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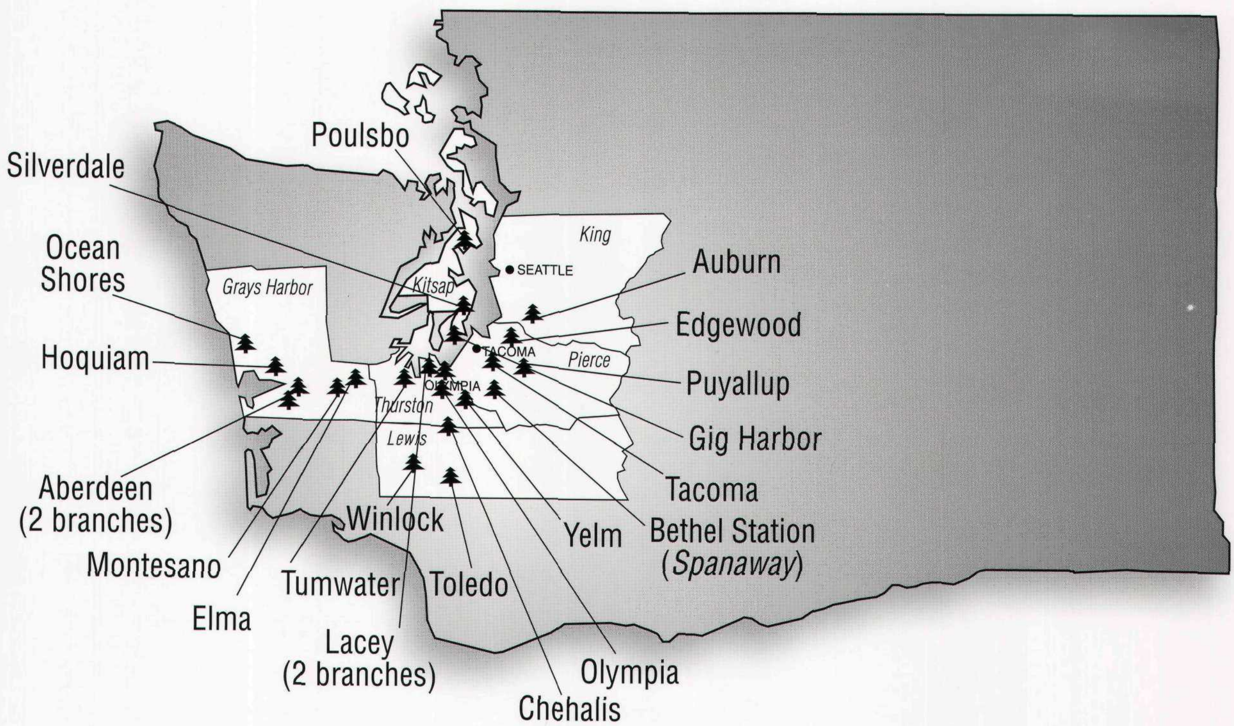
Annual Report 2011

Timberland Bancorp, Inc.

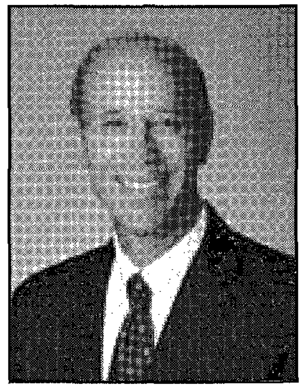
Plant your future here.

Timberland Branch Locations



Timberland Bancorp, Inc.

Dear Fellow Shareholders of Timberland Bancorp, Inc.:



Michael R. Sand

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, 2011. The meeting will convene on January 24, 2012 at 1:00 p.m. and will be conducted in the Timberland Regional Library Building located at 420 7th Street in Hoquiam, Washington. During the meeting we will discuss the operating results for the year ended September 30, 2011, conduct an election of Directors and answer questions from the attendees. I encourage you to review the attached Form 10-K which details the operating results of the Company.

Significant and consistent Federal Reserve intervention failed to improve the national economy this past year. Northwest community banks and businesses operated in a regional economy that did not differ markedly from that endured by the nation as a whole. In spite of the challenging economy Timberland recorded positive results. Net income for the year, though modest, represented a $3.4 million increase over the results reported for the prior fiscal year; net interest margin was relatively stable in spite of record low interest rates; non-performing assets were reduced; the Company's exposure to Acquisition, Development and Construction loans decreased significantly from its peak and the Company remained poised to benefit from rising interest rates.

While we have not seen reports predicting the imminent return of a robust national economy, there are significant signs of economic stabilization in Washington State. Boeing's recent announcement that market demanded fuel-efficient aircraft will be assembled in Washington State for the foreseeable future is an example. It is welcome news for many employees and small businesses in the State. The announcement removes from several communities a cloud of uncertainty and portends stability for the State's important manufacturing sector.

Recent appraisals along with realtor and anecdotal reports indicate that the values of multi-family properties are rising in the Company's market areas. There is evidence that property values in other sectors may also have hit a trough and are now rising albeit at a slow and uneven pace.

Timberland continues to be a well-capitalized financial institution producing strong core earnings. At September 30, 2011 the Total Capital to Risk Weighted Asset ratio stood at 16.46% and the Tier 1 Leverage Capital Ratio was 11.09%. We continue to believe that the Pacific Northwest will once again host an enviable economic environment in which growing businesses will provide increasing employment opportunities to a diverse, educated and expanding labor force. We look forward to the opportunities which that will create and we look forward to seeing you at our annual meeting.

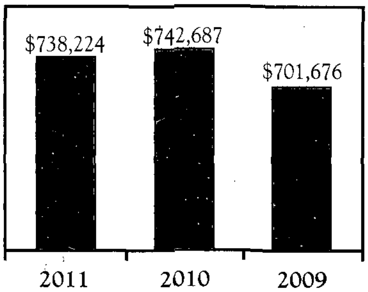
Sincerely,

Michael R. Sand
President and CEO

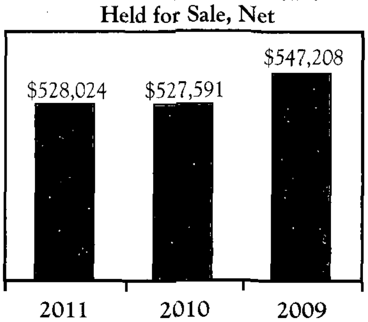
FINANCIAL HIGHLIGHTS
TIMBERLAND BANCORP, INC. AND SUBSIDIARY

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.

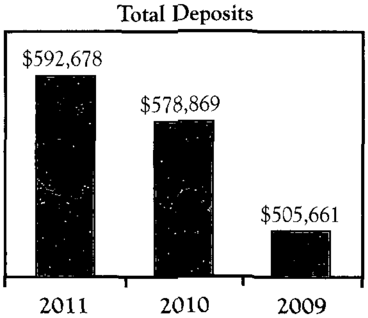
Total Assets



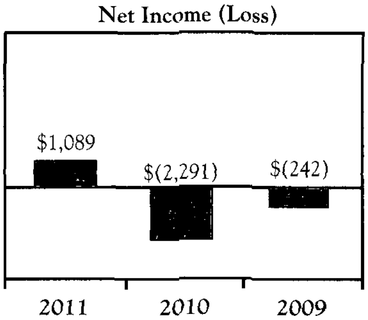
Loans Receivable and Loans Held for Sale, Net



Total Deposits



Net Income (Loss)



	September 30, 2011	2010	2009
	(Dollars in thousands except share data)		
SELECTED FINANCIAL DATA			
Total Assets	$ 738,224	$ 742,687	$ 701,676
Loans Receivable and Loans Held for Sale, Net	528,024	527,591	547,208
Total Deposits	592,678	578,869	505,661
Shareholders' Equity	86,205	85,408	87,199
OPERATING DATA			
Interest and Dividend Income	$ 33,966	$ 36,596	$ 38,801
Interest Expense	8,533	10,961	13,504
Net Interest Income	25,433	25,635	25,297
Provision for Loan Losses	6,758	10,550	10,734
Net Interest Income after Provision for Loan Losses	18,675	15,085	14,563
Non-Interest Income	8,681	5,696	6,949
Non-Interest Expense	25,963	24,641	22,739
Income (Loss) before Income Taxes	1,393	(3,860)	(1,227)
Provision (benefit) for Income Taxes	304	(1,569)	(985)
Net Income (Loss)	1,089	(2,291)	(242)
Preferred Stock Dividends	(832)	(832)	(643)
Preferred Stock Discount Accretion	(225)	(210)	(129)
Net Income (Loss) to Common Shareholders	$ 32	$ (3,333)	$ (1,014)
NET INCOME (LOSS) PER COMMON SHARE			
Basic	$ 0.00	$ (0.50)	$ (0.15)
Diluted	0.00	(0.50)	(0.15)
KEY FINANCIAL RATIOS			
Return (Loss) on Average Assets	0.15%	(0.32)%	(0.04)%
Return (Loss) on Average Equity	1.26	(2.65)	(0.28)
Net Interest Margin	3.78	3.87	4.01
Efficiency Ratio	76.11	78.65	70.52
Non-Performing Assets to Total Assets (1)	5.01	5.53	5.52
Total Equity-to-Assets	11.68	11.50	12.43
Book Value Per Common Share	$ 9.97	$ 9.89	$ 10.17
Tangible Book Value Per Common Share (2)	$ 9.11	$ 9.00	$ 9.26

(1) Non-performing assets include non-accrual loans, loans past due 90 days or more and still accruing. non-accrual investment securities, other real estate owned and other repossessed assets.

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

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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

Jonathan A. Fischer
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 & Winkelman 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 Western 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.

Michael J. Stoney, a Certified Public Accountant, is a member of the accounting firm Easter & Stoney, P.S., with offices in Elma and Aberdeen, Washington.

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CORPORATE INFORMATION

MAIN OFFICE

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

INDEPENDENT AUDITORS

Delap LLP
Lake Oswego, Oregon

GENERAL COUNSEL

Parker & Winkelman 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 24, 2012 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