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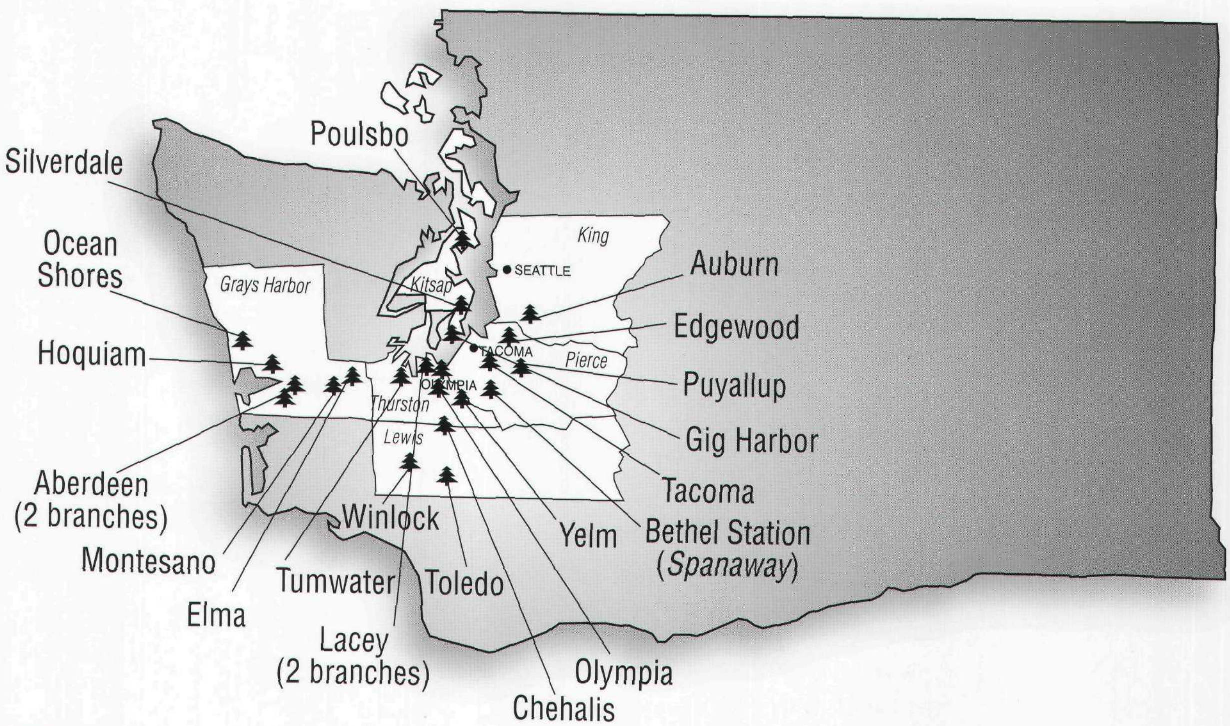
Annual Report 2009

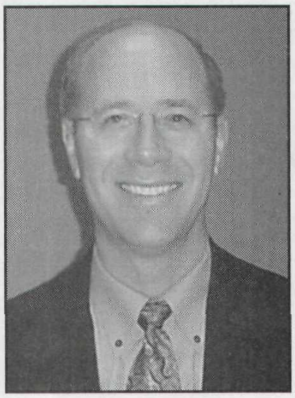
Timberland Bancorp, Inc.

Plant your future here.

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 invite you to attend our annual meeting for the year ended September 30, 2009. The meeting will be held on January 26, 2010 at the Timberland Regional Library Building located at 420 7th Street in Hoquiam, Washington. During the meeting 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.

Unprecedented. Unusual. Extraordinary. Once in a career. These are a few of the terms I've heard used to define the current economic climate. Similar descriptors have been used to characterize changes in property values nationally and in the northwest year over year. Extraordinary efforts have been undertaken to stimulate the economy with what appears to be modest success. Third quarter FDIC statistics for Washington State Banks indicate median Return on Assets (ROA) of –0.16% and median Past Due and Nonaccrual Loans to Total Loans of 5.45%. The median Tier 1 Leverage Ratio was 9.08% for the 95 banks headquartered in Washington State. From an historic standpoint these numbers are poor although representing an improvement from the prior quarter. Just two years ago (2007) Washington State median ROA was a healthy 0.96% and median Past Due and Nonaccrual Loans to Total Loans stood at 1.42%.

Overall the prospects for Washington State remain bright. The State is ranked as one of the more desirable areas in which to live and continued in-migration is widely anticipated. While the pace of improvement is uncertain, banks with capital are positioned to respond to an improving economy. Capital will clearly create a line of demarcation for banks. Banks with sufficient capital will continue on, gain new relationships and expand in an improving economy. Timberland's Risk Based and Tier 1 Capital levels of 15.94% and 12.24% respectively are significant positives for the Company. With a wise and capable staff we look forward to the future.

We also look forward to your presence at our annual meeting.

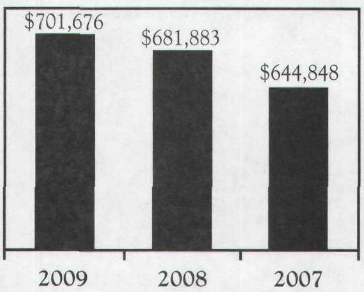
Sincerely,

Michael R. Sand
President and CEO

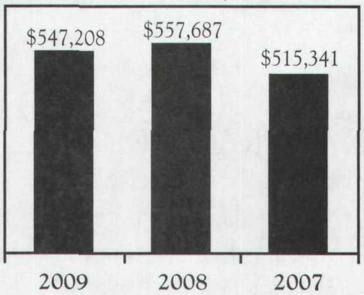
FINANCIAL HIGHLIGHTS
TIMBERLAND BANCORP, INC. AND SUBSIDIARY

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.

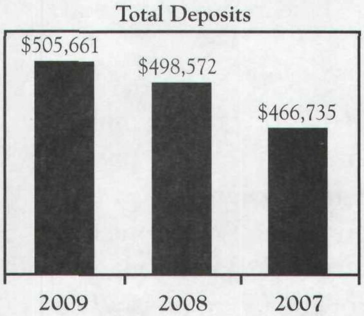
Total Assets



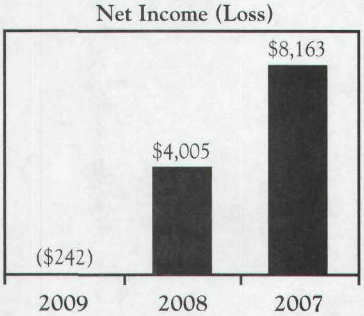
Loans Receivable and Loans Held for Sale, Net



Total Deposits



Net Income (Loss)



	September 30,		
	2009	2008	2007
	(In thousands except share data)		
SELECTED FINANCIAL DATA			
Total Assets	$ 701,676	$ 681,883	$ 644,848
Loans Receivable and Loans Held for Sale, Net	547,208	557,687	515,341
Deposits	505,661	498,572	466,735
Shareholders' Equity	87,199	74,841	74,547
OPERATING DATA			
Interest and Dividend Income	$ 38,801	$ 43,338	$ 41,944
Interest Expense	13,504	16,413	15,778
Net Interest Income	25,297	26,925	26,166
Provision for Loan Losses	10,734	3,900	686
Net Interest Income after Loan Loss Provision	14,563	23,025	25,480
Non-Interest Income	6,949	4,178	5,962
Non-Interest Expense	22,739	20,374	19,451
Income (Loss) before Federal and State Income Taxes	(1,227)	6,829	11,991
Provision (benefit) for Federal and State Income Taxes	(985)	2,824	3,828
Net Income (Loss)	$ (242)	$ 4,005	$ 8,163
Preferred Stock Dividends	$ 643	$ -	$ -
Preferred Stock Accretion	$ 129	$ -	$ -
Net Income (Loss) Available to Common Shareholders	$ (1,014)	$ 4,005	$ 8,163
EARNINGS (LOSS) PER COMMON SHARE			
Basic	$ (0.15)	$ 0.62	$ 1.20
Diluted	$ (0.15)	$ 0.61	$ 1.17
KEY FINANCIAL RATIOS			
Return (Loss) on Average Assets	(0.04)%	0.61%	1.34%
Return (Loss) on Average Equity	(0.28)	5.35	10.67
Net Interest Margin	4.01	4.41	4.69
Efficiency Ratio	70.52	65.50	60.54
Non-Performing Assets to Total Assets (1)	5.41	1.83	0.23
Total Equity-to-Assets	12.43	10.98	11.56
Book Value Per Share (2)	$ 10.17	$ 10.74	$ 10.72
Book Value Per Share (3)	$ 10.68	$ 11.34	$ 11.39
Tangible Book Value Per Share (2)(4)	$ 9.26	$ 9.79	$ 9.73
Tangible Book Value Per Share (3)(4)	$ 9.72	$ 10.34	$ 10.34

(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.

DIRECTORS AND OFFICERS
TIMBERLAND BANCORP, INC.

OFFICERS:

Michael R. Sand
President and Chief Executive Officer

Dean J. Brydon
Executive Vice President, Chief Financial Officer, and Secretary

Robert A. Drugge
Executive Vice President

John P. Norawong
Executive Vice President

Marci A. Basich
Senior Vice President and Treasurer

Kathie M. Bailey
Senior Vice President

DIRECTORS:

Jon C. Parker is Chairman of the Board of the Company and the Bank. Mr. Parker is a member of the law firm Parker, Johnson & Parker P.S., Hoquiam, Washington, which serves as general counsel to the Bank and the Company.

Michael R. Sand has been affiliated with the Bank since 1977 and has served as President of the Bank and the Company since January 23, 2003. On September 30, 2003, he was appointed as Chief Executive Officer of the Bank and Company. Prior to appointment as President and Chief Executive Officer, Mr. Sand had served as Executive Vice President of the Bank since 1993 and as Executive Vice President of the Company since its formation in 1997.

Andrea M. Clinton an interior designer, is the owner of AMC Interiors, Olympia, Washington.

Larry D. Goldberg is the retired principal partner of Goldberg Furniture Company, Aberdeen, Washington.

James C. Mason is the President and owner of the following companies: Mason Timber Inc., Mason Trucking Inc., Masco Petroleum Inc., Aloha Jet Inc., Mason Aviation, Inc., Trailer Services Inc., Shine Quarry Inc., Mason Properties LLC, Masco Maritime LLC, Grass Island LLC, Masco Oil Warehouse LLC, 110 Commerce Street LLC, 1100 Basich Blvd LLC, 954 Anderson Drive LLC, 2012 Ind Pkwy LLC, 1020 Anderson Dr. LLC, 1104 Basich Blvd LLC, 200 Myrtle LLC and Shelton Renal Care LLC, all of which are headquartered in Aberdeen, Washington.

Ronald A. Robbel is a Certified Public Accountant and is retired.

David A. Smith is a pharmacist and the owner of Harbor Drug, Inc., a retail pharmacy located in Hoquiam, Washington.

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 26, 2010 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

Chehalis
714 W. Main St.
Chehalis, WA 98532
(360) 740-0770

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

EQUAL HOUSING LENDER

Member FDIC

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended September 30, 2009

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-23333

TIMBERLAND BANCORP, INC.
(Exact name of registrant as specified in its charter)

Washington	91-1863696
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
624 Simpson Avenue, Hoquiam, Washington	98550
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (360) 533-4747

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value $.01 per share	The Nasdaq Stock Market LLC
(Title of Each Class)	(Name of Each Exchange on Which Registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ___ NO _X_

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. YES ___ NO _X_

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES _X_ NO __

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) YES __ NO __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. _X_

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ___	Accelerated filer ___
Non-accelerated filer ___	Smaller reporting company _X_

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act). YES ___ NO _X_

As of November 30, 2009, the Registrant had 7,045,036 shares of Common Stock issued and outstanding. The aggregate market value of the Common Stock held by nonaffiliates of the Registrant, based on the closing sales price of the Registrant's common stock as quoted on the NASDAQ Global Select Market on March 31, 2009, was $36.4 million (7,045,036 shares at $5.16). For purposes of this calculation, Common Stock held by officers and directors of the Registrant and the Timberland Bank Employee Stock Ownership Plan and Trust are considered nonaffiliates.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of Definitive Proxy Statement for the 2010 Annual Meeting of Stockholders (Part III).