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Annual Report 2008



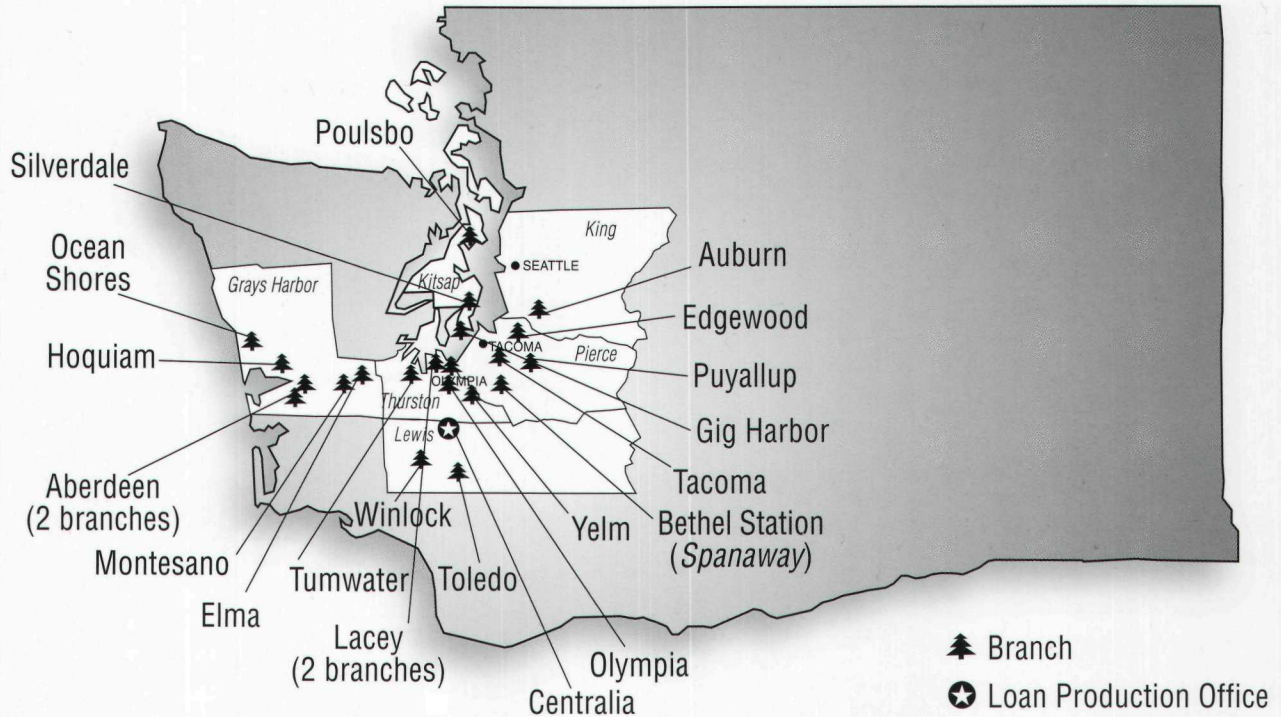
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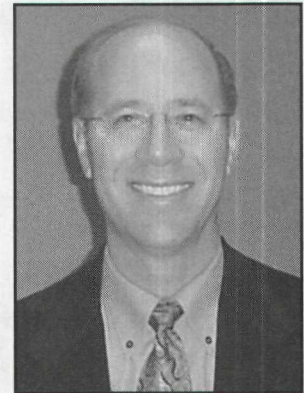
Timberland Branch Locations



Timberland Bancorp, Inc.

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 invite you to attend our annual meeting for the year ended September 30, 2008. The meeting will be held on January 27, 2009 at the Timberland Regional Library Building located at 420 7th Street in Hoquiam, Washington. During the meeting which will begin at 1:00 p.m. Pacific Time, we will discuss the operating results for the fiscal year recently concluded, answer questions from attendees and conduct an election of Directors. I encourage you to carefully review the attached Form 10-K prior to your attendance at the meeting.



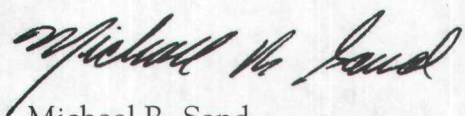
Michael R. Sand

A storm of historic proportions assaulted coastal Washington last December, freeing long dormant roof shingles from their routine resting places. Hordes of homeowners clutching blue tarps scampered up ladders to offer protection. You could almost imagine Julie Andrews singing, "Blue tarps on rooftops for blocks could be seen, these are a few of my favorite things." And favorites they were but for one reason only - they offered protection from a temporary yet damaging storm. This year we faced a storm of a different nature; an economic storm that will also be temporary yet damaging to our industry. Efforts to quell the economic maelstrom buffeting our country have birthed a new acronym; T.A.R.P. and lawmakers have debated until they're blue in the face over the breadth of its reach. T.A.R.P. as Treasury envisions it will provide the financial services industry with temporary relief and stabilize the broader economy. Critics are not so sure. Time will tell how effective the assistance will be, but in the interim we do know that our clients continue to benefit from regulatory changes this year such as the FDIC's Temporary Liquidity Guarantee Program that increased deposit insurance coverage to \$250,000 and provided unlimited FDIC insurance coverage on many transaction accounts.

The success of these historic interventions may ultimately depend on how effectively they are administered and be best judged in hindsight. We expect this year to be challenging for our industry. We are fortunate to be facing those challenges with a strong capital base, consistent earnings and a remarkably dedicated and talented staff assembled for such a time as this.

Please join us at our annual meeting. We look forward to your presence.

Sincerely,

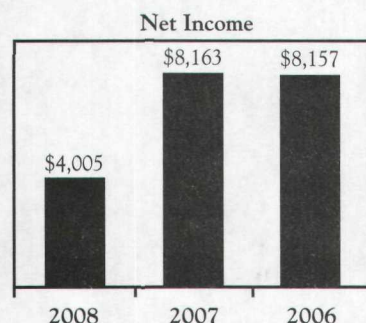
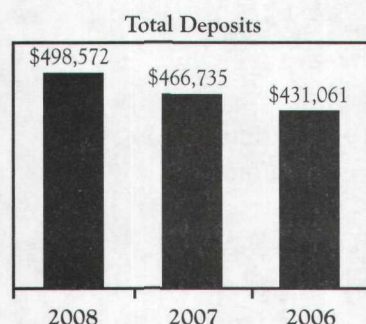
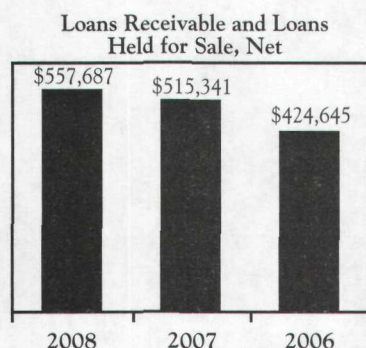
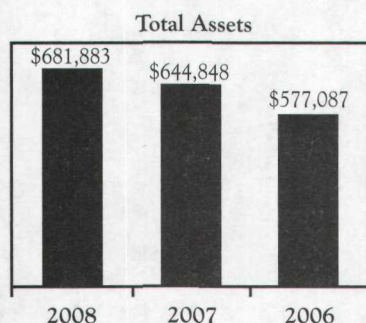


Michael R. Sand
President and CEO

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 subsidiary presented herein.



SELECTED FINANCIAL DATA

	September 30,		
	2008	2007	2006
(In thousands except share data)			
Total Assets	\$ 681,883	\$ 644,848	\$ 577,087
Loans Receivable and Loans Held for Sale, Net	557,687	515,341	424,645
Deposits	498,572	466,735	431,061
Shareholders' Equity	74,841	74,547	79,365

OPERATING DATA

Interest and Dividend Income	\$ 43,338	\$ 41,944	\$ 35,452
Interest Expense	16,413	15,778	10,814
Net Interest Income	26,925	26,166	24,638
Provision for Loan Losses	3,900	686	-
Net Interest Income after Loan Loss Provision	23,025	25,480	24,638
Non-Interest Income	4,178	5,962	6,244
Non-Interest Expense	20,374	19,451	18,896
Income before Federal Income Taxes	6,829	11,991	11,986
Provision for Federal Income Taxes	2,824	3,828	3,829
Net Income	\$ 4,005	\$ 8,163	\$ 8,157

EARNINGS PER COMMON SHARE

Basic	\$ 0.62	\$ 1.20	\$ 1.16
Diluted	\$ 0.61	\$ 1.17	\$ 1.12

KEY FINANCIAL RATIOS

Return on Average Assets	0.61%	1.34%	1.47%
Return on Average Equity	5.35	10.67	10.59
Net Interest Margin	4.41	4.69	4.91
Efficiency Ratio	65.50	60.54	61.19
Non-Performing Assets to Total Assets (1)	1.83	0.23	0.02
Total Equity-to-Assets	10.98	11.56	13.75
Book Value Per Share (2)	\$ 10.74	\$ 10.72	\$ 10.56
Book Value Per Share (3)	\$ 11.34	\$ 11.39	\$ 11.22
Tangible Book Value Per Share (2)(4)	\$ 9.79	\$ 9.73	\$ 9.61
Tangible Book Value Per Share (3)(4)	\$ 10.34	\$ 10.34	\$ 10.21

- (1) Non-performing assets include non-accrual loans, other real estate owned and other repossessed assets
- (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.

CORPORATE INFORMATION

MAIN OFFICE

624 Simpson Avenue
Hoquiam, Washington 98550
Telephone: (360) 533-4747

INDEPENDENT AUDITORS

McGladrey & Pullen, LLP
Seattle, 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 27, 2009 at 1:00 p.m., Pacific Time.

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

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 S. Hosmer St.
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



www.timberlandbank.com



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