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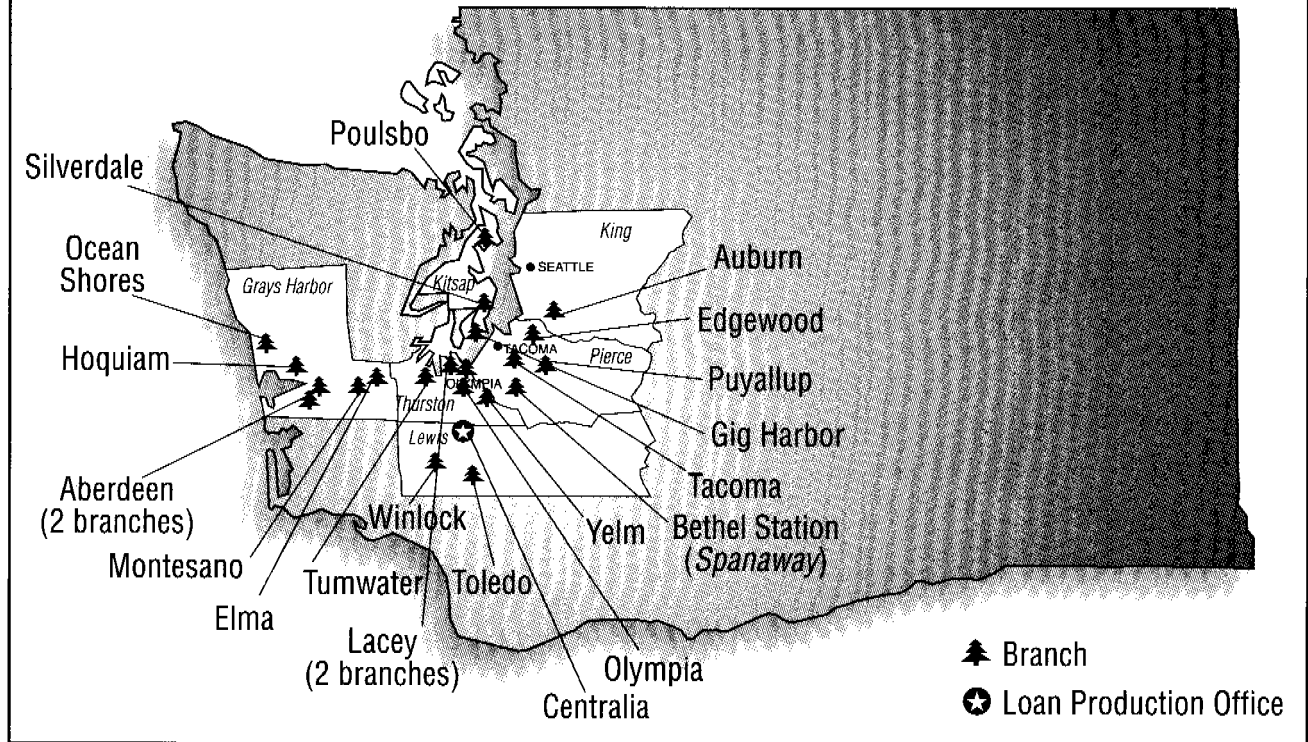
Timberland Bancorp, Inc.



Annual Report 2006

Filings Services
December 27, 2006
SNL Financial, LC
1-800-969-4121

Timberland Branch Locations

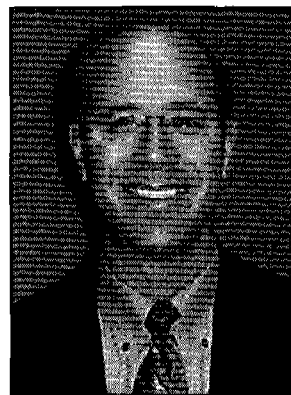




Timberland Bancorp, Inc.

Dear Fellow Shareholders of Timberland Bancorp, Inc.:

On behalf of the Directors and Employees of Timberland Bancorp it is my privilege to invite you to the Company's annual meeting which will be held on January 23, 2007. The meeting will take place at 1:00 p.m. in Hoquiam's Timberland Regional Library Building located at 420 7th Street. During the meeting we will conduct an election of Directors and discuss the operating performance of the Company for the fiscal year ended September 30, 2006. Included in this annual report is a copy of the Company's Form 10-K which provides detailed information regarding the Company's financial performance.



Michael R. Sand

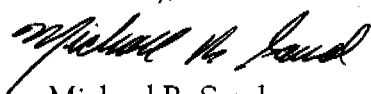
In early November we were pleased to announce record profit, strong loan growth and excellent asset quality for the Company's fiscal year ended September 30, 2006. Net income increased by 23% to \$8.16 million, or \$2.24 per diluted share from \$6.62 million, or \$1.82 per diluted share in fiscal 2005. Total loans increased 9% to \$425 million with record loan originations of \$86.5 million during the quarter ended September 30, 2006. Non-performing assets declined to .02% and return on equity increased to 10.59% from 9.08% the prior fiscal year. The decisions made during the past few years to update our technology platforms, focus on our credit administration practices and to add market proven business lenders are achieving their desired goal – to increase shareholder value. During the fiscal year shareholders of Timberland Bancorp Inc. stock observed a 51.3% increase in the value of the Company's stock.

The Western Washington economy continues to be supported by ongoing expansion in the aerospace, software and construction industries. We look forward to taking advantage of the Northwest's economic strength and the opportunities available in the diverse market areas we serve.

We hope you will be able to attend the Company's annual meeting on January 23, 2007.

Thank you.

Sincerely,

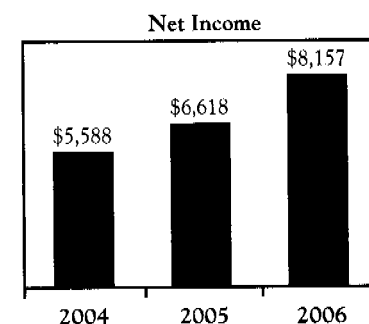
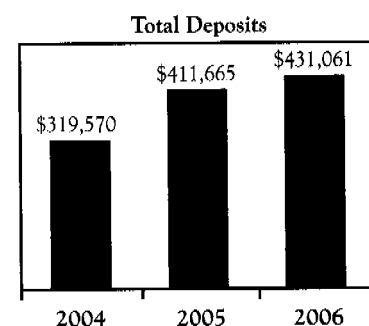
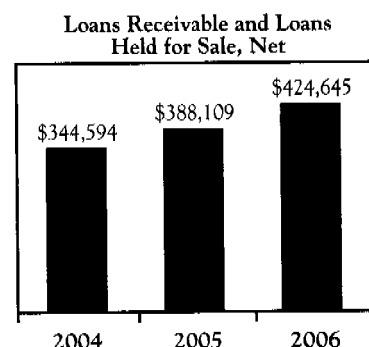
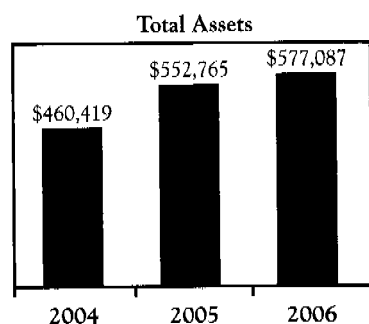


Michael R. Sand
President & CEO

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.



SELECTED FINANCIAL DATA

	September 30,		
	2006	2005	2004
(In thousands except share data)			
Total Assets	\$ 577,087	\$ 552,765	\$ 460,419
Loans Receivable and Loans Held for Sale, Net	424,645	388,109	344,594
Deposits	431,061	411,665	319,570
Shareholders' Equity	79,365	74,642	72,817

OPERATING DATA

Interest and Dividend Income	\$ 35,452	\$ 30,936	\$ 26,571
Interest Expense	10,814	8,609	7,325
Net Interest Income	24,638	22,327	19,246
Provision for Loan Losses	-	141	167
Net Interest Income after Loan Loss Provision	24,638	22,186	19,079
Non-Interest Income	6,244	6,073	4,576
Non-Interest Expense	18,896	18,536	15,575
Income before Federal Income Taxes	11,986	9,723	8,080
Provision for Federal Income Taxes	3,829	3,105	2,492
Net Income	\$ 8,157	\$ 6,618	\$ 5,588

EARNINGS PER COMMON SHARE

Basic	\$ 2.32	\$ 1.90	\$ 1.54
Diluted	\$ 2.24	\$ 1.82	\$ 1.46

KEY FINANCIAL RATIOS

Return on Average Assets	1.47%	1.23%	1.24%
Return on Average Equity	10.59	9.08	7.52
Net Interest Margin	4.91	4.60	4.67
Efficiency Ratio	61.19	65.27	65.38
Non-Performing Assets to Total Assets	0.02	0.62	0.40
Total Equity-to-Assets	13.75	13.50	15.82
Book Value Per Share (1)	\$ 21.12	\$ 19.85	\$ 18.76
Book Value Per Share (2)	\$ 22.44	\$ 21.30	\$ 20.28
Book Value Per Share (1)(3)	\$ 19.22	\$ 17.86	\$ 18.76
Book Value Per Share (2)(3)	\$ 20.41	\$ 19.16	\$ 20.28

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

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

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

2006 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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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

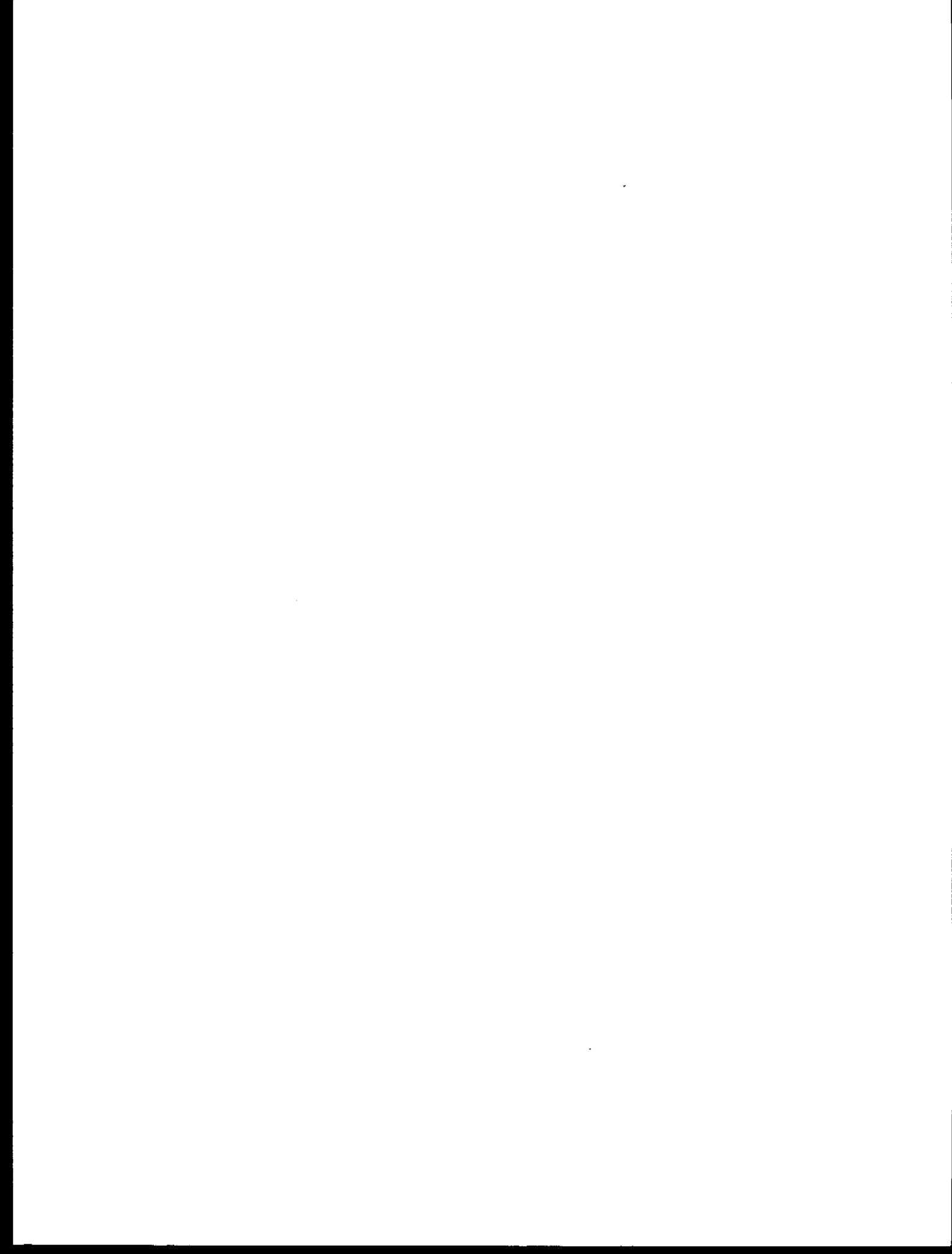
For shareholder inquiries concerning dividend checks, transferring ownership, address changes or lost or stolen certificates please contact our transfer agent:

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 23, 2007 at 1:00 p.m., Pacific Time.

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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. Waldrup
Elma, WA 98541
(360) 482-3333

Toledo
101 Ramsey Way
Toledo, WA 98591
(360) 864-6102

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

Centralia Loan Office
1641 Kresky Ave., Suite 2
Centralia, WA 98531
(360) 736-9600

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
(253) 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