Timberland Bancorp, Inc.

Annual Report 2004

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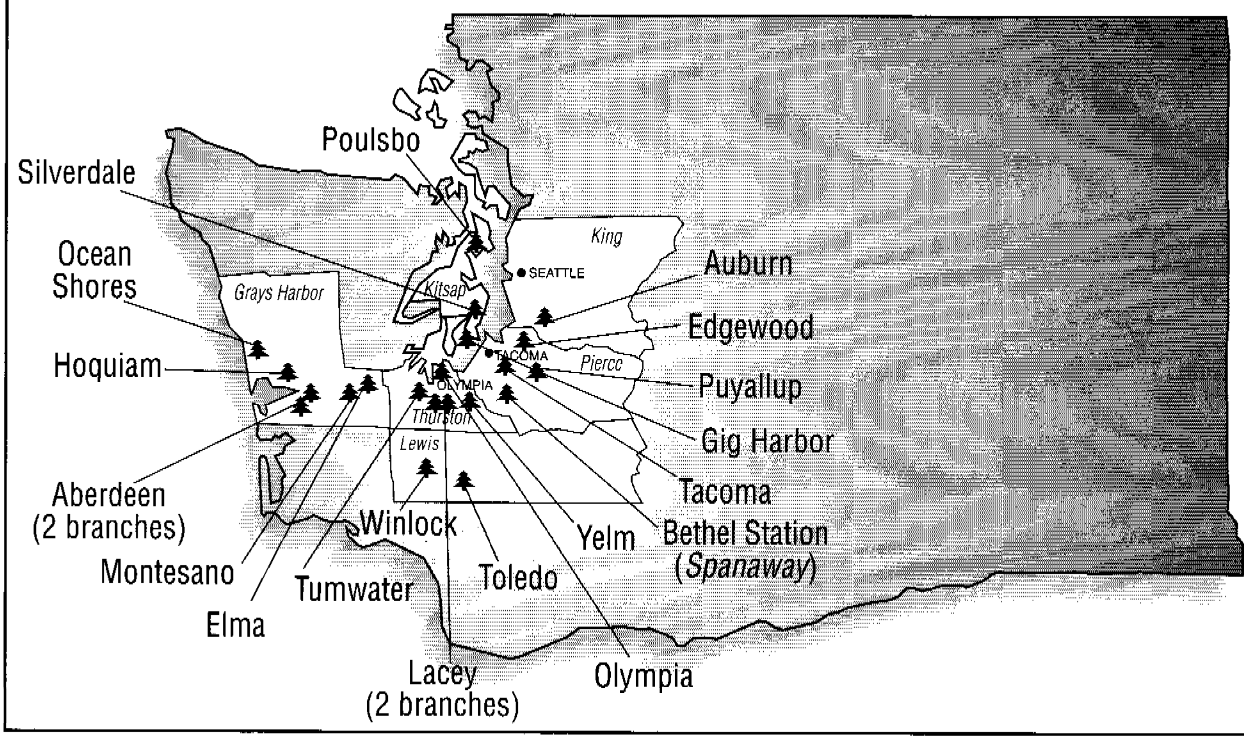
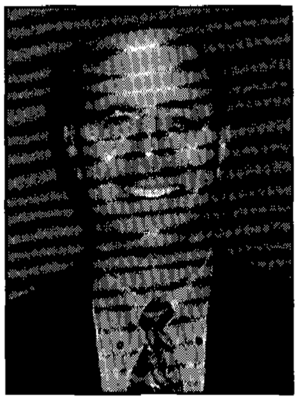
Timberland Branch Locations



Timberland Bancorp, Inc.



Michael R. Sand

Dear Fellow Shareholders of Timberland Bancorp, Inc.:

On behalf of the Directors and Employees of Timberland Bancorp, Inc. and its subsidiaries, it is my pleasure to invite you to our annual meeting which will be held January 25, 2005 at 1:00 p.m. in Hoquiam's Timberland Regional Library building. During the meeting we will discuss the financial operating results of the fiscal year, provide a question and answer period and conduct our election of Directors. For your review, the operating results are fully detailed in the Company's 10-K which is included in the following pages.

During the fiscal year we opened an office in Gig Harbor, Washington to serve the expanding western Pierce County market. We also negotiated the purchase of seven branch offices from a local competitor. The acquisition, Timberland's first since becoming a public company, was important for a number of reasons. We were able to expand the geographic reach of our branch system, consolidate two acquired branches into existing Timberland branch offices, and secure a deposit base that is comprised primarily of checking, savings and money market accounts. The branches in Winlock and Toledo allow us to have a physical presence in Lewis County where we have made loans for a number of years. The branch consolidation strengthened our offices in Montesano and in Hoquiam by adding core deposits, additional qualified staff and a larger customer base. The acquired deposit base that consisted of approximately 72% checking, savings and money market accounts is expected to reduce our cost of funding. We believe the acquisition will be accretive to earnings (net of initial transaction expenses) within one year following the full integration of the new branches into our system. The acquisition brings solid potential to generate long-term earnings growth and it complements our ongoing efforts to increase shareholder value.

The migration we made to a more technologically advanced core operating system during the prior fiscal year, along with the experiences gained through the conversion process, allowed the efficient acquisition of the seven branch offices this year. We are pleased with the opportunity to serve additional customers over a broader geographic area.

We are seeing positive trends in the Northwest economy. During our most recent quarter our loan portfolio grew by a net $10 million and our non-performing assets ratio improved to .40% from 1.15% at the end of the prior fiscal year. Deposits grew by $12 million and our net interest margin increased to 4.92%. We also increased our quarterly dividend to $.15 per share in August of this year. This represents a 7% increase from the prior dividend rate.

We hope that you will be able to join us at our annual meeting on Tuesday, January 25, 2005 at 1:00 p.m. in Hoquiam's Timberland Regional Library building.

Sincerely,

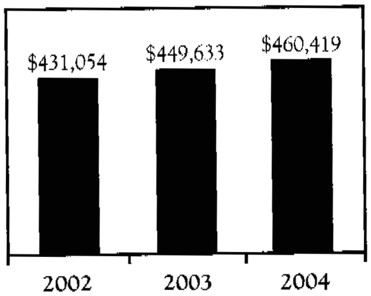
Michael R. Sand

Michael R. Sand
President and C.E.O.

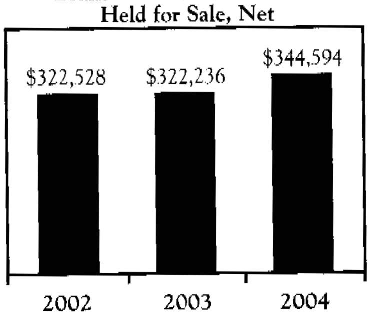
FINANCIAL HIGHLIGHTS
TIMBERLAND BANCORP, INC. AND SUBSIDIARIES

The following table presents selected financial information concerning the consolidated financial position and results of operations of Timberland Bancorp, Inc. ("Company") at and for the dates indicated. The consolidated data is derived in part from, and should be read in conjunction with, the Consolidated Financial Statements of the Company and its subsidiaries presented herein.

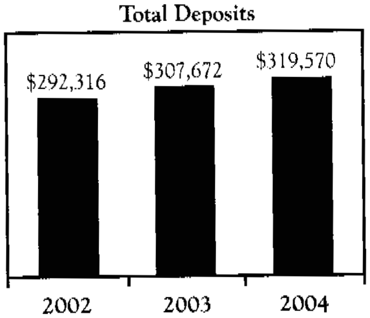
Total Assets



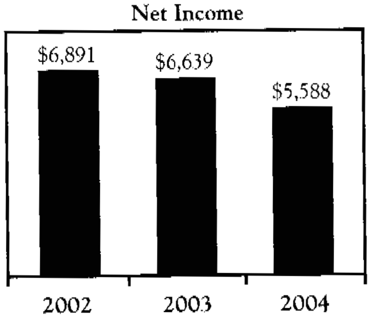
Loans Receivable and Loans Held for Sale, Net



Total Deposits



Net Income



	At September 30,		
	2004	2003	2002
	(In thousands except share data)		
SELECTED FINANCIAL DATA			
Total Assets	$ 460,419	$ 449,633	$ 431,054
Loans Receivable and Loans Held for Sale, Net	344,594	322,236	322,528
Deposits	319,570	307,672	292,316
Shareholders' Equity	72,817	77,611	74,396
OPERATING DATA			
Interest and Dividend Income	$ 26,968	$ 27,723	$ 30,263
Interest Expense	7,325	8,946	10,890
Net Interest Income	19,643	18,777	19,373
Provision for Loan Losses	167	347	992
Net Interest Income after Loan Loss Provision	19,476	18,430	18,381
Non-Interest Income	4,179	6,007	4,658
Non-Interest Expense	15,575	14,832	12,716
Income before Federal Income Taxes	8,080	9,605	10,323
Provision for Federal Income Taxes	2,492	2,966	3,342
Net Income	$ 5,588	$ 6,639	$ 6,891
EARNINGS PER COMMON SHARE			
Basic	$ 1.54	$ 1.74	$ 1.76
Diluted	$ 1.46	$ 1.66	$ 1.71
KEY FINANCIAL RATIOS			
Return on Average Assets	1.24%	1.52%	1.73%
Return on Average Equity	7.52	8.67	9.42
Net Interest Margin	4.77	4.61	5.08
Efficiency Ratio	65.38	59.85	52.91
Non-Performing Assets to Total Assets	0.40	1.15	1.03
Total Equity-to-Assets	15.82	17.26	17.26
Book Value Per Share (1)	$ 18.76	$ 18.25	$ 17.14
Book Value Per Share (2)	$ 20.28	$ 19.77	$ 18.69

(1) Calculation includes ESOP shares not committed to be released.

(2) Calculation excludes ESOP shares not committed to be released.

DIRECTORS AND OFFICERS
TIMBERLAND BANCORP, INC.

OFFICERS:

Michael R. Sand
President and Chief Executive Officer

Dean J. Brydon
Chief Financial Officer and Secretary

Marci A. Basich
Treasurer

DIRECTORS:

Clarence E. Hamre
Chairman of the Board

Michael R. Sand
President and Chief Executive Officer of Timberland Bancorp, Inc. and Timberland Bank

Andrea M. Clinton
Owner of AMC Interiors

James C. Mason
President and owner of Mason Timber Co., Mason Trucking, Mason Properties, MASCO Petroleum, and Mason Aviation

Richard R. Morris, Jr.
Retired. Former owner of Dick's Food Centers, Inc.

Jon C. Parker
Member of the law firm Parker, Johnson & Parker P.S.

Ronald A. Robbel
Retired. Certified Public Accountant most recently with Knight, Vale & Gregory

David A. Smith
Owner of Harbor Drug, Inc., a retail pharmacy

Harold L. Warren
Certified Public Accountant with Aiken and Sanders, Inc. P.S.

CORPORATE INFORMATION

MAIN OFFICE

624 Simpson Avenue
P.O. Box 697
Hoquiam, Washington 98550
Telephone: (360) 533-4747

INDEPENDENT AUDITORS

McGladrey & Pullen, LLP
Tacoma, Washington

GENERAL COUNSEL

Parker, Johnson & Parker PS
Hoquiam, Washington

SPECIAL COUNSEL

Breyer & Associates PC
McLean, Virginia

TRANSFER AGENT

For shareholder inquiries concerning dividend checks, transferring ownership, address changes or lost or stolen certificates please contact our transfer agent:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038
(800) 937-5449

ANNUAL MEETING

The Annual Meeting of Shareholders will be held at the Hoquiam Timberland Library, 420 7th Street, Hoquiam, Washington on Tuesday, January 25, 2005 at 1:00 p.m., Pacific Time.

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2004 FORM 10-K

We have included our Form 10-K, as filed with the Securities and Exchange Commission, with our annual report to give you more complete information about our Company. A table of contents can be found facing page one.

Written requests to obtain a copy of any exhibit listed in Part IV should be sent to Timberland Bancorp, Inc., P.O. Box 697, Hoquiam, Washington 98550, attention: Investor Relations Department.

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www.timberlandbank.com

Hoquiam
624 Simpson Ave.
Hoquiam, WA 98550
(360) 533-4747

Ocean Shores
361 Damon Rd.
Ocean Shores, WA 98569
(360) 289-2476

Downtown Aberdeen
117 N. Broadway
Aberdeen, WA 98520
(360) 533-4500

South Aberdeen
300 N. Boone St.
Aberdeen, WA 98520
(360) 533-6440

Montesano
210 S. Main St.
Montesano, WA 98563
(360) 249-4021

Elma
313 W. Waldrip
Elma, WA 98541
(360) 482-3333

Toledo
101 2nd St.
Toledo, WA 98591
(360) 864-6102

Winlock
209 NE 1st St.
Winlock, WA 98596
(360) 785-3552

Tumwater
801 Trosper Rd. SW
Tumwater, WA 98512
(360) 705-2863

Olympia
423 Washington St. SE
Olympia, WA 98501
(360) 943-5496

Panorama City
1751 Circle Lane SE
Lacey, WA 98503
(360) 413-3891

Lacey
1201 Marvin Rd. NE
Lacey, WA 98516
(360) 438-1400

Yelm
101 Yelm Ave. W.
Yelm, WA 98597
(360) 458-2221

Bethel Station
2419 224th St. E.
Spanaway, WA 98387
(253) 875-4250

Puyallup (South Hill)
12814 Meridian E.
Puyallup, WA 98373
(253) 841-4980

Edgewood (North Hill)
2418 Meridian E.
Edgewood, WA 98371
(253) 845-0999

Auburn
202 Auburn Way S.
Auburn, WA 98002
(253) 804-6177

Tacoma
7805 So. Hosmer
Tacoma, WA 98408
(253) 472-4465

Gig Harbor
3105 Judson St.
Gig Harbor, WA 98335
(360) 851-1188

Silverdale
2401 NW Bucklin Hill Rd.
Silverdale, WA 98383
(360) 337-7727

Poulsbo
20464 Viking Way NW
Poulsbo, WA 98370
(360) 598-5801