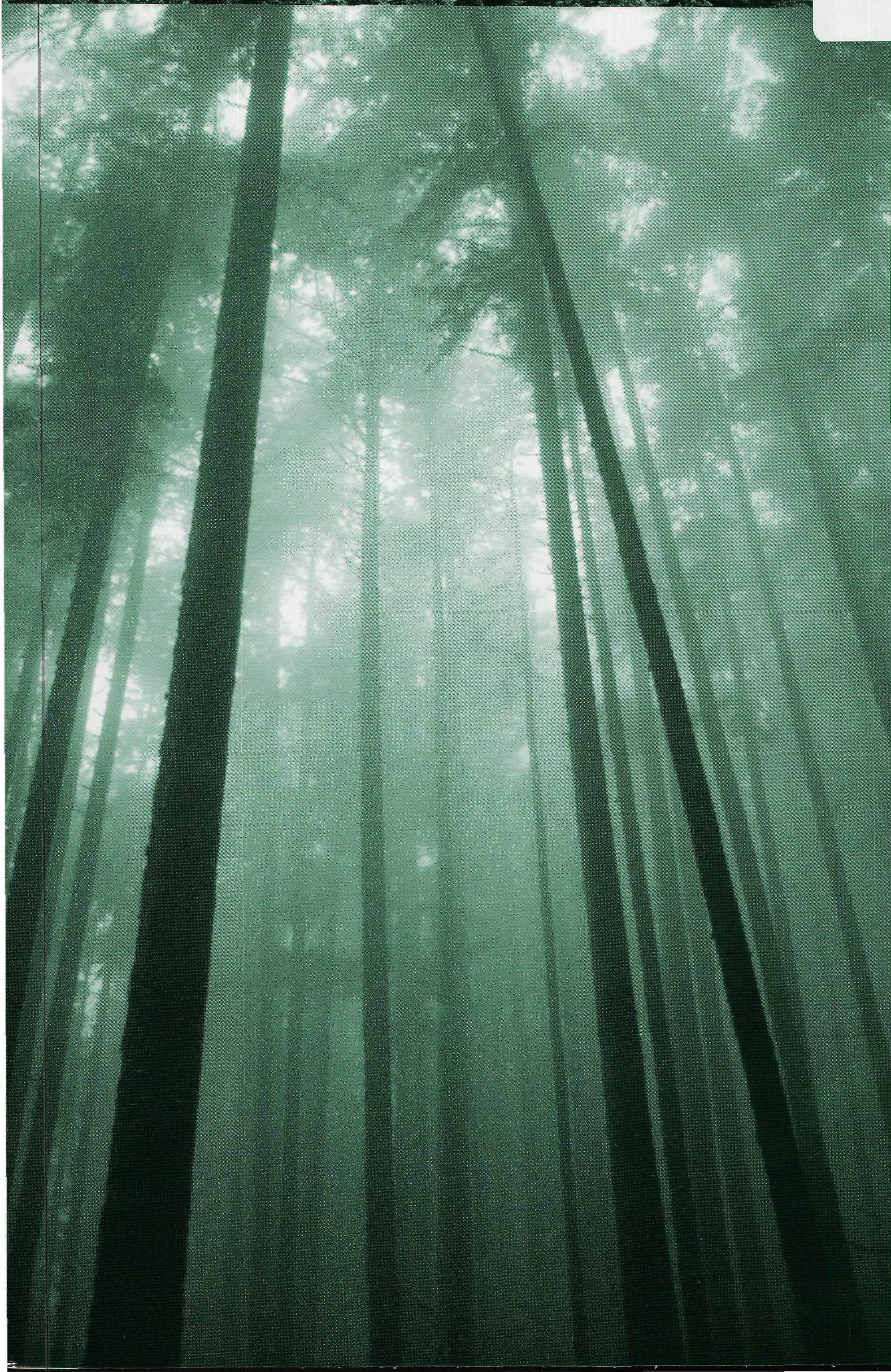
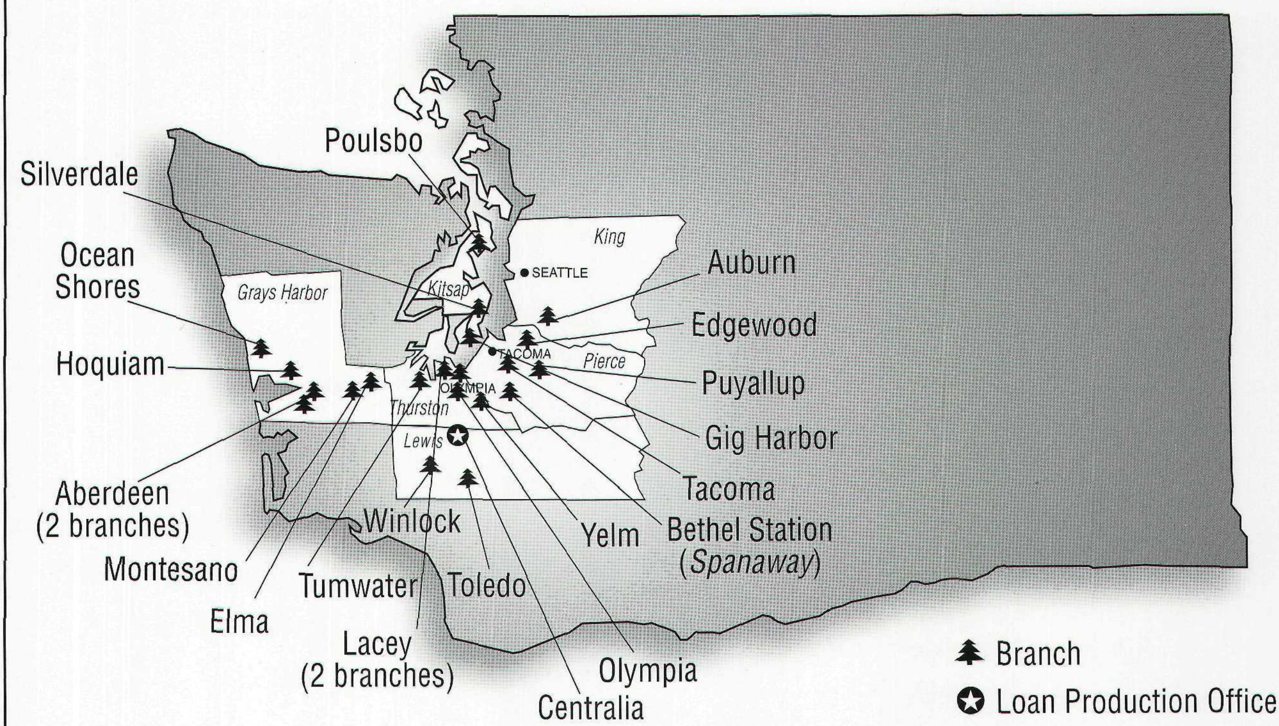
7161501

Timberland Bancorp, Inc.

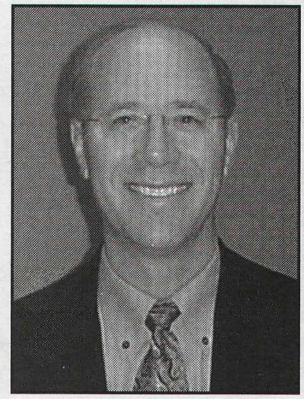
Annual Report 2007



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 subsidiary, Timberland Bank, it is my privilege to extend an invitation to you to attend our annual meeting for the year ended September 30, 2007. The meeting will be held on January 22, 2008 at 1:00 PM in Hoquiam's Timberland Regional Library building located at 420 7th Street in Hoquiam, Washington. During the meeting management will discuss operating results from the Company's recently completed fiscal year, answer questions posed by the attendees and conduct an election of Directors. The attached Form 10-K provides detailed information regarding the Company's recent and historical operating performance.

We will remember the fiscal year ended September 30, 2007 as a successful year produced within a challenging interest rate environment. The efforts of the committed and talented employees of Timberland Bank, the wholly owned subsidiary of the Company, produced improvements in several important financial metrics despite a persistently flat yield curve. Net loans outstanding grew by 21.4%, return on average equity improved to 10.67%, net interest income increased by 6.2%, diluted earnings per share increased by 4.5%, and our efficiency ratio improved to 60.54%. The Company also recorded an 11.7% increase in assets year over year with asset quality remaining strong. At fiscal year end non-performing assets stood at 0.23% of total assets. The Company's subsidiary did not participate in the aggressive marketing of alternative loan products to sub-prime borrowers that has caused financial difficulty for many in our industry. The array of loan products available from Timberland Bank does not include the teaser rate or option ARM loans that are intimately intertwined with the sub-prime issue. Data we have reviewed indicates that approximately 70% of sub-prime loans were originated by mortgage brokers while only 7% of such loans were originated by community banks. We have appreciated being in the minority.

Signs of a moderating Northwest economy have surfaced, however we continue to recognize opportunities in the many communities we serve. We will continue to add key employees who exhibit the ability to build the relationships necessary to further our goal of increasing shareholder value.

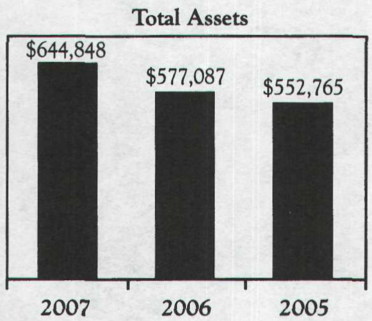
The Directors and Employees of the Company and its subsidiary would appreciate your attendance at our annual meeting. We look forward to meeting you. Thank you for your continuing support.

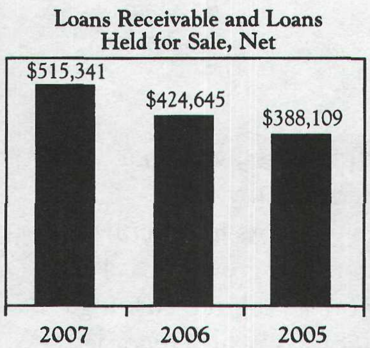
Sincerely,

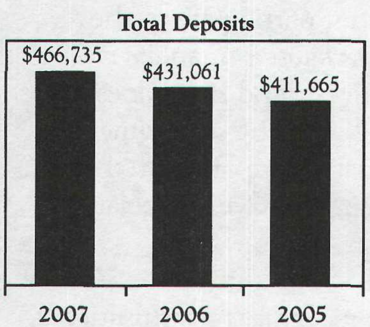
Michael R. Sand
President and CEO

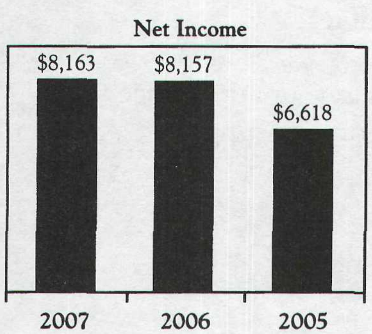
FINANCIAL HIGHLIGHTS
TIMBERLAND BANCORP, INC. AND SUBSIDIARIES

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.









	September 30, 2007	2006	2005
	(In thousands except share data)		
SELECTED FINANCIAL DATA			
Total Assets	$ 644,848	$ 577,087	$ 552,765
Loans Receivable and Loans Held for Sale, Net	515,341	424,645	388,109
Deposits	466,735	431,061	411,665
Shareholders' Equity	74,547	79,365	74,642
OPERATING DATA			
Interest and Dividend Income	$ 41,944	$ 35,452	$ 30,936
Interest Expense	15,778	10,814	8,609
Net Interest Income	26,166	24,638	22,327
Provision for Loan Losses	686	–	141
Net Interest Income after Loan Loss Provision	25,480	24,638	22,186
Non-Interest Income	5,962	6,244	6,073
Non-Interest Expense	19,451	18,896	18,536
Income before Federal Income Taxes	11,991	11,986	9,723
Provision for Federal Income Taxes	3,828	3,829	3,105
Net Income	8,163	$ 8,157	$ 6,618
EARNINGS PER COMMON SHARE			
Basic	$ 1.20	$ 1.16	$ 0.95
Diluted	$ 1.17	$ 1.12	$ 0.91
KEY FINANCIAL RATIOS			
Return on Average Assets	1.34%	1.47%	1.23%
Return on Average Equity	10.67	10.59	9.08
Net Interest Margin	4.69	4.91	4.60
Efficiency Ratio	60.54	61.19	65.27
Non-Performing Assets to Total Assets	0.23	0.02	0.62
Total Equity-to-Assets	11.56	13.75	13.50
Book Value Per Share (1)	$ 10.72	$ 10.56	$ 9.93
Book Value Per Share (2)	$ 11.39	$ 11.22	$ 10.65
Book Value Per Share (1)(3)	$ 9.73	$ 9.61	$ 8.93
Book Value Per Share (2)(3)	$ 10.34	$ 10.21	$ 9.58

(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.

2007 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.

(This page intentionally left blank.)

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 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