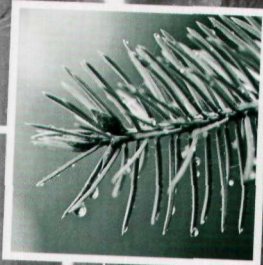


2012 Annual Report



PLANT YOUR

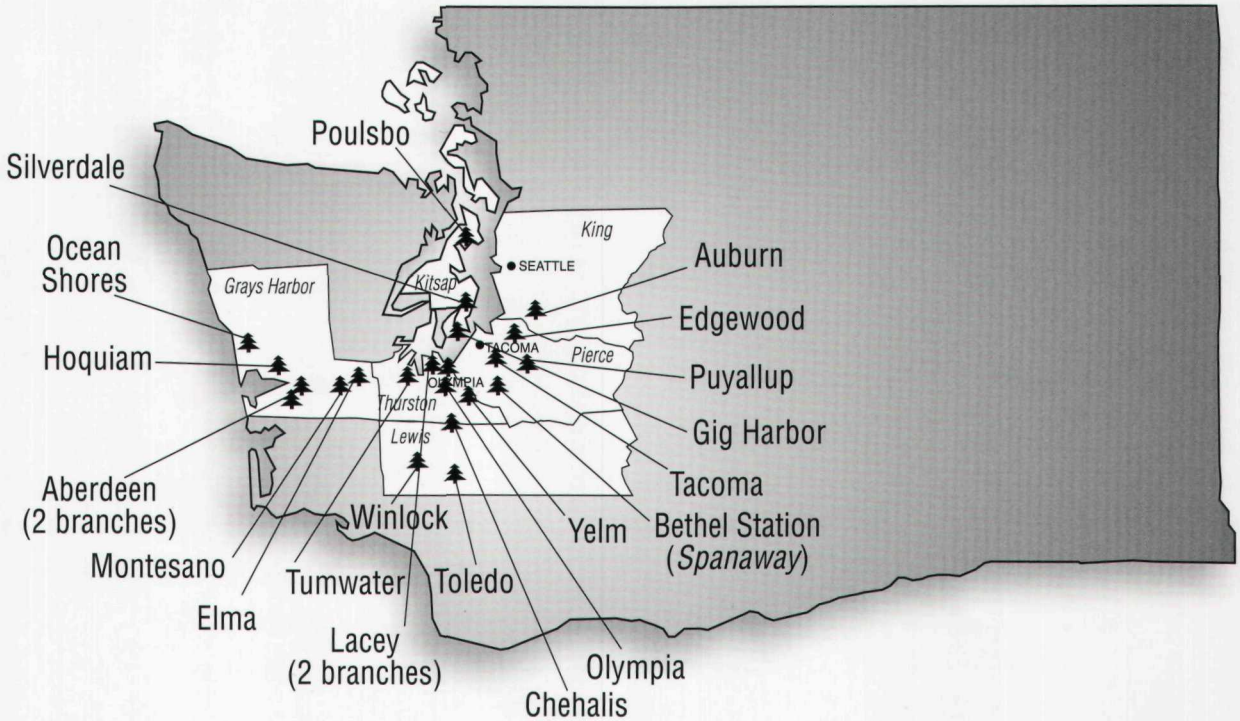
Future

HERE



Timberland Bancorp, Inc.

Timberland Branch Locations

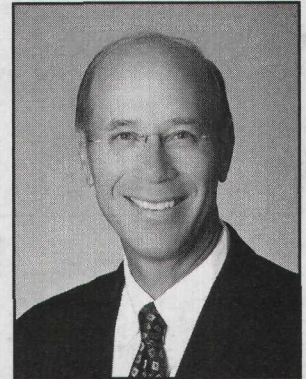




Timberland Bancorp, Inc.

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, 2012. The meeting will convene on January 22, 2013 at 1:00 p.m. and will be conducted in the Grays Harbor Public Utility's Dennis Nichols building located at 220 Myrtle Street in Hoquiam, Washington. During the meeting we will discuss the Company's operating results for the year ended September 30, 2012, 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.



Michael R. Sand

The Federal Reserve continued its efforts to stimulate the economy this past year and is currently focused on keeping interest rates low through its monthly purchase of billions of dollars of mortgage backed securities. Historians will best judge the overall effectiveness of the Fed's policy actions however the immediate impact is clearly the forcible maintenance of a low interest rate environment for an indefinite period. For the banking industry this focuses the crosshairs directly on margins for the duration of the Fed's accommodative posture. Muting the impact of current Fed policy will involve booking additional quality loans, further managing the cost of deposits and reducing the level of non-earning assets.

During the fiscal year ended September 30, 2012, the Company realized a significant increase in profitability compared to the prior fiscal year. Net interest income and non-interest income increased while total non-interest expenses and the provision for loan losses decreased. The result was an increase in net income to \$4.59 million for the recently completed fiscal year from \$1.09 million for the prior fiscal year and an increase in net income available to common shareholders to \$3.52 million from \$32 thousand in the prior fiscal year.

Timberland continues to be a well-capitalized financial institution producing strong core earnings. At September 30, 2012 the Total Capital to Risk Weighted Asset ratio stood at 16.77% and the Tier 1 Leverage Capital Ratio was 11.66%. We continue to believe that the Pacific Northwest provides an enviable economic environment in which to operate and we look forward to the new fiscal year. We also look forward to your presence at our annual meeting on January 22nd.

Sincerely,



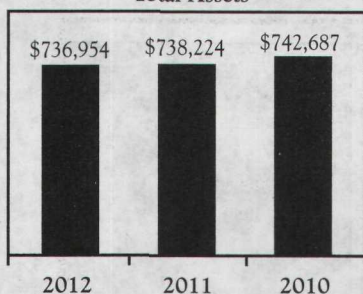
Michael R. Sand
President and CEO

FINANCIAL HIGHLIGHTS

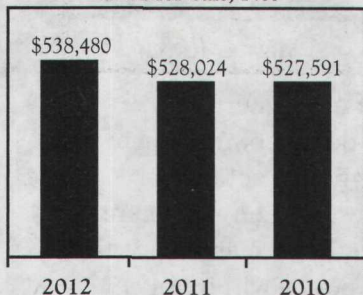
TIMBERLAND BANCORP, INC. AND SUBSIDIARY

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.

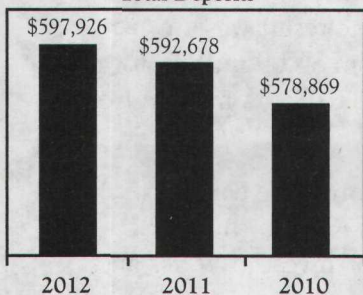
Total Assets



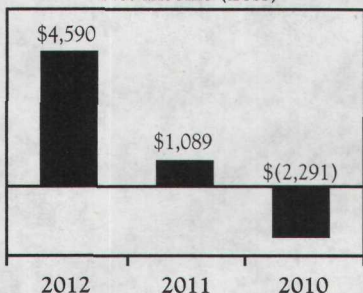
Loans Receivable and Loans Held for Sale, Net



Total Deposits



Net Income (Loss)



September 30,

2012 2011 2010
(Dollars in thousands except share data)

SELECTED FINANCIAL DATA

| | | | |
|---|------------|------------|------------|
| Total Assets | \$ 736,954 | \$ 738,224 | \$ 742,687 |
| Loans Receivable and Loans Held for Sale, Net | 538,480 | 528,024 | 527,591 |
| Total Deposits | 597,926 | 592,678 | 578,869 |
| Shareholders' Equity | 90,319 | 86,205 | 85,408 |

OPERATING DATA

| | | | |
|---|-----------|-----------|------------|
| Interest and Dividend Income | \$ 31,605 | \$ 33,966 | \$ 36,596 |
| Interest Expense | 5,947 | 8,533 | 10,961 |
| Net Interest Income | 25,658 | 25,433 | 25,635 |
| Provision for Loan Losses | 3,500 | 6,758 | 10,550 |
| Net Interest Income after Provision for Loan Losses | 22,158 | 18,675 | 15,085 |
| Non-Interest Income | 9,781 | 8,681 | 5,696 |
| Non-Interest Expense | 25,568 | 25,963 | 24,641 |
| Income (Loss) before Income Taxes | 6,371 | 1,393 | (3,860) |
| Provision (benefit) for Income Taxes | 1,781 | 304 | (1,569) |
| Net Income (Loss) | 4,590 | 1,089 | (2,291) |
| Preferred Stock Dividends | (832) | (832) | (832) |
| Preferred Stock Discount Accretion | (240) | (225) | (210) |
| Net Income (Loss) to Common Shareholders | \$ 3,518 | \$ 32 | \$ (3,333) |

NET INCOME (LOSS) PER COMMON SHARE

| | | | |
|---------|---------|---------|-----------|
| Basic | \$ 0.52 | \$ 0.00 | \$ (0.50) |
| Diluted | 0.52 | 0.00 | (0.50) |

KEY FINANCIAL RATIOS

| | | | |
|---|----------|---------|---------|
| Return (Loss) on Average Assets | 0.62% | 0.15% | (0.32)% |
| Return (Loss) on Average Equity | 5.21 | 1.26 | (2.65) |
| Net Interest Margin | 3.81 | 3.78 | 3.87 |
| Efficiency Ratio | 72.15 | 76.11 | 78.65 |
| Non-Performing Assets to Total Assets (1) | 5.19 | 5.01 | 5.53 |
| Total Equity-to-Assets | 12.26 | 11.68 | 11.50 |
| Book Value Per Common Share | \$ 10.52 | \$ 9.97 | \$ 9.89 |
| Tangible Book Value Per Common Share (2) | \$ 9.68 | \$ 9.11 | \$ 9.00 |

(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.

2012 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., 624 Simpson Avenue, Hoquiam, Washington 98550, attention: Investor Relations Department.

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**DIRECTORS AND OFFICERS
TIMBERLAND BANCORP, INC.**

OFFICERS:

Michael R. Sand
President and Chief Executive Officer

Kathie M. Bailey
Senior Vice President

Dean J. Brydon
Executive Vice President

Jonathan A. Fischer
Senior Vice President

Robert A. Drugge
Executive Vice President

Edward C. Foster
Senior Vice President

Marci A. Basich
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 at Home, 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 Grays Harbor PUD meeting room known as the Dennis Nichols Building, located at 220 Myrtle Street, Hoquiam, Washington on Tuesday, January 22, 2013 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



Member
FDIC