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Timberland Bancorp, Inc.

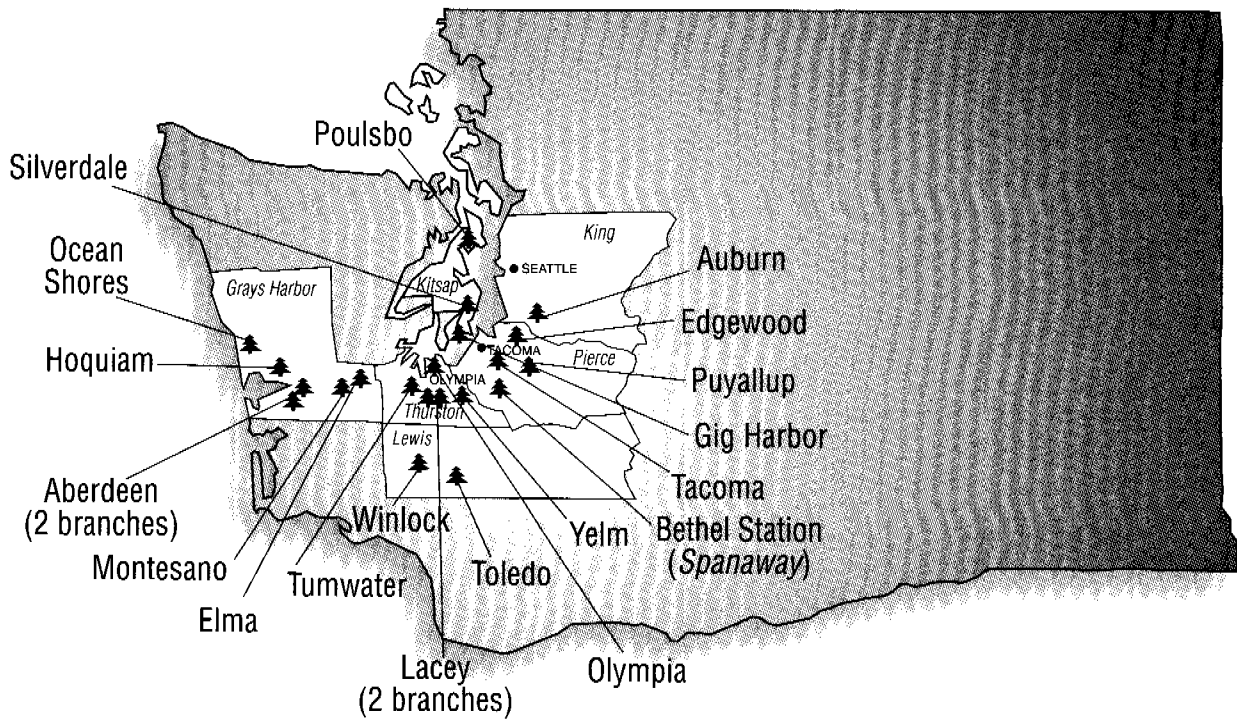


Annual
Report
2005



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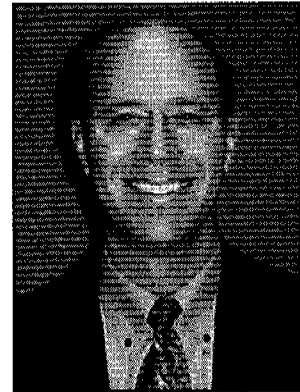
Timberland Branch Locations



Timberland Bancorp, Inc.

Dear Fellow Shareholders of Timberland Bancorp, Inc.:

On behalf of the Directors and Employees of Timberland Bancorp, it is my pleasure to invite you to our annual meeting which will be held on January 24, 2006 at 1:00 PM. The meeting will take place in Hoquiam's Timberland Regional Library building located at 420 7th Street in Hoquiam, Washington. During the meeting management will discuss the operating performance of the Company during the prior fiscal year, answer questions posed by the attendees and conduct an election of Directors. We have included in this annual report a copy of the Company's Form 10-K which provides detailed information regarding the Company's financial performance.



Michael R. Sand

The fiscal year ended September 30, 2005 was a year of growth for Timberland Bancorp, Inc. As compared to the prior fiscal year, diluted earnings per share increased by 25%. Return on equity increased by 21%, while assets, loans and deposits grew by 20%, 13% and 29%, respectively. Core deposits grew significantly during the year primarily as a result of Timberland's acquisition and successful integration of seven new branch offices into our branch system in October 2004. The deposits gained through the acquisition provide core funding that supported a \$43.5 million increase in net loans outstanding and a \$29.6 million increase in investments. Total loans originated during the fiscal year increased by 14% to \$230 million.

A considerable amount of management's attention during the latter part of this year was dedicated to incorporating the new requirements of the Sarbanes Oxley legislation into the Company's system of internal controls as required by such legislation. We do expect the costs of compliance with Sarbanes Oxley to decline in subsequent years, however, without regulatory action, these costs will continue into the future.

We are pleased with the business prospects in the diverse geographic areas served by our 21 branch network and look forward to continuing the profitable growth and operation of the Company.

We hope you will be able to join us at our annual meeting on Tuesday, January 24, 2006 at 1:00 PM in Hoquiam's Timberland Regional Library building as we discuss our operating results for the fiscal year.

Thank you.

Sincerely,

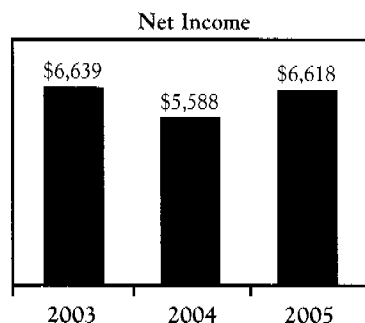
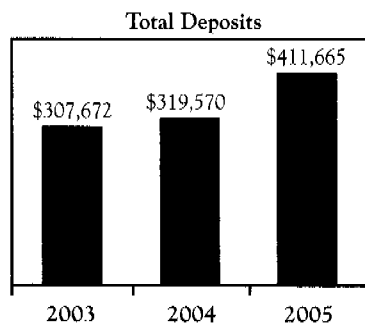
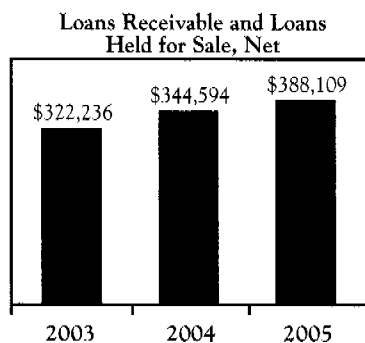
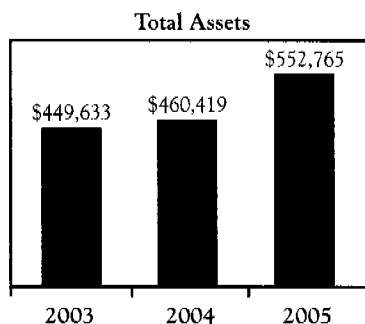
A handwritten signature in black ink that reads "Michael R. Sand". The signature is written in a cursive, flowing style.

Michael R. Sand
President/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,		
	2005	2004	2003
	(In thousands except share data)		

SELECTED FINANCIAL DATA

Total Assets	\$ 552,765	\$ 460,419	\$ 449,633
Loans Receivable and Loans Held for Sale, Net	388,109	344,594	322,236
Deposits	411,665	319,570	307,672
Shareholders' Equity	74,642	72,817	77,611

OPERATING DATA

Interest and Dividend Income	\$ 30,936	\$ 26,571	\$ 27,345
Interest Expense	8,609	7,325	8,946
Net Interest Income	22,327	19,246	18,399
Provision for Loan Losses	141	167	347
Net Interest Income after Loan Loss Provision	22,186	19,079	18,052
Non-Interest Income	6,073	4,576	6,385
Non-Interest Expense	18,536	15,575	14,832
Income before Federal Income Taxes	9,723	8,080	9,605
Provision for Federal Income Taxes	3,105	2,492	2,966
Net Income	\$ 6,618	\$ 5,588	\$ 6,639

EARNINGS PER COMMON SHARE

Basic	\$ 1.90	\$ 1.54	\$ 1.74
Diluted	\$ 1.82	\$ 1.46	\$ 1.66

KEY FINANCIAL RATIOS

Return on Average Assets	1.23%	1.24%	1.52%
Return on Average Equity	9.08	7.52	8.67
Net Interest Margin	4.60	4.67	4.52
Efficiency Ratio	65.27	65.38	59.85
Non-Performing Assets to Total Assets	0.62	0.40	1.15
Total Equity-to-Assets	13.50	15.82	17.26
Book Value Per Share (1)	\$ 19.85	\$ 18.76	\$ 18.25
Book Value Per Share (2)	\$ 21.30	\$ 20.28	\$ 19.77
Book Value Per Share (1)(3)	\$ 17.86	\$ 18.76	\$ 18.25
Book Value Per Share (2)(3)	\$ 19.16	\$ 20.28	\$ 19.77

(1) Calculation includes ESOP share not committed to be released.

(2) Calculation excludes ESOP share not committed to be released.

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

2005 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.