- |
| | 46,174 | 10.12 | 41,628 | 9.51 |
| Commercial business loans | 10,158 | 2.23 | 12,013 | 2.74 |
| | ----- | ----- | ----- | ----- |
| Total loans | 455,944 | 100.00% | 437,874 | 100.00% |
| Less: | | | | |
| Undisbursed portion of construction loans in process | (51,333) | | (42,771) | |
| Unearned income | (2,573) | | (2,895) | |
| Allowance for loan losses | (4,120) | | (4,099) | |
| | ----- | | ----- | |
| Total loans receivable, net | \$ 397,918 | | \$ 388,109 | |
| | ===== | | ===== | |

(1) Includes loans held-for-sale.

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

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| | June 30, 2006 | September 30, 2005 |
|---|---------------|--------------------|
| | ----- | ----- |
| Non-interest bearing | \$54,372 | \$51,792 |
| N.O.W. checking | 91,694 | 93,477 |
| Savings | 60,878 | 64,274 |
| Money market accounts | 37,962 | 49,295 |
| Certificates of deposit under \$100,000 | 125,085 | 117,618 |
| Certificates of deposit \$100,000 and over | 49,393 | 35,209 |
| | ----- | ----- |
| Total deposits | \$419,384 | \$411,665 |
| | ===== | ===== |

Timberland Bancorp, Inc. stock trades on the NASDAQ global 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, Tumwater, Yelm, Puyallup, Edgewood, Tacoma, Spanaway (Bethel Station), Gig Harbor, Poulsbo, Silverdale, Auburn, Winlock, and Toledo.

Contact:

Timberland Bancorp, Inc.
Michael Sand or Dean Brydon, 360-533-4747