

TIMBERLAND BANCORP INC  
Form 10-Q  
May 08, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2015

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 0-23333

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

Washington  
(State or other jurisdiction of incorporation or  
organization)

91-1863696  
(IRS Employer Identification No.)

624 Simpson Avenue, Hoquiam, Washington  
(Address of principal executive offices)

98550  
(Zip Code)

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

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  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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes \_\_\_ No X

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	SHARES OUTSTANDING AT MAY 1, 2015
Common stock, \$.01 par value	7,053,636

---

INDEX

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	Page
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	
	<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
	<u>Condensed Consolidated Statements of Income</u>	<u>5</u>
	<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>7</u>
	<u>Condensed Consolidated Statements of Shareholders' Equity</u>	<u>8</u>
	<u>Condensed Consolidated Statements of Cash Flows</u>	<u>9</u>
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>11</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>50</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>50</u>
<u>Item</u> <u>1A.</u>	<u>Risk Factors</u>	<u>50</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>50</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>50</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>50</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>50</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>51</u>
<u>SIGNATURES</u>		
Certifications		
	Exhibit 31.1	
	Exhibit 31.2	
	Exhibit 32	
	Exhibit 101	



## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2015 and September 30, 2014

(Dollars in thousands, except per share amounts)

(Unaudited)

	March 31, 2015	September 30, 2014
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	\$12,474	\$11,818
Interest-bearing deposits in banks	69,619	60,536
Total cash and cash equivalents	82,093	72,354
Certificates of deposit (“CDs”) held for investment (at cost, which approximates fair value)	41,868	35,845
Investment securities - held to maturity, at amortized cost (estimated fair value \$6,135 and \$6,274)	5,106	5,298
Investment securities - available for sale	1,486	2,857
Federal Home Loan Bank of Seattle (“FHLB”) stock	5,135	5,246
Loans receivable	592,402	575,280
Loans held for sale	2,252	899
Less: Allowance for loan losses	(10,382)	(10,427)
Net loans receivable	584,272	565,752
Premises and equipment, net	17,422	17,679
Other real estate owned (“OREO”) and other repossessed assets, net	7,866	9,092
Accrued interest receivable	2,060	1,910
Bank owned life insurance (“BOLI”)	17,900	17,632
Goodwill	5,650	5,650
Core deposit intangible (“CDI”)	—	3
Mortgage servicing rights (“MSRs”)	1,484	1,684
Other assets	3,928	4,563
Total assets	\$776,270	\$745,565
Liabilities and shareholders’ equity		
Liabilities:		
Deposits:		
Non-interest-bearing demand	\$117,481	\$106,417
Interest-bearing	525,792	508,699
Total deposits	643,273	615,116
FHLB advances	45,000	45,000
Other liabilities and accrued expenses	2,573	2,671
Total liabilities	690,846	662,787
See notes to unaudited condensed consolidated financial statements		



TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
 CONDENSED CONSOLIDATED BALANCE SHEETS (continued)

March 31, 2015 and September 30, 2014

(Dollars in thousands, except per share amounts)

(Unaudited)

	March 31, 2015	September 30, 2014
Shareholders' equity		
Common stock, \$.01 par value; 50,000,000 shares authorized; 7,052,636 shares issued and outstanding - March 31, 2015 7,047,336 shares issued and outstanding - September 30, 2014	\$ 10,892	\$ 10,773
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(1,058	) (1,190 )
Retained earnings	75,937	73,534
Accumulated other comprehensive loss	(347	) (339 )
Total shareholders' equity	85,424	82,778
Total liabilities and shareholders' equity	\$ 776,270	\$ 745,565
See notes to unaudited condensed consolidated financial statements		

TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the three and six months ended March 31, 2015 and 2014

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,		
	2015	2014	2015	2014	
Interest and dividend income					
Loans receivable	\$7,352	\$7,255	\$14,861	\$14,573	
Investment securities	55	64	120	124	
Dividends from mutual funds and FHLB stock	6	6	13	15	
Interest-bearing deposits in banks	114	87	219	181	
Total interest and dividend income	7,527	7,412	15,213	14,893	
Interest expense					
Deposits	495	514	1,004	1,064	
FHLB advances	465	461	940	933	
Total interest expense	960	975	1,944	1,997	
Net interest income	6,567	6,437	13,269	12,896	
Provision for loan losses	—	—	—	—	
Net interest income after provision for loan losses	6,567	6,437	13,269	12,896	
Non-interest income					
Recoveries (other than temporary impairment "OTTI") on investment securities	—	89	—	86	
Adjustment for portion of OTTI (transferred from) recorded as other comprehensive income (loss) before taxes	(1	) —	(1	) 1	
Net recoveries (OTTI) on investment securities	(1	) 89	(1	) 87	
Gain (loss) on sale of investment securities available for sale, net	—	(32	) 45	(32	)
Service charges on deposits	852	883	1,737	1,874	
ATM and debit card interchange transaction fees	643	573	1,273	1,158	
BOLI net earnings	131	143	268	258	
Gain on sales of loans, net	348	172	584	474	
Escrow fees	56	30	98	66	
Fee income from non-deposit investment sales	10	16	12	44	
Other	175	139	322	279	
Total non-interest income, net	2,214	2,013	4,338	4,208	

See notes to unaudited condensed consolidated financial statements





TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (continued)

For the three and six months ended March 31, 2015 and 2014

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Non-interest expense				
Salaries and employee benefits	\$3,284	\$3,434	\$6,680	\$6,813
Premises and equipment	751	647	1,476	1,340
Advertising	173	172	361	349
OREO and other repossessed assets, net	349	397	425	555
ATM and debit card interchange transaction fees	255	358	593	585
Postage and courier	114	110	218	207
Amortization of CDI	—	29	3	58
State and local taxes	119	121	236	238
Professional fees	223	211	399	394
Federal Deposit Insurance Corporation ("FDIC") insurance	148	160	308	321
Other insurance	38	40	75	79
Loan administration and foreclosure	76	138	119	248
Data processing and telecommunications	471	329	850	659
Deposit operations	219	225	395	423
Other	434	383	790	726
Total non-interest expense	6,654	6,754	12,928	12,995
Income before federal income taxes	2,127	1,696	4,679	4,109
Provision for federal income taxes	676	537	1,501	1,339
Net income	1,451	1,159	3,178	2,770
Preferred stock dividends	—	—	—	(136 )
Preferred stock discount accretion	—	—	—	(70 )
Net income to common shareholders	\$1,451	\$1,159	\$3,178	\$2,564
Net income per common share				
Basic	\$0.21	\$0.17	\$0.46	\$0.37
Diluted	\$0.21	\$0.16	\$0.45	\$0.37
Weighted average common shares outstanding				
Basic	6,898,192	6,856,633	6,895,038	6,855,142
Diluted	7,071,792	7,033,979	7,067,621	7,005,877
Dividends paid per common share	\$0.06	\$0.04	\$0.11	\$0.07

See notes to unaudited condensed consolidated financial statements



TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and six months ended March 31, 2015 and 2014

(Dollars in thousands)

(Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Net income	\$1,451	\$1,159	\$3,178	\$2,770
Other comprehensive income (loss), net of taxes:				
Unrealized holding gain (loss) on investment securities available for sale, net of tax	8	(69)	(25)	(67)
Change in OTTI on investment securities held to maturity, net of tax:				
Additional amount recovered related to credit loss for which OTTI was previously recognized	1	1	1	—
Amount reclassified to credit loss for previously recorded market loss	1	—	1	—
Accretion of OTTI on investment securities held to maturity, net of tax	7	12	15	24
Total other comprehensive income (loss), net of tax	17	(56)	(8)	(43)
Total comprehensive income	\$1,468	\$1,103	\$3,170	\$2,727

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the six months ended March 31, 2015 and the year ended September 30, 2014

(Dollars in thousands, except per share amounts)

(Unaudited)

	Number of Shares		Amount		Unearned Shares Issued to ESOP	Retained Earnings	Accumulated Other Compre- hensive Loss	Total
	Preferred Stock	Common Stock	Preferred Stock	Common Stock				
Balance, September 30, 2013	12,065	7,045,036	\$11,936	\$10,570	\$(1,454 )	\$68,998	\$ (362 )	\$89,688
Net income	—	—	—	—	—	5,850	—	5,850
Accretion of preferred stock discount	—	—	70	—	—	(70 )	—	—
Redemption of preferred stock	(12,065 )	—	(12,006 )	—	—	(59 )	—	(12,065 )
Exercise of stock options	—	5,000	—	23	—	—	—	23
Forfeiture of MRDP (1) shares	—	(2,700 )	—	—	—	—	—	—
5% preferred stock dividends	—	—	—	—	—	(58 )	—	(58 )
Common stock dividends (\$0.16 per common share)	—	—	—	—	—	(1,127 )	—	(1,127 )
Earned ESOP shares, net of tax	—	—	—	64	264	—	—	328
MRDP compensation expense, net of tax	—	—	—	4	—	—	—	4
Stock option compensation expense	—	—	—	112	—	—	—	112
Unrealized holding loss on investment securities available for sale, net of tax	—	—	—	—	—	—	(63 )	(63 )
Change in OTTI on investment securities held to maturity, net of tax	—	—	—	—	—	—	34	34
Accretion of OTTI on investment securities held to maturity, net of tax	—	—	—	—	—	—	52	52
	—	7,047,336	—	10,773	(1,190 )	73,534	(339 )	82,778

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Balance,  
September 30, 2014

Net income	—	—	—	—	—	3,178	—	3,178
Exercise of stock options	—	5,300	—	25	—	—	—	25
Common stock dividends (\$0.11 per common share)	—	—	—	—	—	(775	) —	(775 )
Earned ESOP shares, net of tax	—	—	—	36	132	—	—	168
Stock option compensation expense	—	—	—	58	—	—	—	58
Unrealized holding loss on investment securities available for sale, net of tax	—	—	—	—	—	—	(25 )	(25 )
Change in OTTI on securities held to maturity, net of tax	—	—	—	—	—	—	2	2
Accretion of OTTI on investment securities held to maturity, net of tax	—	—	—	—	—	—	15	15
Balance, March 31, 2015	—	7,052,636	\$—	\$10,892	\$(1,058 )	\$75,937	\$(347 )	\$85,424

(1) 1998 Management Recognition and Development Plan (“MRDP”).

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended March 31, 2015 and 2014

(In thousands)

(Unaudited)

	Six Months Ended	March 31,
	2015	2014
Cash flows from operating activities		
Net income	\$3,178	\$2,770
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	669	576
Deferred federal income taxes	231	—
Amortization of CDI	3	58
Earned ESOP shares	132	132
MRDP compensation expense	—	2
Stock option compensation expense	56	47
Stock option tax effect less excess tax benefit	1	—
Gain on sales of OREO and other repossessed assets, net	(127	) (109
Provision for OREO losses	405	375
BOLI net earnings	(268	) (258
Gain on sales of loans, net	(584	) (474
Net change in deferred loan origination fees	147	(3
Net OTTI (recoveries) on investment securities	1	(87
(Gain) loss on sale of investment securities available for sale, net	(45	) 32
Amortization of MSRs	40	59
Loans originated for sale	(21,696	) (14,420
Proceeds from sales of loans	20,927	15,473
Net change in accrued interest and other assets	391	125
Net change in accrued expenses and other liabilities	(98	) 320
Net cash provided by operating activities	3,363	4,618
Cash flows from investing activities		
Net increase in CDs held for investment	(6,023	) (1,343
Proceeds from sale of investment securities available for sale	1,220	856
Proceeds from maturities and prepayments of investment securities available for sale	159	212
Purchase of investment securities held to maturity	—	(3,003
Proceeds from maturities and prepayments of investment securities held to maturity	243	279
Redemption of FHLB stock	111	101
Increase in loans receivable, net	(17,955	) (11,880
Additions to premises and equipment	(412	) (597
Proceeds from sales of OREO and other repossessed assets	1,589	2,962
Net cash used in investing activities	(21,068	) (12,413

See notes to unaudited condensed consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

For the six months ended March 31, 2015 and 2014

(In thousands)

(Unaudited)

	Six Months Ended 2015	March 31, 2014	
Cash flows from financing activities			
Increase (decrease) in deposits, net	\$28,157	\$(3,888)	)
ESOP tax effect	36	28	
Proceeds from exercise of stock options	24	16	
Stock option excess tax benefit	1	—	
Issuance of common stock	1	—	
Redemption of preferred stock	—	(12,065)	)
Dividends paid	(775)	) (551)	)
Net cash provided by (used in) financing activities	27,444	(16,460)	)
Net increase (decrease) in cash and cash equivalents	9,739	(24,255)	)
Cash and cash equivalents			
Beginning of period	72,354	94,496	
End of period	\$82,093	\$70,241	
Supplemental disclosure of cash flow information			
Income taxes paid	\$1,560	\$1,135	
Interest paid	1,937	2,015	
Supplemental disclosure of non-cash investing activities			
Loans transferred to OREO and other repossessed assets	\$641	\$5,166	
Other comprehensive loss related to investment securities	(8)	) (43)	)
Loans originated to facilitate the sale of OREO	—	450	

See notes to unaudited condensed consolidated financial statements



Timberland Bancorp, Inc. and Subsidiary  
Notes to Unaudited Condensed Consolidated Financial Statements

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation: The accompanying unaudited condensed consolidated financial statements for Timberland Bancorp, Inc. (“Company”) were prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with instructions for Form 10-Q and, therefore, do not include all disclosures necessary for a complete presentation of consolidated financial condition, results of operations, and cash flows in conformity with GAAP. However, all adjustments which are, in the opinion of management, necessary for a fair presentation of the interim condensed consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2014 (“2014 Form 10-K”). The unaudited condensed consolidated results of operations for the six months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2015.

(b) Principles of Consolidation: The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Timberland Bank (“Bank”), and the Bank’s wholly-owned subsidiary, Timberland Service Corp. All significant intercompany transactions and balances have been eliminated in consolidation.

(c) Operating Segment: The Company has one reportable operating segment which is defined as community banking in western Washington under the operating name, “Timberland Bank.”

(d) The preparation of condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(e) Certain prior period amounts have been reclassified to conform to the March 31, 2015 presentation with no change to net income or total shareholders’ equity previously reported.

(2) PREFERRED STOCK SOLD IN TROUBLED ASSET RELIEF PROGRAM (“TARP”) CAPITAL PURCHASE PROGRAM (“CPP”)

On December 23, 2008, the Company received \$16.64 million from the U.S. Treasury Department (“Treasury”) as a part of the Treasury’s CPP, which was established as part of the TARP. The Company sold 16,641 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A (“Series A Preferred Stock”), with a liquidation value of \$1,000 per share and a related warrant to purchase 370,899 shares of the Company’s common stock at an exercise price of \$6.73 per share (subject to anti-dilution adjustments) at any time through December 23, 2018.

On November 13, 2012, the Company’s outstanding 16,641 shares of Series A Preferred Stock were sold by the Treasury as part of its efforts to manage and recover its investments under the TARP. While the sale of the shares of Series A Preferred Stock to new owners did not result in any proceeds to the Company and did not change the Company’s capital position or accounting for these securities, it did eliminate restrictions put in place by the Treasury on TARP recipients.

On June 12, 2013, the Treasury sold, to private investors, the warrant to purchase up to 370,899 shares of the Company’s common stock. The sale of the warrant to new owners did not result in any proceeds to the Company and did not change the Company’s capital position or accounting for the warrant.

During the year ended September 30, 2013, the Company purchased and retired 4,576 shares of its Series A Preferred Stock for \$4.32 million; a \$255,000 discount from the liquidation value. The discount from the liquidation value on the repurchased shares was recorded as an increase to retained earnings and included in net income to common shareholders in the computation of net income per common share. On December 20, 2013, the Company redeemed the remaining 12,065 shares of its Series A Preferred Stock at the liquidation value of \$12.07 million. The Series A Preferred Stock paid a 5.0% dividend through December 20, 2013, the date of its redemption.

## (3) INVESTMENT SECURITIES

Held to maturity and available for sale investment securities have been classified according to management's intent and are as follows as of March 31, 2015 and September 30, 2014 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2015				
Held to maturity				
Mortgage-backed securities ("MBS"):				
U.S. government agencies	\$914	\$26	\$(1)	) \$939
Private label residential	1,176	975	(7)	) 2,144
U.S. agency securities	3,016	36	—	) 3,052
Total	\$5,106	\$1,037	\$(8)	) \$6,135
Available for sale				
MBS:				
U.S. government agencies	\$468	\$44	\$(1)	) \$511
Mutual funds	1,000	—	(25)	) 975
Total	\$1,468	\$44	\$(26)	) \$1,486
September 30, 2014				
Held to maturity				
MBS:				
U.S. government agencies	\$1,002	\$32	\$(2)	) \$1,032
Private label residential	1,280	965	(7)	) 2,238
U.S. agency securities	3,016	1	(13)	) 3,004
Total	\$5,298	\$998	\$(22)	) \$6,274
Available for sale				
MBS:				
U.S. government agencies	\$1,801	\$100	\$(2)	) \$1,899
Mutual funds	1,000	—	(42)	) 958
Total	\$2,801	\$100	\$(44)	) \$2,857

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following table summarizes the estimated fair value and gross unrealized losses for all securities and the length of time these unrealized losses existed as of March 31, 2015 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	\$—	\$—	—	\$70	\$(1)	5	\$70	\$(1)
Private label residential	1	—	1	146	(7)	10	147	(7)
Total	\$1	\$—	1	\$216	\$(8)	15	\$217	\$(8)
Available for sale								
MBS:								
U.S. government agencies	\$4	\$—	2	\$53	\$(1)	2	\$57	\$(1)
Mutual funds	—	—	—	975	(25)	1	975	(25)
Total	\$4	\$—	2	\$1,028	\$(26)	3	\$1,032	\$(26)

The following table summarizes the estimated fair value and gross unrealized losses for all securities and the length of time these unrealized losses existed as of September 30, 2014 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses	Qty	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	\$—	\$—	—	\$76	\$(2)	8	\$76	\$(2)
Private label residential	9	—	1	188	(7)	11	197	(7)
U.S. agency securities	2,989	(13)	1	—	—	—	2,989	(13)
Total	\$2,998	\$(13)	2	\$264	\$(9)	19	\$3,262	\$(22)
Available for sale								
MBS:								
U.S. government agencies	\$19	\$—	1	\$40	\$(2)	1	\$59	\$(2)
Mutual funds	—	—	—	958	(42)	1	958	(42)
Total	\$19	\$—	1	\$998	\$(44)	2	\$1,017	\$(44)

The Company has evaluated these securities and has determined that the decline in their value is temporary. The unrealized losses are primarily due to changes in market interest rates and spreads in the market for mortgage-related

products. The fair value of these securities is expected to recover as the securities approach their maturity dates and/or as the pricing spreads narrow on mortgage-related securities. The Company has the ability and the intent to hold the investments until the market value recovers. Furthermore, as of March 31, 2015, management does not have the intent to sell any of the securities classified

as available for sale where the estimated fair value is below the recorded value and believes that it is more likely than not that the Company will not have to sell such securities before a recovery of cost or recorded value if previously written down.

In accordance with GAAP, the Company bifurcates OTTI into (1) amounts related to credit losses which are recognized through earnings and (2) amounts related to all other factors which are recognized as a component of other comprehensive income (loss).

To determine the component of the gross OTTI related to credit losses, the Company compared the amortized cost basis of each OTTI security to the present value of its revised expected cash flows, discounted using its pre-impairment yield. The revised expected cash flow estimates for individual securities are based primarily on an analysis of default rates and prepayment speeds included in third-party analytic reports. Significant judgment by management is required in this analysis that includes, but is not limited to, assumptions regarding the collectability of principal and interest, net of related expenses, on the underlying loans.

The following table presents a summary of the significant inputs utilized to measure management's estimate of the credit loss component on OTTI securities as of March 31, 2015 and September 30, 2014:

	Range		Weighted	
	Minimum	Maximum	Average	
<b>March 31, 2015</b>				
Constant prepayment rate	6.00	% 15.00	% 9.40	%
Collateral default rate	0.09	% 16.68	% 6.26	%
Loss severity rate	0.98	% 63.18	% 41.54	%
<b>September 30, 2014</b>				
Constant prepayment rate	6.00	% 15.00	% 10.59	%
Collateral default rate	0.01	% 22.34	% 7.41	%
Loss severity rate	0.16	% 75.17	% 45.81	%

The following tables present the OTTI for the three and six months ended March 31, 2015 and 2014 (in thousands):

	Three Months Ended March 31, 2015		Three Months Ended March 31, 2014	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total (OTTI) recoveries	\$—	\$—	\$89	\$—
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes (1)	(1	) —	—	—
Net (OTTI) recoveries recognized in earnings (2)	\$(1	) \$—	\$89	\$—
	Six Months Ended March 31, 2015		Six Months Ended March 31, 2014	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total (OTTI) recoveries	\$—	\$—	\$86	\$—
Adjustment for portion recorded as (transferred from) other comprehensive income (loss) before taxes (1)	(1	) —	1	—
Net (OTTI) recoveries recognized in earnings (2)	\$(1	) \$—	\$87	\$—

- 
- (1) Represents (OTTI) recoveries related to all other factors.
  - (2) Represents net recoveries (OTTI) related to credit losses.

The following table presents a roll-forward of the credit loss component of held to maturity and available for sale debt securities that have been written down for OTTI with the credit loss component recognized in earnings and the remaining impairment loss related to all other factors recognized in other comprehensive income (loss) for the six months ended March 31, 2015 and 2014 (in thousands):

	Six Months Ended March 31,	
	2015	2014
Beginning balance of credit loss	\$ 1,654	\$ 2,084
Additions:		
Credit losses for which OTTI was not previously recognized	1	2
Subtractions:		
Realized losses previously recorded as credit losses	(38	) (492
Recovery of prior credit loss	—	87
Ending balance of credit loss	\$ 1,617	\$ 1,681

There was no realized gain on the sale of investment securities for the three months ended March 31, 2015. There was a \$45,000 realized gain on the sale of investment securities for the six months ended March 31, 2015. There was a \$32,000 realized loss on the sale of investment securities for both the three and six months ended March 31, 2014. During the three months ended March 31, 2015, the Company recorded a net \$21,000 realized loss (as a result of the securities being deemed worthless) on 12 held to maturity residential MBS, of which the entire amount had been recognized previously as a credit loss. During the six months ended March 31, 2015, the Company recorded a net \$38,000 realized loss (as a result of securities being deemed worthless) on 14 held to maturity residential MBS, of which the entire amount had been recognized previously as a credit loss. During the three months ended March 31, 2014, the Company recorded a \$365,000 realized loss (as a result of the securities being deemed worthless) on 12 held to maturity residential MBS and five available for sale residential MBS, of which the entire amount had been recognized previously as a credit loss. During the six months ended March 31, 2014, the Company recorded a net \$405,000 realized loss (as a result of securities being deemed worthless) on 15 held to maturity residential MBS and six available for sale MBS, of which the entire amount had previously been recognized as a credit loss.

The amortized cost of residential mortgage-backed and agency securities pledged as collateral for public fund deposits, federal treasury tax and loan deposits, FHLB collateral, retail repurchase agreements and other non-profit organization deposits totaled \$4.50 million and \$6.22 million at March 31, 2015 and September 30, 2014, respectively.

The contractual maturities of debt securities at March 31, 2015 were as follows (dollars in thousands). Expected maturities may differ from scheduled maturities as a result of the prepayment of principal or call provisions.

	Held to Maturity		Available for Sale	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	\$—	\$—	\$—	\$—
Due after one year to five years	3,019	3,055	15	15
Due after five to ten years	25	25	—	—
Due after ten years	2,062	3,055	453	496
Total	\$5,106	\$6,135	\$468	\$511



(4) GOODWILL

The Company performed its fiscal year 2014 goodwill impairment test during the quarter ended June 30, 2014 with the assistance of a third-party firm specializing in goodwill impairment valuations for financial institutions. The third-party analysis was conducted as of May 31, 2014 and the step one test concluded that the reporting unit's fair value was more than

15

---

its recorded value and, therefore, step two of the analysis was not necessary. Accordingly, the recorded value of goodwill as of May 31, 2014 was not impaired.

The goodwill impairment test involves a two-step process. Step one of the goodwill impairment test estimates the fair value of the reporting unit. If the estimated fair value of the Company's sole reporting unit, the Bank, under step one exceeds the recorded value of the reporting unit, goodwill is not considered impaired and no further analysis is necessary. If the estimated fair value of the Company's sole reporting unit is less than the recorded value, then a step two test, which calculates the fair value of assets and liabilities to calculate an implied value of goodwill, is performed.

Step one of the goodwill impairment test estimated the fair value of the reporting unit utilizing a discounted cash flow income approach analysis, a public company market approach analysis, a merger and acquisition market approach analysis and a trading price market approach analysis in order to derive an enterprise value for the Company.

The discounted cash flow income approach analysis uses a reporting unit's projection of estimated operating results and cash flows and discounts them using a rate that reflects current market conditions. The projection uses management's estimates of economic and market conditions over the projected period including growth rates in loans and deposits, estimates of future expected changes in net interest margins and cash expenditures. Key assumptions used by the Company in its discounted cash flow model (income approach) included an annual loan growth rate that ranged from 3.00% to 5.10%, an annual deposit growth rate that ranged from 2.80% to 4.00% and a return on assets that ranged from 0.70% to 1.00%. In addition to the above projections of estimated operating results, key assumptions used to determine the fair value estimate under the approach were the discount rate of 13.6% and the residual capitalization rate of 10.6%. The discount rate used was the cost of equity capital. The cost of equity capital was based on the capital asset pricing model ("CAPM"), modified to account for a small stock premium. The small stock premium represents the additional return required by investors for small stocks based on the Stocks, Bonds, Bills and Inflation 2013 Yearbook. Beyond the approximate five-year forecast period, residual free cash flows were estimated to increase at a constant rate into perpetuity. These cash flows were converted to a residual value using an appropriate residual capitalization rate. The residual capitalization rate was equal to the discount rate minus the expected long-term growth rate of cash flows. Based on historical results, the economic climate, the outlook for the industry and management's expectations, a long-term growth rate of 3.0% was estimated.

The public company market approach analysis estimates the fair value by applying cash flow multiples to the reporting unit's operating performance. The multiples were derived from comparable publicly traded companies with operating and investment characteristics similar to those of the Company. Key assumptions used by the Company included the selection of comparable public companies and performance ratios. In applying the public company analysis, the Company selected eight publicly traded institutions based on similar lines of business, markets, growth prospects, risks and firm size. The performance ratios included price to earnings (last twelve months), price to earnings (current year to date), price to book value, price to tangible book value and price to deposits.

The merger and acquisition market approach analysis estimates the fair value by using merger and acquisition transactions involving companies that are similar in nature to the Company. Key assumptions used by the Company included the selection of comparable merger and acquisition transactions and the valuation ratios to be used. The analysis used banks located in Washington and Oregon that were acquired after January 1, 2012. The valuation ratios from these transactions for price to earnings and price to tangible book value were then used to derive an estimated fair value of the Company.

The trading price market approach analysis used the closing market price at May 30, 2014 of the Company's common stock, traded on the NASDAQ Global Market to determine the market value of total equity capital.

A key assumption used by the Company in the public company market approach analysis and the trading price market approach analysis was the application of a control premium. The Company's common stock is thinly traded and therefore management believes reflects a discount for illiquidity. In addition, the trading price of the Company's common stock reflects a minority interest value. To determine the fair market value of a majority interest in the Company's stock, premiums were calculated and applied to the indicated values. Therefore, a control premium was applied to the results of the public company market approach analysis and the trading price market approach analysis because the initial value conclusion was based on minority interest transactions. Merger and acquisition studies were analyzed to conclude that the difference between the acquisition price and a company's stock price prior to acquisition indicates, in part, the price effect of a controlling interest. Based on the evaluation of mergers and acquisition studies, a control premium of 25% was used.

A significant amount of judgment is involved in determining if an indicator of goodwill impairment has occurred. Such indicators may include, among others: a significant decline in the expected future cash flows; a sustained, significant decline in the Company's stock price and market capitalization; a significant adverse change in legal factors or in the business climate;

adverse assessment or action by a regulator; and unanticipated competition. Key assumptions used in the annual goodwill impairment test are highly judgmental and include: selection of comparable companies, amount of control premium, projected cash flows and discount rate applied to projected cash flows. Any change in these indicators or key assumptions could have a significant negative impact on the Company's financial condition, impact the goodwill impairment analysis or cause the Company to perform a goodwill impairment analysis more frequently than once per year.

As of March 31, 2015, management believed that there had been no events or changes in the circumstances since May 31, 2014 that would indicate a potential impairment of goodwill. No assurances can be given, however, that the Company will not record an impairment loss on goodwill in the future.

## (5) LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable and loans held for sale consisted of the following at March 31, 2015 and September 30, 2014 (dollars in thousands):

	March 31, 2015		September 30, 2014		
	Amount	Percent	Amount	Percent	
Mortgage loans:					
One- to four-family (1)	\$ 107,821	17.1	% \$ 98,534	16.2	%
Multi-family	48,641	7.7	46,206	7.6	
Commercial	296,338	46.8	294,354	48.5	
Construction and land development	77,433	12.2	68,479	11.3	
Land	28,464	4.5	29,589	4.9	
Total mortgage loans	558,697	88.3	537,162	88.5	
Consumer loans:					
Home equity and second mortgage	34,362	5.4	34,921	5.7	
Other	4,567	0.8	4,699	0.8	
Total consumer loans	38,929	6.2	39,620	6.5	
Commercial business loans	34,911	5.5	30,559	5.0	
Total loans receivable	632,537	100.0	% 607,341	100.0	%
Less:					
Undisbursed portion of construction loans in process	(35,990 )		(29,416 )		
Deferred loan origination fees	(1,893 )		(1,746 )		
Allowance for loan losses	(10,382 )		(10,427 )		
Total loans receivable, net	\$ 584,272		\$ 565,752		

(1) Includes loans held for sale.

## Construction and Land Development Loan Portfolio Composition

The following table sets forth the composition of the Company's construction and land development loan portfolio at March 31, 2015 and September 30, 2014 (dollars in thousands):

	March 31, 2015		September 30, 2014		
	Amount	Percent	Amount	Percent	
Custom and owner/builder	\$ 60,889	78.6	% \$ 59,752	87.3	%
Speculative one- to four-family	2,769	3.6	2,577	3.8	
Commercial real estate	3,395	4.4	3,310	4.8	
Multi-family (including condominiums)	10,380	13.4	2,840	4.1	
Total construction and land development loans	\$ 77,433	100.0	% \$ 68,479	100.0	%



## Allowance for Loan Losses

The following tables set forth information for the three and six months ended March 31, 2015 and 2014 regarding activity in the allowance for loan losses by portfolio segment (in thousands):

	Three Months Ended March 31, 2015				Ending Allowance
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	
Mortgage loans:					
One-to four-family	\$1,504	\$24	\$39	\$107	\$1,596
Multi-family	368	(66 )	—	—	302
Commercial	3,646	(45 )	—	—	3,601
Construction – custom and owner/builder	460	15	—	—	475
Construction – speculative one- to four-family	50	14	—	—	64
Construction – commercial	28	9	—	—	37
Construction – multi-family	75	54	—	—	129
Land	2,817	(67 )	—	3	2,753
Consumer loans:					
Home equity and second mortgage	801	5	9	—	797
Other	159	34	4	1	190
Commercial business loans	414	23	—	1	438
Total	\$10,322	\$—	\$52	\$112	\$10,382

	Six Months Ended March 31, 2015				Ending Allowance
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	
Mortgage loans:					
One-to four-family	\$1,650	\$(23 )	\$157	\$126	\$1,596
Multi-family	387	(85 )	—	—	302
Commercial	4,836	(1,235 )	—	—	3,601
Construction – custom and owner/builder	450	25	—	—	475
Construction – speculative one- to four-family	52	12	—	—	64
Construction – commercial	78	(41 )	—	—	37
Construction – multi-family	25	104	—	—	129
Land	1,434	1,312	4	11	2,753
Consumer loans:					
Home equity and second mortgage	879	(62 )	20	—	797
Other	176	17	5	2	190
Commercial business loans	460	(24 )	—	2	438
Total	\$10,427	\$—	\$186	\$141	\$10,382

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	Three Months Ended March 31, 2014				Ending Allowance
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	
Mortgage loans:					
One-to four-family	\$ 1,321	\$ 560	\$ 273	\$ 143	\$ 1,751
Multi-family	551	(118)	—	—	433
Commercial	5,113	222	168	1	5,168
Construction – custom and owner/builder	332	16	—	—	348
Construction – speculative one- to four-family	18	(72)	—	—	46
Construction – commercial	80	(55)	—	—	25
Construction – multi-family	—	(126)	—	126	—
Construction – land development	—	(218)	—	218	—
Land	1,865	(242)	162	107	1,568
Consumer loans:					
Home equity and second mortgage	809	52	—	7	868
Other	208	(12)	2	—	194
Commercial business loans	348	(7)	—	7	348
Total	\$ 10,745	\$ —	\$ 605	\$ 609	\$ 10,749

	Six Months Ended March 31, 2014				Ending Allowance
	Beginning Allowance	Provision /(Credit)	Charge-offs	Recoveries	
Mortgage loans:					
One-to four-family	\$ 1,449	\$ 774	\$ 623	\$ 151	\$ 1,751
Multi-family	749	(316)	—	—	433
Commercial	5,275	352	463	4	5,168
Construction – custom and owner/builder	262	86	—	—	348
Construction – speculative one- to four-family	96	(50)	—	—	46
Construction – commercial	56	(31)	—	—	25
Construction – multi-family	—	(126)	—	126	—
Construction – land development	—	(287)	—	287	—
Land	1,940	(524)	255	407	1,568
Consumer loans:					
Home equity and second mortgage	782	107	28	7	868
Other	200	(4)	2	—	194
Commercial business loans	327	19	14	16	348
Total	\$ 11,136	\$ —	\$ 1,385	\$ 998	\$ 10,749



Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following tables present information on the loans evaluated individually and collectively for impairment in the allowance for loan losses at March 31, 2015 and September 30, 2014 (in thousands):

	Allowance for Loan Losses			Recorded Investment in Loans		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
March 31, 2015						
Mortgage loans:						
One- to four-family	\$652	\$944	\$1,596	\$6,761	\$101,060	\$107,821
Multi-family	14	288	302	4,055	44,586	48,641
Commercial	80	3,521	3,601	12,542	283,796	296,338
Construction – custom and owner/builder	19	456	475	225	36,550	36,775
Construction – speculative one-to four-family	—	64	64	—	1,787	1,787
Construction – commercial	—	37	37	—	1,283	1,283
Construction – multi-family	—	129	129	—	1,598	1,598
Land	1,735	1,018	2,753	4,957	23,507	28,464
Consumer loans:						
Home equity and second mortgage	156	641	797	698	33,664	34,362
Other	26	164	190	38	4,529	4,567
Commercial business loans	—	438	438	—	34,911	34,911
Total	\$2,682	\$7,700	\$10,382	\$29,276	\$567,271	\$596,547
September 30, 2014						
Mortgage loans:						
One- to four-family	\$709	\$941	\$1,650	\$7,011	\$91,523	\$98,534
Multi-family	39	348	387	3,317	42,889	46,206
Commercial	797	4,039	4,836	17,188	277,166	294,354
Construction – custom and owner/builder	—	450	450	—	34,553	34,553
Construction – speculative one- to four-family	—	52	52	—	1,204	1,204
Construction – commercial	—	78	78	—	2,887	2,887
Construction – multi-family	—	25	25	—	419	419
Land	300	1,134	1,434	5,158	24,431	29,589
Consumer loans:						
Home equity and second mortgage	162	717	879	797	34,124	34,921
Other	—	176	176	3	4,696	4,699
Commercial business loans	—	460	460	—	30,559	30,559
Total	\$2,007	\$8,420	\$10,427	\$33,474	\$544,451	\$577,925

#### Credit Quality Indicators

The Company uses credit risk grades which reflect the Company's assessment of a loan's risk or loss potential. The Company categorizes loans into risk grade categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors such as the estimated fair value of the collateral. The Company uses the following definitions for credit risk ratings as part of the ongoing monitoring of the credit quality of its loan portfolio:

**Pass:** Pass loans are defined as those loans that meet acceptable quality underwriting standards.

**Watch:** Watch loans are defined as those loans that still exhibit acceptable quality, but have some concerns that justify greater attention. If these concerns are not corrected, a potential for further adverse categorization exists. These concerns could relate to a specific condition peculiar to the borrower, its industry segment or the general economic environment.

**Special Mention:** Special mention loans are defined as those loans deemed by management to have some potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the payment prospects of the loan. Assets in this category do not expose the Company to sufficient risk to warrant a substandard classification.

**Substandard:** Substandard loans are defined as those loans that are inadequately protected by the current net worth and paying capacity of the obligor, or of the collateral pledged. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. If the weakness or weaknesses are not corrected, there is the distinct possibility that some loss will be sustained.

**Loss:** Loans in this classification are considered uncollectible and of such little value that continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this loan even though partial recovery may be realized in the future.

The following table lists the loan credit risk grades utilized by the Company that serve as credit quality indicators by portfolio segment at March 31, 2015 and September 30, 2014 (in thousands):

March 31, 2015	Loan Grades				Total
	Pass	Watch	Special Mention	Substandard	
Mortgage loans:					
One- to four-family	\$99,880	\$1,999	\$1,037	\$4,905	\$107,821
Multi-family	39,842	1,682	6,357	760	48,641
Commercial	275,554	8,121	5,846	6,817	296,338
Construction – custom and owner/builder	36,550	—	—	225	36,775
Construction – speculative one- to four-family	1,787	—	—	—	1,787
Construction – commercial	1,283	—	—	—	1,283
Construction – multi-family	1,598	—	—	—	1,598
Land	20,181	1,196	2,454	4,633	28,464
Consumer loans:					
Home equity and second mortgage	32,703	605	23	1,031	34,362
Other	4,526	—	—	41	4,567
Commercial business loans	34,773	52	86	—	34,911
Total	\$548,677	\$13,655	\$15,803	\$18,412	\$596,547
September 30, 2014					
Mortgage loans:					
One- to four-family	\$90,340	\$1,749	\$1,045	\$5,400	\$98,534
Multi-family	37,336	1,697	6,410	763	46,206
Commercial	266,467	5,819	15,946	6,122	294,354
Construction – custom and owner/builder	34,553	—	—	—	34,553
Construction – speculative one- to four-family	1,204	—	—	—	1,204
Construction – commercial	2,887	—	—	—	2,887
Construction – multi-family	419	—	—	—	419
Land	21,084	114	3,586	4,805	29,589
Consumer loans:					
Home equity and second mortgage	33,207	724	27	963	34,921
Other	4,657	39	—	3	4,699
Commercial business loans	30,355	112	92	—	30,559
Total	\$522,509	\$10,254	\$27,106	\$18,056	\$577,925

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following tables present an age analysis of past due status of loans by portfolio segment at March 31, 2015 and September 30, 2014 (dollars in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Non- Accrual	Past Due 90 Days or More and Still Accruing	Total Past Due	Current	Total Loans
March 31, 2015							
Mortgage loans:							
One- to four-family	\$—	\$52	\$3,751	\$—	\$3,803	\$104,018	\$107,821
Multi-family	—	—	760	—	760	47,881	48,641
Commercial	—	686	1,535	—	2,221	294,117	296,338
Construction – custom and owner/builder	—	—	225	—	225	36,550	36,775
Construction – speculative one- to four- family	—	—	—	—	—	1,787	1,787
Construction – commercial	—	—	—	—	—	1,283	1,283
Construction – multi-family	—	—	—	—	—	1,598	1,598
Land	101	—	4,214	—	4,315	24,149	28,464
Consumer loans:							
Home equity and second mortgage	50	407	401	—	858	33,504	34,362
Other	—	—	38	—	38	4,529	4,567
Commercial business loans	16	—	—	—	16	34,895	34,911
Total	\$167	\$1,145	\$10,924	\$—	\$12,236	\$584,311	\$596,547
September 30, 2014							
Mortgage loans:							
One- to four-family	\$—	\$577	\$4,376	\$—	\$4,953	\$93,581	\$98,534
Multi-family	—	—	—	—	—	46,206	46,206
Commercial	—	695	1,468	812	2,975	291,379	294,354
Construction – custom and owner/ builder	—	156	—	—	156	34,397	34,553
Construction – speculative one- to four- family	—	—	—	—	—	1,204	1,204
Construction – commercial	—	—	—	—	—	2,887	2,887
Construction – multi-family	—	—	—	—	—	419	419
Land	357	27	4,564	—	4,948	24,641	29,589
Consumer loans:							
Home equity and second mortgage	62	44	498	—	604	34,317	34,921
Other	42	—	3	—	45	4,654	4,699
Commercial business loans	21	—	—	—	21	30,538	30,559
Total	\$482	\$1,499	\$10,909	\$812	\$13,702	\$564,223	\$577,925

Impaired Loans

A loan is considered impaired when (based on current information and events) it is probable that the Company will be unable to collect all contractual principal and interest payments due in accordance with the original or modified terms of the loan agreement. Impaired loans are measured based on the estimated fair value of the collateral less the estimated cost to sell if the loan is considered collateral dependent. Impaired loans that are not considered to be collateral dependent are measured based on the present value of expected future cash flows.

The categories of non-accrual loans and impaired loans overlap, although they are not coextensive. The Company considers all circumstances regarding the loan and borrower on an individual basis when determining whether an impaired loan should be placed on non-accrual status, such as the financial strength of the borrower, the estimated collateral value, reasons for the delay, payment record, the amount past due and the number of days past due.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following is a summary of information related to impaired loans by portfolio segment as of March 31, 2015 and for the three and six months then ended (in thousands):

	Recorded Investment	Unpaid Principal Balance (Loan Balance Plus Charge Off)	Related Allowance	QTD Average Recorded Investment (1)	YTD Average Recorded Investment (2)	QTD Interest Income Recognized (1)	YTD Interest Income Recognized (2)	QTD Cash Basis Interest Income Recognized (1)	YTD Cash Basis Interest Income Recognized (2)
With no related allowance recorded:									
Mortgage loans:									
One- to four-family	\$ 2,209	\$ 2,791	\$ —	\$ 2,481	\$ 2,537	\$ 6	\$ 12	\$ 6	\$ 12
Multi-family	760	1,616	—	380	253	—	—	—	—
Commercial	10,881	11,942	—	10,927	10,970	137	289	103	230
Construction – custom and owner/ builder	157	156	—	157	104	—	—	—	—
Land	844	1,272	—	936	984	6	17	7	13
Consumer loans:									
Home equity and second mortgage	259	502	—	339	343	—	—	—	—
Other	—	—	—	—	1	—	—	—	—
Commercial business loans	—	8	—	—	—	—	—	—	—
Subtotal	15,110	18,287	—	15,220	15,192	149	318	116	255
With an allowance recorded:									
Mortgage loans:									
One- to four-family	4,552	4,552	652	4,360	4,361	44	81	32	62
Multi-family	3,295	3,295	14	3,301	3,306	44	88	33	66
Commercial	1,661	1,661	80	1,608	3,115	31	62	23	46
Construction – custom and owner/ builder	68	68	19	34	23	—	—	—	—
Land	4,113	4,113	1,735	4,096	4,090	6	12	5	11
Consumer loans:									
Home equity and second mortgage	439	439	156	441	443	4	8	3	7
Other	38	38	26	19	13	—	—	—	—
Subtotal	14,166	14,166	2,682	13,859	15,351	129	251	96	192

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	Recorded Investment	Unpaid Principal Balance (Loan Balance Plus Charge Off)	Related Allowance	QTD Average Recorded Investment (1)	YTD Average Recorded Investment (2)	QTD Interest Income Recognized (1)	YTD Interest Income Recognized (2)	QTD Cash Basis Interest Income Recognized (1)	YTD Cash Basis Interest Income Recognized (2)
Total									
Mortgage loans:									
One- to four-family	\$ 6,761	\$ 7,343	\$ 652	\$ 6,841	\$ 6,898	\$ 50	\$ 93	\$ 38	\$ 74
Multi-family	4,055	4,911	14	3,681	3,559	44	88	33	66
Commercial	12,542	13,603	80	12,535	14,085	168	351	126	276
Construction – custom and owner/ builder	225	224	19	191	127	—	—	—	—
Land	4,957	5,385	1,735	5,032	5,074	12	29	12	24
Consumer loans:									
Home equity and second mortgage	698	941	156	780	786	4	8	3	7
Other	38	38	26	19	14	—	—	—	—
Commercial business loans	—	8	—	—	—	—	—	—	—
Total	\$ 29,276	\$ 32,453	\$ 2,682	\$ 29,079	\$ 30,543	\$ 278	\$ 569	\$ 212	\$ 447

(1) For the three months ended March 31, 2015.

(2) For the six months ended March 31, 2015.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following is a summary of information related to impaired loans by portfolio segment as of and for the year ended September 30, 2014 (in thousands):

	Recorded Investment	Unpaid Principal Balance (Loan Balance Plus Charge Off)	Related Allowance	YTD Average Recorded Investment (1)	YTD Interest Income Recognized (1)	YTD Cash Basis Interest Income Recognized (1)
With no related allowance recorded:						
Mortgage loans:						
One- to four-family	\$ 2,647	\$ 3,301	\$—	\$ 3,763	\$—	\$—
Multi-family	—	857	—	—	—	—
Commercial	11,057	14,184	—	7,859	414	325
Construction – multi-family	—	—	—	57	—	—
Construction – land development	—	—	—	141	—	—
Land	1,079	1,674	—	1,044	12	10
Consumer loans:						
Home equity and second mortgage	351	574	—	276	—	—
Other	3	3	—	7	—	—
Commercial business loans	—	10	—	22	—	—
Subtotal	15,137	20,603	—	13,169	426	335
With an allowance recorded:						
Mortgage loans:						
One- to four-family	4,364	4,364	709	4,140	146	110
Multi-family	3,317	3,317	39	4,157	220	165
Commercial	6,131	6,131	797	10,083	541	423
Construction – speculative one- to four-family	—	—	—	275	11	7
Land	4,079	4,079	300	3,780	18	16
Consumer loans:						
Home equity and second mortgage	446	446	162	404	16	12
Subtotal	18,337	18,337	2,007	22,839	952	733
Total						
Mortgage loans:						
One- to four-family	7,011	7,665	709	7,903	146	110
Multi-family	3,317	4,174	39	4,157	220	165
Commercial	17,188	20,315	797	17,942	955	748
Construction – speculative one- to four-family	—	—	—	275	11	7
Construction – multi-family	—	—	—	57	—	—
Construction – land development	—	—	—	141	—	—
Land	5,158	5,753	300	4,824	30	26
Consumer loans:						
Home equity and second mortgage	797	1,020	162	680	16	12
Other	3	3	—	7	—	—
Commercial business loans	—	10	—	22	—	—
Total	\$ 33,474	\$ 38,940	\$ 2,007	\$ 36,008	\$ 1,378	\$ 1,068



(1) For the year ended September 30, 2014.

27

---

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following table sets forth information with respect to the Company's non-performing assets at March 31, 2015 and September 30, 2014 (dollars in thousands):

	March 31, 2015	September 30, 2014		
Loans accounted for on a non-accrual basis:				
Mortgage loans:				
One- to four-family	\$3,751	\$4,376		
Multi-family	760	—		
Commercial	1,535	1,468		
Construction – custom and owner/builder	225	—		
Land	4,214	4,564		
Consumer loans:				
Home equity and second mortgage	401	498		
Other	38	3		
Total loans accounted for on a non-accrual basis	10,924	10,909		
Accruing loans which are contractually past due 90 days or more	—	812		
Total of non-accrual and 90 days past due loans	10,924	11,721		
Non-accrual investment securities	1,009	1,101		
OREO and other repossessed assets, net	7,866	9,092		
Total non-performing assets (1)	\$19,799	\$21,914		
Troubled debt restructured loans on accrual status (2)	\$12,673	\$16,804		
Non-accrual and 90 days or more past due loans as a percentage of loans receivable	1.84	% 2.03		%
Non-accrual and 90 days or more past due loans as a percentage of total assets	1.41	% 1.57		%
Non-performing assets as a percentage of total assets	2.55	% 2.94		%
Loans receivable (3)	\$594,654	\$576,179		
Total assets	\$776,270	\$745,565		

(1) Does not include troubled debt restructured loans on accrual status.

(2) Does not include troubled debt restructured loans totaling \$2.1 million and \$2.3 million reported as non-accrual loans at March 31, 2015 and September 30, 2014, respectively.

(3) Includes loans held for sale and before the allowance for loan losses.

Troubled debt restructured loans are loans for which the Company, for economic or legal reasons related to the borrower's financial condition, has granted a significant concession to the borrower that it would otherwise not consider. The loan terms which have been modified or restructured due to a borrower's financial difficulty include but are not limited to: a reduction in the stated interest rate; an extension of the maturity at an interest rate below current market; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-aging, extensions,

deferrals and renewals. Troubled debt restructured loans are considered impaired loans and are individually evaluated for impairment. Troubled debt restructured loans can be classified

28

---

as either accrual or non-accrual. Troubled debt restructured loans are classified as non-performing loans unless they have been performing in accordance with their modified terms for a period of at least six months. The Company had \$14.79 million and \$19.09 million in troubled debt restructured loans included in impaired loans at March 31, 2015 and September 30, 2014, respectively, and had no commitments at these dates to lend additional funds on these loans. The allowance for loan losses allocated to troubled debt restructured loans at March 31, 2015 and September 30, 2014 was \$249,000 and \$994,000, respectively.

The following table sets forth information with respect to the Company's troubled debt restructured loans by interest accrual status as of March 31, 2015 and September 30, 2014 (in thousands):

	March 31, 2015		
	Accruing	Non-Accrual	Total
Mortgage loans:			
One- to four-family	\$3,010	\$169	\$3,179
Multi-family	3,295	—	3,295
Commercial	5,328	1,535	6,863
Land	743	265	1,008
Consumer loans:			
Home equity and second mortgage	297	152	449
Total	\$12,673	\$2,121	\$14,794
	September 30, 2014		
	Accruing	Non-Accrual	Total
Mortgage loans:			
One- to four-family	\$2,634	\$233	\$2,867
Multi-family	3,317	—	3,317
Commercial	9,960	1,468	11,428
Land	594	431	1,025
Consumer loans:			
Home equity and second mortgage	299	152	451
Total	\$16,804	\$2,284	\$19,088

The following tables set forth information with respect to the Company's troubled debt restructured loans by portfolio segment that occurred during the six months ended March 31, 2015 and the year ended September 30, 2014 (dollars in thousands):

		Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	End of Period Balance
March 31, 2015	Number of Contracts			
Commercial (1)	1	\$ 415	\$116	\$116
Total	1	\$ 415	\$116	\$116
September 30, 2014				
One-to four-family (1)	1	\$42	\$42	\$42
Land (1)	1	157	157	153
Total	2	\$199	\$199	\$195

(1) Modifications were a result of a reduction in the stated interest rate and/or collateral change.

29

---

**(6) NET INCOME PER COMMON SHARE**

Basic net income per common share is computed by dividing net income to common shareholders by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted net income per common share is computed by dividing net income to common shareholders by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company's common stock during the period. The dividend and related accretion for the amount of the Company's Series A Preferred Stock outstanding for the respective period was deducted from net income and the discount on the redemption of Series A Preferred Stock was added to net income in computing net income to common shareholders. Common stock equivalents arise from the assumed conversion of outstanding stock options and the outstanding warrant to purchase common stock. Shares owned by the Bank's ESOP that have not been allocated are not considered to be outstanding for the purpose of computing basic and diluted net income per common share. At March 31, 2015 and 2014, there were 152,869 and 189,881 shares, respectively, that had not been allocated under the Bank's ESOP.

Information regarding the calculation of basic and diluted net income per common share for the three and six months ended March 31, 2015 and 2014 is as follows (dollars in thousands, except per share amounts):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
Basic net income per common share computation				
Numerator – net income	\$ 1,451	\$ 1,159	\$ 3,178	\$ 2,770
Preferred stock dividends	—	—	—	(136 )
Preferred stock discount accretion	—	—	—	(70 )
Net income to common shareholders	\$ 1,451	\$ 1,159	\$ 3,178	\$ 2,564
Denominator – weighted average common shares outstanding				
	6,898,192	6,856,633	6,895,038	6,855,142
Basic net income per common share	\$ 0.21	\$ 0.17	\$ 0.46	\$ 0.37
Diluted net income per common share computation				
Numerator – net income	\$ 1,451	\$ 1,159	\$ 3,178	\$ 2,770
Preferred stock dividends	—	—	—	(136 )
Preferred stock discount accretion	—	—	—	(70 )
Net income to common shareholders	\$ 1,451	\$ 1,159	\$ 3,178	\$ 2,564
Denominator – weighted average common shares outstanding				
	6,898,192	6,856,633	6,895,038	6,855,142
Effect of dilutive stock options (1)	36,730	40,149	36,775	34,815
Effect of dilutive stock warrant	136,870	137,197	135,808	115,920
Weighted average common shares and common stock equivalents	7,071,792	7,033,979	7,067,621	7,005,877
Diluted net income per common share	\$ 0.21	\$ 0.16	\$ 0.45	\$ 0.37

(1) For both the three and six months ended March 31, 2015, average options to purchase 122,000 shares of common stock, were outstanding but not included in the computation of diluted net income per common share because their effect would have been anti-dilutive. For the three and six months ended March 31, 2014, average options to purchase 125,198 and 131,489 shares of common stock, respectively, were outstanding but not included in the computation of

diluted net income per common share because their effect would have been anti-dilutive.

## (7) STOCK COMPENSATION PLANS AND STOCK BASED COMPENSATION

## Stock Compensation Plans

Under the Company's prior stock compensation plans (the 1999 Stock Option Plan, the 2003 Stock Option Plan and the MRDP), the Company was able to grant options and awards for restricted stock for up to a combined total of 2,151,500 shares of common stock to employees, officers, directors and directors emeriti. Under the Company's 2014 Equity Incentive Plan (collectively with the 1999 Stock Option Plan, the 2003 Stock Option Plan and the MRDP, "the Plans"), which was approved by shareholders on January 27, 2015, the Company is able to grant options, awards of restricted stock and awards of restricted stock with performance measures for up to 352,366 shares of common stock to employees, officers, directors and directors emeriti. Shares issued may be purchased in the open market or may be issued from authorized and unissued shares. The exercise price of each option equals the fair market value of the Company's common stock on the date of grant. At March 31, 2015, there were 352,366 shares available for future grant under the 2014 Equity Incentive Plan. There are no options or awards for restricted stock available for future grant under the 2003 Stock Option Plan, the 1999 Stock Option Plan or the MRDP.

Activity under the Plans for the six months ended March 31, 2015 and 2014 is as follows:

	Six Months Ended March 31, 2015		Six Months Ended March 31, 2014	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	221,400	\$7.49	162,946	\$6.96
Exercised	(5,300)	) 4.62	(3,600)	) 4.65
Granted	—	—	135,000	9.29
Forfeited	(200)	) 4.55	(65,946)	) 9.97
Options outstanding, end of period	215,900	\$7.57	228,400	\$7.50
Options exercisable, end of period	74,700	\$6.47	38,400	\$4.90

The aggregate intrinsic value of options outstanding at March 31, 2015 was \$664,000.

At March 31, 2015, there were 141,200 unvested options with an aggregate grant date fair value of \$348,000, all of which the Company assumes will vest. The aggregate intrinsic value of unvested options at March 31, 2015 was \$352,000. There were 42,900 options with an aggregate grant date fair value of \$100,000 that vested during the six months ended March 31, 2015.

At March 31, 2014, there were 190,000 unvested options with an aggregate grant date fair value of \$464,000. There were 14,600 options with an aggregate grant date fair value of \$26,000 that vested during the six months ended March 31, 2014.

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards with the weighted average assumptions noted in the following table. The risk-free interest rate is based on the U.S. Treasury rate of a similar term as the stock option at the particular grant date. The expected life is based on historical data, vesting terms and estimated exercise dates. The expected dividend yield is based on the most recent quarterly dividend on an annualized basis in effect at the time the options were granted, adjusted, if appropriate for management's expectations regarding future dividends. The expected volatility is based on historical volatility of the Company's stock price. There were no options granted during the six months ended March 31, 2015. There were 135,000 options granted during the six months ended March 31, 2014 with an aggregate grant date fair value of \$349,000.



The weighted average assumptions used for options granted during the six months ended March 31, 2014 were:

31

---

Expected volatility	39	%
Expected term (in years)	5	
Expected dividend yield	2.51	%
Risk free interest rate	1.41	%
Grant date fair value per share	\$2.59	

At both March 31, 2015 and 2014, there were no unvested MRDP shares and no shares available for future awards. There were 3,254 MRDP shares that vested during the six months ended March 31, 2014 with an aggregated grant date fair value of \$23,000.

#### Expense for Stock Compensation Plans

Compensation expense during the six months ended March 31, 2015 and 2014 for all stock-based plans were as follows (in thousands):

	Six Months Ended March 31,			
	2015		2014	
	Stock Options	Stock Grants	Stock Options	Stock Grants
Compensation expense	\$60	—	\$47	2
Less: related tax benefit recognized	2	—	—	—
Total	\$58	—	\$47	2

As of March 31, 2015, the compensation expense yet to be recognized for stock options that have been awarded but not vested for the years ending September 30 is as follows (in thousands):

	Stock Options
Remainder of 2015	\$53
2016	106
2017	98
2018	67
2019	9
Total	\$333

#### (8) FAIR VALUE MEASUREMENTS

GAAP requires disclosure of estimated fair values for financial instruments. Such estimates are subjective in nature, and significant judgment is required regarding the risk characteristics of various financial instruments at a discrete point in time. Therefore, such estimates could vary significantly if assumptions regarding uncertain factors were to change. In addition, as the Company normally intends to hold the majority of its financial instruments until maturity, it does not expect to realize many of the estimated amounts disclosed. The disclosures also do not include estimated fair value amounts for certain items which are not defined as financial instruments but which may have significant value. The Company does not believe that it would be practicable to estimate a representational fair value for these types of items as of March 31, 2015 and September 30, 2014. Because GAAP excludes certain items from fair value disclosure requirements, any aggregation of the fair value amounts presented would not represent the underlying value of the Company.

Accounting guidance regarding fair value measurements defines fair value and establishes a framework for measuring fair value in accordance with GAAP. Fair value is the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The following definitions describe the levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

32

---

Level 2: Significant observable inputs other than quoted prices included within Level 1, such as quoted prices in markets that are not active, and inputs other than quoted prices that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a company's own assumptions about the assumptions market participants would use in pricing an asset or liability based on the best information available in the circumstances.

The Company used the following methods and significant assumptions to estimate fair value on a recurring basis:

#### Investment Securities Available for Sale

The estimated fair value of investment securities available for sale are based upon the assumptions market participants would use in pricing the security. Such assumptions include quoted market prices (Level 1), market prices of similar securities or observable inputs (Level 2).

#### Mutual Funds

The estimated fair value of mutual funds are based upon quoted market price assumptions (Level 1).

The following table summarizes the balances of assets and liabilities measured at estimated fair value on a recurring basis at

March 31, 2015 (in thousands):

	Estimated Fair Value			Total
	Level 1	Level 2	Level 3	
Available for sale investment securities				
MBS:				
U.S. government agencies	\$—	\$511	\$—	\$511
Mutual funds	975	—	—	975
Total	\$975	\$511	\$—	\$1,486

There were no transfers between Level 1, Level 2 and Level 3 during the three months ended March 31, 2015.

The following table summarizes the balances of assets and liabilities measured at estimated fair value on a recurring basis at September 30, 2014 (in thousands):

	Estimated Fair Value			Total
	Level 1	Level 2	Level 3	
Available for sale investment securities				
MBS:				
U.S. government agencies	\$—	\$1,899	\$—	\$1,899
Mutual funds	958	—	—	958
Total	\$958	\$1,899	\$—	\$2,857

There were no transfers between Level 1, Level 2 and Level 3 during the year ended September 30, 2014.

The Company may be required, from time to time, to measure certain financial assets and financial liabilities at fair value on a nonrecurring basis in accordance with GAAP. These include assets that are measured at the lower of cost or market value that were recognized at fair value below cost at the end of the period.

The Company uses the following methods and significant assumptions to estimate fair value on a non-recurring basis:

Impaired Loans: The specific reserve for collateral dependent impaired loans is based on the estimated fair value of the collateral less estimated costs to sell, if applicable. The estimated fair value of impaired loans is calculated using the collateral value method or on a discounted cash flow basis. In some cases, adjustments were made to the appraised values due

33

---

to various factors including age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

**Investment Securities:** The estimated fair value of investment securities is based upon the assumptions market participants would use in pricing the security. Such assumptions include quoted market prices (Level 1), market prices of similar securities or observable inputs (Level 2) and unobservable inputs such as dealer quotes, discounted cash flows or similar techniques (Level 3).

**OREO and Other Repossessed Assets, net:** The Company's OREO and other repossessed assets are initially recorded at estimated fair value less estimated costs to sell. This amount becomes the property's new basis. Estimated fair value was generally determined by management based on a number of factors, including third-party appraisals of estimated fair value in an orderly sale. Estimated costs to sell were based on standard market factors. The valuation of OREO and other repossessed assets is subject to significant external and internal judgment (Level 3).

The following table summarizes the balances of assets measured at estimated fair value on a non-recurring basis at March 31, 2015, and the total losses resulting from these estimated fair value adjustments for the six months ended March 31, 2015 (in thousands):

	Estimated Fair Value			Total Losses
	Level 1	Level 2	Level 3	
Impaired loans:				
Mortgage loans:				
One-to four-family	\$—	\$—	\$3,900	\$157
Multi-family	—	—	3,281	—
Commercial	—	—	1,581	—
Construction – custom and owner/builder	—	—	49	—
Land	—	—	2,378	4
Consumer loans:				
Home equity and second mortgage	—	—	283	20
Other	—	—	12	5
Total impaired loans (1)	—	—	11,484	186
Investment securities – held to maturity (2):				
MBS - private label residential	—	20	—	1
OREO and other repossessed assets (3)	—	—	7,866	405
Total	\$—	\$20	\$19,350	\$592

(1) The loss represents charge-offs on collateral dependent loans for estimated fair value adjustments based on the estimated fair value of the collateral, net of estimated costs to sell, if applicable.

(2) The loss represents OTTI credit-related charges on held to maturity MBS.

The loss represents adjustments resulting from management's periodic reviews of the recorded value to determine (3) whether the property continues to be recorded at the lower of its recorded book value or estimated fair value, net of estimated costs to sell.



The following table summarizes the balances of assets and liabilities measured at estimated fair value on a non-recurring basis at September 30, 2014, and the total losses resulting from these estimated fair value adjustments for the year ended September 30, 2014 (in thousands):

	Estimated Fair Value			Total Losses
	Level 1	Level 2	Level 3	
Impaired loans:				
Mortgage loans:				
One-to four-family	\$—	\$—	\$3,655	\$1,106
Multi-family	—	—	3,278	—
Commercial	—	—	5,334	463
Land	—	—	3,779	260
Consumer loans:				
Home equity and second mortgage	—	—	284	47
Total impaired loans (1)	—	—	16,330	1,876
Investment securities – held to maturity (2):				
MBS - private label residential	—	40	—	31
OREO and other repossessed assets (3)	—	—	9,092	605
Total	\$—	\$40	\$25,422	\$2,512

The loss represents charge-offs on collateral dependent loans for estimated fair value adjustments based on the (1) estimated fair value of the collateral, net of estimated costs to sell, if applicable. Fair value is the recorded investment less the related allowance.

(2) The loss represents OTTI credit-related charges on held to maturity MBS.

The loss represents adjustments resulting from management's periodic reviews of the recorded value to determine (3) whether the property continues to be recorded at the lower of its recorded book value or estimated fair value, net of estimated costs to sell.

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis as of March 31, 2015 (dollars in thousands):

	Estimated Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans	\$11,484	Market approach	Appraised value of underlying collateral less selling costs	NA
OREO and other repossessed assets	\$7,866	Market approach	Lower of appraised value or listing price less selling costs	NA





The following methods and assumptions were used by the Company in estimating fair value of its other financial instruments:

**Cash and Cash Equivalents:** The estimated fair value of financial instruments that are short-term or re-price frequently and that have little or no risk are considered to have an estimated fair value equal to the recorded value.

**CDs Held for Investment:** The estimated fair value of financial instruments that are short-term or re-price frequently and that have little or no risk are considered to have an estimated fair value equal to the recorded value.

**Investment securities:** See descriptions above.

**FHLB Stock:** No ready market exists for this stock, and it has no quoted market value. However, redemption of this stock has historically been at par value. During the six months ended March 31, 2015, 1,106 shares of FHLB stock were redeemed from the Company at par value. Accordingly, par value is deemed to be a reasonable estimate of fair value.

**Loans Receivable, Net:** The fair value of non-impaired loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers for the same remaining maturities. Prepayments are based on the historical experience of the Bank. Fair values for impaired loans are estimated using the methods described above.

**Loans Held for Sale:** The estimated fair value is based on quoted market prices obtained from the Federal Home Loan Mortgage Corporation.

**Accrued Interest:** The recorded amount of accrued interest approximates the estimated fair value.

**Deposits:** The estimated fair value of deposits with no stated maturity date is included at the amount payable on demand. The estimated fair value of fixed maturity certificates of deposit is computed by discounting future cash flows using the rates currently offered by the Bank for deposits of similar remaining maturities.

**FHLB Advances:** The estimated fair value of FHLB advances is computed by discounting the future cash flows of the borrowings at a rate which approximates the current offering rate of the borrowings with a comparable remaining life.

**Off-Balance-Sheet Instruments:** Since the majority of the Company's off-balance-sheet instruments consist of variable-rate commitments, the Company has determined that they do not have a distinguishable estimated fair value.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The estimated fair values of financial instruments were as follows as of March 31, 2015 and September 30, 2014 (in thousands):

	March 31, 2015				
	Recorded Amount	Fair Value	Fair Value Measurements Using:		
		Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash and cash equivalents	\$82,093	\$82,093	\$82,093	\$—	\$—
CDs held for investment	41,868	41,868	41,868	—	—
Investment securities	6,592	7,621	975	6,646	—
FHLB stock	5,135	5,135	5,135	—	—
Loans receivable, net	582,020	591,724	—	—	591,724
Loans held for sale	2,252	2,305	2,305	—	—
Accrued interest receivable	2,060	2,060	2,060	—	—
<b>Financial liabilities</b>					
<b>Deposits:</b>					
Non-interest-bearing demand	\$117,481	\$117,481	\$117,481	\$—	\$—
Interest-bearing	525,792	525,150	363,208	—	161,942
Total deposits	643,273	642,631	480,689	—	161,942
FHLB advances	45,000	47,249	—	47,249	—
Accrued interest payable	305	305	305	—	—
<b>September 30, 2014</b>					
	Recorded Amount	Fair Value	Fair Value Measurements Using:		
		Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash and cash equivalents	\$72,354	\$72,354	\$72,354	\$—	\$—
CDs held for investment	35,845	35,845	35,845	—	—
Investment securities	8,155	9,131	958	8,173	—
FHLB stock	5,246	5,246	5,246	—	—
Loans receivable, net	564,853	571,411	—	—	571,411
Loans held for sale	899	921	921	—	—
Accrued interest receivable	1,910	1,910	1,910	—	—
<b>Financial liabilities</b>					
<b>Deposits:</b>					
Non-interest-bearing demand	\$106,417	\$106,417	\$106,417	\$—	\$—
Interest-bearing	508,699	509,406	345,412	—	163,994
Total deposits	615,116	615,823	451,829	—	163,994
FHLB advances	45,000	47,279	—	47,279	—
Accrued interest payable	298	298	298	—	—



(9) RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors. The guidance clarifies when an in-substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of the residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate property recognized. ASU No. 2014-04 is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The guidance can be adopted using a modified retrospective transition method or a prospective transition method. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Company's condensed consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-14, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The ASU addresses the classification of foreclosed loans that are either fully or partially guaranteed under government programs. ASU No. 2014-14 clarifies that upon foreclosure of fully or partially guaranteed loans which are guaranteed under government programs and meet certain conditions, the creditor will be required to reclassify the previously existing mortgage loan to a separate other receivable from the guarantor, measured at the amount of the loan balance (principal and interest) that it expects to collect from the guarantor. ASU No. 2014-14 will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2014. The adoption of ASU No. 2014-14 is not expected to have a material impact on the Company's condensed consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20). The ASU eliminates the need to separately classify, present and disclose extraordinary events. The disclosure of events or transactions that are unusual or infrequent in nature will be included in other guidance. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. The adoption of ASU No. 2015-01 is not expected to have a material impact on the Company's condensed consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The ASU is intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). The ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification and improves current GAAP by placing more emphasis on risk of loss when determining a controlling financial interest. ASU No. 2015-02 will be effective for periods beginning after December 15, 2015 for public companies. Early adoption is permitted, including adoption in an interim period. The adoption of ASU No. 2015-02 is not expected to have a material impact on the Company's condensed consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

As used in this Form 10-Q, the terms "we," "our" and "Company" refer to Timberland Bancorp, Inc. and its consolidated subsidiaries, unless the context indicates otherwise. When we refer to "Bank" in this Form 10-Q, we are referring to Timberland Bank, a wholly-owned subsidiary of Timberland Bancorp, Inc. and the Bank's wholly-owned subsidiary, Timberland Service Corporation.

The following analysis discusses the material changes in the condensed consolidated financial condition and results of operations of the Company at and for the three and six months ended March 31, 2015. This analysis as well as other sections of this report contains certain “forward-looking statements.”

Certain matters discussed in this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning our future operations. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and often include the words “believes,” “expects,” “anticipates,” “estimates,” “forecasts,” “intends,” “plans,” “targets,” “potentially,” “projects,” “outlook” or similar

expressions or future or conditional verbs such as “may,” “will,” “should,” “would” and “could.” Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about future economic performance and projections of financial items. These forward-looking statements are subject to known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from the results anticipated or implied by our forward-looking statements, including, but not limited to: the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write-offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets which may lead to increased losses and non-performing assets in our loan portfolio, and may result in our allowance for loan losses not being adequate to cover actual losses, and require us to materially increase our loan loss reserves; changes in general economic conditions, either nationally or in our market areas; changes in the levels of general interest rates, and the relative differences between short and long term interest rates, deposit interest rates, our net interest margin and funding sources; fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market areas; secondary market conditions for loans and our ability to sell loans in the secondary market; results of examinations of us by the Board of Governors of the Federal Reserve System ("Federal Reserve") and of our bank subsidiary by the FDIC, the Washington State Department of Financial Institutions, Division of Banks or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, institute an informal or formal enforcement action against us or our bank subsidiary which could require us to increase our allowance for loan losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits or impose additional requirements and restrictions on us, any of which could adversely affect our liquidity and earnings; legislative or regulatory changes that adversely affect our business including changes in regulatory policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III; the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and implementing regulations; our ability to attract and retain deposits; increases in premiums for deposit insurance; our ability to control operating costs and expenses; the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation; difficulties in reducing risk associated with the loans on our consolidated balance sheet; staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our work force and potential associated charges; the failure or security breach of computer systems on which we depend; our ability to retain key members of our senior management team; costs and effects of litigation, including settlements and judgments; our ability to implement our business strategies; our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may acquire into our operations and our ability to realize related revenue synergies and cost savings within expected time frames and any goodwill charges related thereto; our ability to manage loan delinquency rates; increased competitive pressures among financial services companies; changes in consumer spending, borrowing and savings habits; the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions; our ability to pay dividends on our common stock; adverse changes in the securities markets; inability of key third-party providers to perform their obligations to us; changes in accounting policies and practices, as may be adopted by the financial institution regulatory agencies or the FASB, including additional guidance and interpretation on accounting issues and details of the implementation of new accounting methods; the economic impact of war or any terrorist activities; other economic, competitive, governmental, regulatory, and technological factors affecting our operations; pricing, products and services; and other risks detailed in our reports filed with the Securities and Exchange Commission, including our 2014 Form 10-K.

Any of the forward-looking statements that we make in this Form 10-Q and in the other public statements we make are based upon management’s beliefs and assumptions at the time they are made. We do not undertake and specifically disclaim any obligation to publicly update or revise any forward-looking statements included in this report or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. We caution readers not to place undue reliance on any forward-looking statements. These risks could cause our actual results for fiscal 2015 and beyond to differ materially from those expressed in any forward-looking statements by, or on behalf of us, and could negatively affect the Company’s financial condition and results of operations as well as its stock price performance.

## Overview

Timberland Bancorp, Inc., a Washington corporation, is the holding company for Timberland Bank. The Bank opened for business in 1915 and serves consumers and businesses across Grays Harbor, Thurston, Pierce, King, Kitsap and Lewis counties, Washington with a full range of lending and deposit services through its 22 branches (including its main office in Hoquiam). At March 31, 2015, the Company had total assets of \$776.27 million and total shareholders' equity of \$85.42 million. The Company's business activities generally are limited to passive investment activities and oversight of its investment in the Bank. Accordingly, the information set forth in this report relates primarily to the Bank's operations.



The profitability of the Company's operations depends primarily on its net interest income after provision for loan losses. Net interest income is the difference between interest income, which is the income that the Company earns on interest-earning assets, which are primarily loans and investments, and interest expense, the amount the Company pays on its interest-bearing liabilities, which are primarily deposits and borrowings. Net interest income is affected by changes in the volume and mix of interest earning assets, interest earned on those assets, the volume and mix of interest bearing liabilities and interest paid on those interest bearing liabilities. Management strives to match the re-pricing characteristics of the interest earning assets and interest bearing liabilities to protect net interest income from changes in market interest rates and changes in the shape of the yield curve.

The provision for loan losses is dependent on changes in the loan portfolio and management's assessment of the collectability of the loan portfolio as well as prevailing economic and market conditions. The provision for loan losses reflects the amount that the Company believes is adequate to cover estimated credit losses in its loan portfolio.

Net income is also affected by non-interest income and non-interest expenses. For the three and six month period ended March 31, 2015, non-interest income consisted primarily of service charges on deposit accounts, gain on sale of loans, ATM and debit card interchange transaction fees, an increase in the cash surrender value of BOLI and other operating income. Non-interest income is reduced by net OTTI losses on investment securities and losses on the sale of investment securities. Non-interest expenses consisted primarily of salaries and employee benefits, premises and equipment, advertising, ATM and debit card processing expenses, OREO and other repossessed asset expenses, postage and courier expenses, state and local taxes, professional fees, deposit insurance premiums, other insurance premiums, state and local taxes, loan administration and foreclosure expenses, deposit operation expenses and data processing expenses and telecommunication expenses. Non-interest income and non-interest expenses are affected by the growth of our operations and growth in the number of loan and deposit accounts.

Results of operations may be affected significantly by general and local economic and competitive conditions, changes in market interest rates, governmental policies and actions of regulatory authorities.

The Bank is a community-oriented bank which has traditionally offered a variety of savings products to its retail customers while concentrating its lending activities on real estate mortgage loans. Lending activities have been focused primarily on the origination of loans secured by real estate, including residential construction loans, one- to four-family residential loans, multi-family loans and commercial real estate loans. The Bank originates adjustable-rate residential mortgage loans that do not qualify for sale in the secondary market. The Bank also originates commercial business loans and other consumer loans.

#### Critical Accounting Policies and Estimates

The Company has identified several accounting policies that as a result of judgments, estimates and assumptions inherent in those policies, are critical to an understanding of the Company's Condensed Consolidated Financial Statements. Critical accounting policies and estimates are discussed in the Company's 2014 Form 10-K under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation – Critical Accounting Policies and Estimates." That discussion highlights estimates the Company makes that involve uncertainty or potential for substantial change. There have been no material changes in the Company's critical accounting policies and estimates as previously disclosed in the Company's 2014 Form 10-K.

#### Comparison of Financial Condition at March 31, 2015 and September 30, 2014

The Company's total assets increased by \$30.70 million, or 4.1%, to \$776.27 million at March 31, 2015 from \$745.57 million at September 30, 2014. The increase in total assets was primarily due to increases in net loans receivable, total cash and cash equivalents and CDs held for investment, which were partially offset by decreases in investment securities and OREO and other repossessed assets.

Net loans receivable increased by \$18.52 million, or 3.3%, to \$584.27 million at March 31, 2015 from \$565.75 million at September 30, 2014. The increase was primarily due to increases in one-to four-family loans, construction and land development loans and commercial business loans. These increases to net loans receivable were partially offset by decreases in land loans and consumer loans.

Total deposits increased by \$28.16 million, or 4.6%, to \$643.27 million at March 31, 2015 from \$615.12 million at September 30, 2014. The increase was primarily a result of increases in savings account, non-interest bearing account, money market account and N.O.W. account balances, which were partially offset by decreases and certificates of deposit account balances.

Shareholders' equity increased by \$2.65 million, or 3.2%, to \$85.42 million at March 31, 2015 from \$82.78 million at September 30, 2014. The increase in shareholders' equity was primarily due to net income of \$3.18 million for the six months ended March 31, 2015, which was partially offset by dividend payments of \$775,000 to common shareholders.

A more detailed explanation of the changes in significant balance sheet categories follows:

**Cash and Cash Equivalents and CDs Held for Investment:** Cash and cash equivalents and CDs held for investment increased by \$15.76 million, or 14.6%, to \$123.96 million at March 31, 2015 from \$108.20 million at September 30, 2014. The increase was primarily due to a \$9.74 million increase in cash and cash equivalents and a \$6.02 million increase in CDs held for investment.

**Investment Securities:** Investment securities decreased by \$1.56 million, or 19.2%, to \$6.59 million at March 31, 2015 from \$8.16 million at September 30, 2014, primarily due to the sale of \$1.22 million in agency mortgaged-backed securities and scheduled amortization and prepayments. The sale of the investment securities resulted in a \$45,000 gain during the six months ended March 31, 2015. For additional information on investment securities, see Note 3 of the Notes to Unaudited Condensed Consolidated Financial Statements contained in "Item 1, Financial Statements."

**Loans:** Net loans receivable increased by \$18.52 million, or 3.3%, to \$584.27 million at March 31, 2015 from \$565.75 million at September 30, 2014. The increase in the portfolio was primarily a result of a \$9.29 million increase in one-to four-family loans, an \$8.95 million increase in construction and land development loans (mostly multi-family construction loans), a \$4.35 million increase in commercial business loans, a \$2.44 million increase in multi-family loans and a \$1.98 million increase in commercial real estate loans. These increases in net loans receivable were partially offset by a \$1.13 million decrease in land loans and a \$691,000 decrease in total consumer loans. In addition, there was a \$6.57 million increase in the undisbursed portion of construction loans in process.

Loan originations increased \$20.67 million, or 24.4% to \$105.55 million for the six months ended March 31, 2015 from \$84.88 million for the six months ended March 31, 2014. The Company continued to sell longer-term fixed rate loans for asset liability management purposes and to generate non-interest income. Sales of fixed rate one- to four-family mortgage loans increased \$5.46 million, or 35.3%, to \$20.93 million for the six months ended March 31, 2015 compared to \$15.47 million for the six months ended March 31, 2014 as refinance demand for single family loans increased.

For additional information, see Note 5 of the Notes to Unaudited Condensed Consolidated Financial Statements contained in "Item 1, Financial Statements."

**Premises and Equipment:** Premises and equipment decreased by \$257,000, or 1.5%, to \$17.42 million at March 31, 2015 from \$17.68 million at September 30, 2014. The decrease was primarily due to depreciation.

**OREO (Other Real Estate Owned):** OREO and other repossessed assets decreased by \$1.23 million, or 13.5%, to \$7.87 million at March 31, 2015 from \$9.09 million at September 30, 2014. The decrease was primarily due to the disposition of ten OREO properties totaling \$1.46 million and OREO fair value write-downs of \$405,000, partially offset by the addition of \$640,000 in OREO properties and other repossessed assets. At March 31, 2015, total OREO and other repossessed assets consisted of 35 individual properties and one other repossessed asset. The properties consisted of 22 land parcels totaling \$3.57 million, four commercial real estate properties totaling \$2.07 million, nine single-family homes totaling \$2.15 million and one manufactured home with a book value of \$67,000.

Goodwill and CDI: The recorded amount of goodwill of \$5.65 million at March 31, 2015 was unchanged from September 30, 2014. The recorded amount of the CDI decreased \$3,000, or 100.0%, to none at March 31, 2015 from \$3,000 at September 30, 2014. The decrease was due to scheduled amortization of the CDI.

Deposits: Deposits increased by \$28.16 million, or 4.6%, to \$643.27 million at March 31, 2015 from \$615.12 million at September 30, 2014. The increase was primarily a result of a \$11.06 million increase in non-interest bearing accounts, an \$8.58 million increase in savings accounts, a \$7.70 million increase in N.O.W. checking accounts and a \$2.80 million increase in money market accounts. These increases were partially offset by a \$1.99 million decrease in certificates of deposit accounts.

FHLB Advances: The Company has short- and long-term borrowing lines with the FHLB with total credit available on the lines equal to 25% of the Bank's total assets, limited by available collateral. Borrowings are considered short-term when the original maturity is less than one year. At March 31, 2015 FHLB advances and other borrowings consisted of long-term FHLB advances with scheduled maturities at various dates in fiscal 2017 which bear interest at rates ranging from 3.69% to 4.34%. A

portion of these advances may be called by the FHLB at a date earlier than the scheduled maturity date. FHLB advances remained unchanged at \$45.00 million at March 31, 2015 and September 30, 2014.

Shareholders' Equity: Total shareholders' equity increased by \$2.65 million, or 3.2%, to \$85.42 million at March 31, 2015 from \$82.78 million at September 30, 2014. The increase was primarily due to net income of \$3.18 million for the six months ended March 31, 2015, which was partially offset by the payment of \$775,000 in dividends on the Company's common stock.

#### Comparison of Operating Results for the Three and Six Months Ended March 31, 2015 and 2014

Net income increased \$292,000, or 25.2%, to \$1.45 million for the quarter ended March 31, 2015 from \$1.16 million for the quarter ended March 31, 2014. Net income to common shareholders increased \$292,000 or 25.2%, to \$1.45 million for the quarter ended March 31, 2015 from \$1.16 million for the quarter ended March 31, 2014. Net income per diluted common share increased \$0.05, or 31.3%, to \$0.21 for the quarter ended March 31, 2015 from \$0.16 for the quarter ended March 31, 2014. The increase in net income was primarily due to increases in non-interest income and, to a lesser extent, net interest income and a decrease in non-interest expense.

Net income increased \$408,000, or 14.7%, to \$3.18 million for the six months ended March 31, 2015 from \$2.77 million for the six months ended March 31, 2014. Net income to common shareholders increased \$614,000, or 23.9%, to \$3.18 million for the six months ended March 31, 2015 from \$2.56 million for the six months ended March 31, 2014. Net income per diluted common share increased \$0.08, or 21.6%, to \$0.45 for the six months ended March 31, 2015 from \$0.37 for the six months ended March 31, 2014. The increase in net income was primarily due increases in net interest income and, to a lesser extent, non-interest income and a decrease in non-interest expense.

For the six months ended March 31, 2014 net income available to common shareholders was net of a dividend accrual and discount accretion related to the Series A Preferred Stock of \$206,000, or approximately \$0.03 per diluted common share. These preferred stock adjustments were not required in the six months ended March 31, 2015 due to the redemption of the remaining Series A Preferred Stock in December 2013.

A more detailed explanation of the income statement categories is presented below.

Net Interest Income: Net interest income increased by \$130,000, or 2.0%, to \$6.57 million for the quarter ended March 31, 2015 from \$6.44 million for the quarter ended March 31, 2014. The net interest margin decreased to 3.69% for the quarter ended March 31, 2015 from 3.85% for the quarter ended March 31, 2014 primarily due to a decrease in the average yield on interest-bearing assets.

Total interest and dividend income increased by \$115,000, or 1.6%, to \$7.53 million for the quarter ended March 31, 2015 from \$7.41 million for the quarter ended March 31, 2014 primarily due to \$43.49 million increase in the average balance of total interest-bearing assets to \$712.12 million from \$668.63 million, which was partially offset by a decrease in the average yield on interest-bearing assets to 4.23% from 4.43%. Total interest expense decreased by \$15,000, or 1.5%, to \$960,000 for the quarter ended March 31, 2015 from \$975,000 for the quarter ended March 31, 2014 as the average rate paid on interest-bearing liabilities decreased to 0.69% for the quarter ended March 31, 2015 from 0.72% for the quarter ended March 31, 2014, and the average balance of interest-bearing liabilities increased by \$15.68 million. The decrease in funding costs was primarily a result of CDs repricing at lower market rates.

Net interest income increased by \$373,000, or 2.9%, to \$13.27 million for the six months ended March 31, 2015 from \$12.90 million for the six months ended March 31, 2014. The net interest margin for the six months ended March 31, 2015 decreased to 3.78% from 3.81% for the six months ended March 31, 2014.

Total interest and dividend income increased by \$320,000, or 2.1%, to \$15.21 million for the six months ended March 31, 2015 from \$14.89 million for the six months ended March 31, 2014 primarily due to a \$25.24 million increase in the average balance of total interest-bearing assets to \$701.66 million from \$676.42 million, which was partially offset by a decrease in the average yield on interest-bearing assets to 4.34% for the six months ended March 31, 2015 from 4.40% for the six months ended March 31, 2014. Total interest expense decreased by \$53,000, or 2.7%, to \$1.94 million for the six months ended March 31, 2015 from \$2.00 million for the six months ended March 31, 2014 as the average rate paid on interest bearing liabilities decreased to 0.70% for the six months ended March 31, 2015 from 0.72% for the six months ended March 31, 2014.

## Average Balances, Interest and Average Yields/Cost

The following tables set forth, for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-bearing assets and interest expense on average interest-bearing liabilities and average yields and costs. Such yields and costs for the periods indicated are derived by dividing income or expense by the average daily balance of assets or liabilities, respectively, for the periods presented. (Dollars in thousands)

	Three Months Ended March 31, 2015				2014			
	Average Balance	Interest and Dividends	Yield/ Cost		Average Balance	Interest and Dividends	Yield/ Cost	
Interest-bearing assets: (1)								
Loans receivable (2)	\$592,000	\$7,352	4.97	%	\$568,448	\$7,255	5.10	%
Investment securities (2)	5,679	55	3.87		6,497	64	3.94	
Dividends from mutual funds and FHLB stock	6,144	6	0.39		6,355	6	0.45	
Interest-bearing deposits	108,298	114	0.42		87,328	87	0.40	
Total interest-bearing assets	712,121	7,527	4.23		668,628	7,412	4.43	
Non-interest-bearing assets	58,224				63,885			
Total assets	\$770,345				\$732,513			
Interest-bearing liabilities:								
Savings accounts	\$100,997	13	0.05		\$94,478	11	0.05	
Money market accounts	92,683	61	0.26		91,216	60	0.27	
N.O.W. checking accounts	165,314	109	0.26		157,312	113	0.29	
Certificates of deposit	162,446	312	0.76		162,750	330	0.85	
Long-term borrowings (3)	45,000	465	4.19		45,000	461	4.15	
Total interest-bearing liabilities	566,440	960	0.69		550,756	975	0.72	
Non-interest-bearing liabilities	119,269				102,260			
Total liabilities	685,709				653,016			
Shareholders' equity	84,636				79,497			
Total liabilities and shareholders' equity	\$770,345				\$732,513			
Net interest income		\$6,567				\$6,437		
Interest rate spread			3.54	%			3.72	%
Net interest margin (4)			3.69	%			3.85	%
Ratio of average interest-bearing assets to average interest-bearing liabilities			125.72	%			121.40	%

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	Six Months Ended March 31,			2014			
	2015			2014			
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	
Interest-bearing assets: (1)							
Loans receivable (2)	\$ 586,853	\$ 14,861	5.06	% \$ 565,541	\$ 14,573	5.15	%
Investment securities (2)	6,383	120	3.76	6,123	124	4.05	
Dividends from mutual funds and FHLB stock	6,170	13	0.42	6,377	15	0.47	
Interest-bearing deposits	102,258	219	0.43	98,381	181	0.37	
Total interest-bearing assets	701,664	15,213	4.34	676,422	14,893	4.40	
Non-interest-bearing assets	—			61,669			
Total assets	\$ 701,664			\$ 738,091			
Interest-bearing liabilities:							
Savings accounts	\$ 91,455	25	0.05	\$ 96,161	23	0.05	
Money market accounts	98,801	123	0.25	91,320	123	0.27	
N.O.W. checking accounts	162,374	220	0.27	156,130	226	0.29	
Certificates of deposit	162,734	636	0.78	166,311	692	0.83	
Long-term borrowings (3)	45,000	940	4.19	45,000	933	4.16	
Total interest-bearing liabilities	560,364	1,944	0.70	554,922	1,997	0.72	
Non-interest-bearing liabilities	—			99,044			
Total liabilities	560,364			653,966			
Shareholders' equity	—			84,125			
Total liabilities and shareholders' equity	\$ 560,364			\$ 738,091			
Net interest income		\$ 13,269			\$ 12,896		
Interest rate spread			3.64	%		3.68	%
Net interest margin (4)			3.78	%		3.81	%
Ratio of average interest-bearing assets to average interest-bearing liabilities			125.22	%		121.89	%

(1) Interest yield on loans and investment securities is calculated assuming a 30/360 basis; interest yield on all other categories is based on 365/365 interest basis.

(2) Average balances include loans and investment securities on non-accrual status.

(3) Includes FHLB advances with original maturities of one year or greater.

(4) Net interest income divided by total average interest-bearing assets, annualized.



## Rate Volume Analysis

The following table sets forth the effects of changing rates and volumes on the net interest income of the Company. Information is provided with respect to the (i) effects on interest income attributable to changes in volume (changes in volume multiplied by prior rate), and (ii) effects on interest income attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) the net change (sum of the prior columns). Changes in rate/volume have been allocated to rate and volume variances based on the absolute values of each. (In thousands)

	Three months ended March 31, 2015 compared to three months ended March 31, 2014 increase (decrease) due to			Six months ended March 31, 2015 compared to six months ended March 31, 2014 increase (decrease) due to		
	Rate	Volume	Net Change	Rate	Volume	Net Change
<b>Interest-bearing assets:</b>						
Loans receivable (1)	\$(198 )	\$295	\$97	\$(25 )	\$313	\$288
Investment securities	(1 )	(8 )	(9 )	(4 )	—	(4 )
Dividends from mutual funds and FHLB stock	—	—	—	(2 )	—	(2 )
Interest-bearing deposits	5	22	27	31	7	38
Total net (decrease) increase in income on interest-bearing assets	(194 )	309	115	—	320	320
<b>Interest-bearing liabilities:</b>						
Savings accounts	1	1	2	2	—	2
N.O.W. checking accounts	(11 )	7	(4 )	(8 )	2	(6 )
Money market accounts	—	1	1	(4 )	4	—
Certificates of deposit accounts	(18 )	—	(18 )	(37 )	(19 )	(56 )
Long term FHLB borrowings	4	—	4	7	—	7
Total net increase (decrease) in expense on interest-bearing liabilities	(24 )	9	(15 )	(40 )	(13 )	(53 )
Net (decrease) increase in net interest income	\$(170 )	\$300	\$130	\$40	\$333	\$373

(1) Includes loans originated for sale.

**Provision for Loan Losses:** There was no provision for loan losses for the quarters ended March 31, 2015 and 2014. There were net recoveries for the quarter ended March 31, 2015 of \$60,000 compared to net recoveries of \$4,000 for the quarter ended March 31, 2014.

There was no provision for loan losses for the six months ended March 31, 2015 and 2014. Net charge-offs for the six months ended March 31, 2015 were \$45,000 compared to \$387,000 for the six months ended March 31, 2014.

The Company has established a comprehensive methodology for determining the provision for loan losses. On a quarterly basis the Company performs an analysis that considers pertinent factors underlying the quality of the loan portfolio. The factors include changes in the amount and composition of the loan portfolio, historic loss experience for various loan segments, changes in economic conditions, delinquency rates, a detailed analysis of impaired loans, and other factors to determine an appropriate level of allowance for loan losses. Based on its comprehensive analysis, management believes the allowance for loan losses of \$10.38 million at March 31, 2015 (1.75% of loans receivable and loans held for sale and 95% of non-performing loans) was adequate to provide for probable losses based on an evaluation of known and inherent risks in the loan portfolio at that date. Impaired loans are subjected to an impairment analysis to determine an appropriate reserve amount to be allocated to each loan. The aggregate principal

impairment reserve amount determined at March 31, 2015 was \$2.68 million compared to \$2.89 million at March 31, 2014. The allowance for loan losses was \$10.75 million (1.90% of loans receivable and loans held for sale and 85% of non-performing loans) at March 31, 2014.

While management believes the estimates and assumptions used in its determination of the adequacy of the allowance are reasonable, there can be no assurance that such estimates and assumptions will not be proved incorrect in the future, or that the actual amount of future provisions will not exceed the amount of past provisions or that any increased provisions that may be required will not adversely impact the Company's consolidated financial condition and results of operations. In addition, the determination of the amount of the Company's allowance for loan losses is subject to review by bank regulators as part of the routine examination process, which may result in the establishment of additional reserves based upon their analysis of information available to them at the time of their examination. Any material increase in the allowance for loan losses would adversely affect the Company's financial condition and results of operations. For additional information, see Note 5 of the Notes to Unaudited Condensed Consolidated Financial Statements contained in "Item 1, Financial Statements."

Non-interest Income: Total non-interest income increased \$201,000, or 10.0%, to \$2.21 million for the quarter ended March 31, 2015 from \$2.01 million for the quarter ended March 31, 2014. The increase in non-interest income was primarily due to a \$176,000 increase in gain on sale of loans and a \$70,000 increase in ATM and debit card interchange transaction fees, which was partially offset by a \$90,000 reduction in the net recoveries on investment securities and a \$31,000 decrease in service charges on deposits. The increase in gain on sale of loans was primarily due to an increase in the dollar volume of fixed-rate on-to four family loans sold during the current quarter. The increase in ATM and debit card interchange transaction fees was primarily due to an increase in debit card transactions. The decrease in service charges on deposits was primarily due to a decreased number of checking account overdrafts.

Total non-interest income increased \$130,000, or 3.1%, to \$4.34 million for the six months ended March 31, 2015 from \$4.21 million for the six months ended March 31, 2014. This increase in non-interest income was primarily due to a \$115,000 increase in ATM and debit card interchange transaction fees and a \$110,000 increase in gain on sale of loans and smaller increases in several other categories, which was partially offset by a \$137,000 decrease in service charges on deposits.

Non-interest Expense: Total non-interest expense decreased by \$100,000, or 1.5%, to \$6.65 million for the quarter ended March 31, 2015 from \$6.75 million for the quarter ended March 31, 2014. The decreased expenses were primarily due to a \$150,000 decrease in salaries and employee benefit expense, a \$103,000 decrease in ATM and debit card interchange fee expense, a \$62,000 decrease in loan administration and foreclosure expense and smaller decreases in several other categories. These decreases were partially offset by a \$142,000 increase in data processing and telecommunications expense and a \$104,000 increase in premises and equipment expense. The decrease in salaries and employee benefit expense was primarily due to an increase in loan originations and a decrease in overtime expense. Under GAAP, the portion of a loan origination fee that is attributable to the estimated employee costs to generate the loan is recorded as a reduction of salaries and employee benefits expense. With the increase in loan originations, the loan originations fees that reduced salaries and employee benefit expense increased by \$96,000. The decrease in ATM and debit card interchange fee expense was primarily related to the Company's conversion to MasterCard from Visa for its ATM and debit card platform. The decrease in loan administration and foreclosure expense was primarily due to a reduction of the number loans in foreclosure. The increase in data processing and telecommunications expense was primarily due to upgrading data line capacity and higher data processing and internet banking costs based on usage and asset size. The increase in premises and equipment expense was primarily due to increased depreciation expense from capitalized technology equipment implemented during the past twelve months, increased equipment maintenance expense and increased real estate taxes.

Total non-interest expense decreased \$67,000, or 0.5%, to \$12.93 million for the six months ended March 31, 2015 from \$13.00 million for the six months ended March 31, 2014. The decreased expenses were primarily due to a \$133,000 decrease in salaries and employee benefit expense, a \$130,000 decrease in OREO and other repossessed assets expense and a \$129,000 decrease in loan administration and foreclosure expense. These decreases were partially offset by a \$191,000 increase in data processing and telecommunications expense and a \$136,000 increase in

premises and equipment expense.

Provision for Federal Income Taxes: The provision for federal income taxes increased by \$139,000, or 25.9%, to \$676,000 for the quarter ended March 31, 2015 from \$537,000 for the quarter ended March 31, 2014, primarily as a result of increased income before federal income taxes. The Company's effective tax rate was 31.78% for the quarter ended March 31, 2015 and 31.66% for the quarter ended March 31, 2014.

The provision for federal income taxes increased by \$162,000, or 12.1%, to \$1.50 million for the six months ended March 31, 2015 from \$1.34 million for the six months ended March 31, 2014. The Company's effective tax rate was 32.08% for the six months ended March 31, 2015 and 32.59% for the six months ended March 31, 2014.

## Liquidity

The Company's primary sources of funds are customer deposits, proceeds from principal and interest payments on loans and investment securities, proceeds from the sale of loans, proceeds from maturing securities and maturing CDs held for investment, FHLB advances, and other borrowings. While maturities and the scheduled amortization of loans are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by general interest rates, economic conditions and competition.

Liquidity management is both a short and long-term responsibility of the Bank's management. The Bank adjusts its investments in liquid assets based upon management's assessment of (i) expected loan demand, (ii) projected loan sales, (iii) expected deposit flows, and (iv) yields available on interest-bearing deposits. Excess liquidity is invested generally in interest-bearing overnight deposits and other short-term investments.

The Bank generally maintains sufficient cash and short-term investments to meet short-term liquidity needs. At March 31, 2015, the Bank's regulatory liquidity ratio (net cash, and short-term and marketable assets, as a percentage of net deposits and short-term liabilities) was 18.81%.

The Company's total cash and cash equivalents increased by \$9.74 million, or 13.5% to \$82.09 million at March 31, 2015 from \$72.35 million at September 30, 2014. If the Bank requires funds that exceed its ability to generate them internally, it has additional borrowing capacity with the FHLB, the Federal Reserve Bank of San Francisco ("FRB") and Pacific Coast Bankers' Bank ("PCBB"). At March 31, 2015 the Bank maintained an uncommitted credit facility with the FHLB that provided for immediately available advances up to an aggregate amount equal to 25% of total assets, limited by available collateral. The Bank also has a Variable Amount Letter of Credit ("VLOC") of up to \$8 million with the FHLB for the purpose of collateralizing Washington State public deposits. Any amount pledged for public deposit under the VLOC reduces the Bank's available borrowing amount under the FHLB advance agreement. At March 31, 2015, the Bank had \$45 million in advances outstanding and \$8 million pledged under the VLOC, which left \$133.14 million available for additional borrowings. The Bank maintains a short-term borrowing line with the FRB with available total credit based on eligible collateral. At March 31, 2015, the Bank had \$43.75 million available for borrowings with the FRB and there was no outstanding balance on this borrowing line. The Bank also maintains a \$10 million overnight borrowing line with PCBB. At March 31, 2015, the Bank did not have an outstanding balance on this borrowing line.

The Bank's primary investing activity is the origination of one- to four-family mortgage loans, commercial mortgage loans, construction loans, consumer loans, and commercial business loans. At March 31, 2015, the Bank had loan commitments totaling \$60.70 million and undisbursed construction loans in process totaling \$35.99 million. The Bank anticipates that it will have sufficient funds available to meet current loan commitments. CDs that are scheduled to mature in less than one year from March 31, 2015 totaled \$99.5 million. Historically, the Bank has been able to retain a significant amount of its non-brokered CDs as they mature. At March 31, 2015, the Bank had \$3.19 million in brokered CDs.

## Capital Resources

Timberland Bank, as a state-chartered, federally insured savings bank, is subject to the capital requirements established by the FDIC.

Effective January 1, 2015 (with some changes transitioned into full effectiveness over two to four years), the Bank became subject to new capital adequacy requirements. The capital adequacy requirements are quantitative measures established by regulation that require the Bank to maintain minimum amounts and ratios of capital.

The Bank is now subject to new capital requirements adopted by the FDIC, which create a new required ratio for common equity Tier 1 ("CET1") capital, increases the leverage and Tier 1 capital ratios, changes the risk-weightings

of certain assets for purposes of the risk-based capital ratios, creates an additional capital conservation buffer over the required capital ratios and changes what qualifies as capital for purpose of meeting these various capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by bank regulators that if undertaken, could have a direct material effect on the Company's financial statements. The Bank is required to maintain additional levels of Tier 1 common equity over the minimum risk-based capital levels before it may pay dividends, repurchase shares or pay discretionary bonuses.

The new minimum requirements are a ratio of CET1 capital to total risk-weighted assets (the "CET1 risk-based ratio") of 4.5%, a Tier 1 capital ratio of 6.0%, a total capital ratio of 8.0%, and a leverage ratio of 4.0%

In addition to the capital requirements, there are a number of changes in what constitutes regulatory capital, subject to transition periods. These changes include the phasing-out of certain instruments as qualifying capital. The Bank does not have any of these instruments. Mortgage servicing and deferred tax assets over designated percentages of CET1 will be deducted from capital, subject to a four-year transition period. CET1 will consist of Tier 1 capital less all capital components that are not considered common equity. In addition, Tier 1 capital will include accumulated other comprehensive income, which includes all unrealized gains and losses on available for sale debt and equity securities, subject to a four-year transition period. Because of our asset size, we are not required to follow the advance approach and have elected to take the one-time option of deciding in the first quarter of calendar year 2015 to permanently opt-out of the inclusion of unrealized gains and losses on available for sale debt and equity securities in our capital calculations.

The new requirements also include changes in the risk-weighting of assets to better reflect credit risk and other risk exposure. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and for non-residential mortgage loans that are 90 days or more past due or otherwise on non-accrual status; a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable (currently set at 0%); and a 250% risk weight (up from 100%) for mortgage servicing and deferred tax assets that are not deducted from capital.

In addition to the minimum CET1, Tier 1 and total capital ratios, the Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital equal to 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses based on percentages of eligible retained earnings that could be utilized for such actions. This new capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and increasing each year until fully implemented in January 2019.

Under the new standards, in order to be considered well-capitalized, the Bank must have a CET1 risk-based capital ratio of 6.5% (new), a Tier 1 risk-based capital ratio of 8.0% (increased from 6.0%), a total risk-based capital ratio of 10.0% (unchanged) and a Tier 1 leverage capital ratio of 5.0% (unchanged).

At March 31, 2015, the Bank exceeded all regulatory capital requirements. The Bank was categorized as "well capitalized" at March 31, 2015 under the regulations of the FDIC.

The following table compares the Bank's actual capital amounts at March 31, 2015 to its minimum regulatory capital requirements at that date (dollars in thousands):

	Actual		Regulatory Minimum To Be "Adequately Capitalized"		To Be "Well Capitalized" Under Prompt Corrective Action Provisions		
	Amount	Ratio	Amount	Ratio	Amount	Ratio	
<b>Leverage Capital Ratio:</b>							
Tier 1 capital	\$78,769	10.29	% \$30,622	4.00	% \$38,277	5.00	%
<b>Risk-based Capital Ratios:</b>							
Common equity tier 1 capital	78,769	13.51	26,232	4.50	37,890	6.50	
Tier 1 capital	78,769	13.51	34,975	6.00	46,634	8.00	

Total capital	86,096	14.77	46,634	8.00	58,292	10.00
---------------	--------	-------	--------	------	--------	-------



Timberland Bancorp, Inc. is a bank holding company registered with the Federal Reserve. Bank holding companies are subject to capital adequacy requirements of the Federal Reserve under the Bank Holding Company Act of 1956, as amended, and the regulations of the Federal Reserve. For a bank holding company with less than \$1.0 billion in assets, the capital guidelines apply on a bank only basis and the Federal Reserve expects the holding company's subsidiary bank to be well capitalized under the prompt corrective action regulations. If Timberland Bancorp, Inc. were subject to regulatory guidelines for bank holding companies with \$1.0 billion or more in assets, at March 31, 2015, Timberland Bancorp, Inc. would have exceeded all regulatory requirements.

The following table presents the regulatory capital ratios for Timberland Bancorp, Inc. as of March 31, 2015 (dollars in thousands):

	Actual Amount	Ratio	
Leverage Capital Ratio:			
Tier 1 capital	\$81,466	10.63	%
Risk-based Capital Ratios:			
Common equity tier 1 capital	81,466	13.97	
Tier 1 capital	81,466	13.97	
Total capital	88,795	15.23	

#### Key Financial Ratios and Data

(Dollars in thousands, except per share data)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2015	2014	2015	2014
PERFORMANCE RATIOS:				
Return on average assets (1)	0.75	% 0.63	% 0.84	% 0.75
Return on average equity (1)	6.86	% 5.83	% 7.57	% 6.59
Net interest margin (1)	3.69	% 3.85	% 3.78	% 3.81
Efficiency ratio	75.78	% 79.93	% 73.43	% 75.98

	At March 31, 2015	At September 30, 2014	At March 31, 2014
BOOK VALUES:			
Book value per common share	\$12.11	\$11.75	\$11.36
Tangible book value per common share (2)	11.31	10.94	10.55

(1) Annualized

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

49

---

Table of Contents

There were no material changes in information concerning market risk from the information provided in the Company's Form 10-K for the fiscal year ended September 30, 2014.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management as of the end of the period covered by this report. The Company's Chief Executive Officer and Chief Financial Officer concluded that as of March 31, 2015 (a) the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner to allow timely decisions regarding required disclosure, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Changes in Internal Controls: There have been no changes in our internal control over financial reporting (as defined in 13a-15(f) of the Exchange Act) that occurred during the quarter ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The Company continued, however, to implement suggestions from its internal auditor and independent auditors to strengthen existing controls. The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all errors and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can (b) provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; as over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Neither the Company nor the Bank is a party to any material legal proceedings at this time. From time to time, the Bank is involved in various claims and legal actions arising in the ordinary course of business.

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the Company's 2014 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Not applicable.

Item 3. Defaults Upon Senior Securities  
Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None to be reported.

50

---

Item 6. Exhibits

(a) Exhibits

- 3.1 Articles of Incorporation of the Registrant (1)
- 3.3 Amended and Restated Bylaws of the Registrant (3)
- 4.1 Warrant to purchase shares of Company's common stock dated December 23, 2008 (2)
- 4.2 Letter Agreement (including Securities Purchase Agreement Standard Terms attached as Exhibit A) dated December 23, 2008 between the Company and the United States Department of the Treasury (2)
- 10.1 Employee Severance Compensation Plan, as revised (4)
- 10.2 Employee Stock Ownership Plan (4)
- 10.3 1999 Stock Option Plan (5)
- 10.4 Management Recognition and Development Plan (5)
- 10.5 2003 Stock Option Plan (6)
- 10.6 Form of Incentive Stock Option Agreement (7)
- 10.7 Form of Non-qualified Stock Option Agreement (7)
- 10.8 Form of Management Recognition and Development Award Agreement (7)
- 10.9 Employment Agreement with Michael R. Sand (8)
- 10.10 Employment Agreement with Dean J. Brydon (8)
- 10.11 Timberland Bancorp, Inc. 2014 Equity Incentive Plan (9)
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes Oxley Act
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes Oxley Act
- 32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes Oxley Act  
The following materials from Timberland Bancorp Inc's Quarterly Report 10-Q for the quarter ended March 31, 2015, formatted on Extensible Business Reporting Language (XBRL) (a) Condensed Consolidated Balance Sheets; (b) Condensed Consolidated Statements of Income; (c) Condensed Consolidated Statements of Comprehensive Income; (d) Condensed Consolidated Statements of Shareholders' Equity; (e) Condensed Consolidated Statements of Cash Flows; and (f) Notes to Unaudited Condensed Consolidated Financial Statements (9)

- 
- (1) Incorporated by reference to the Registrant's Registration Statement on Form S-1 (333- 35817).
  - (2) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on December 23, 2008.
  - (3) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on April 29, 2010.
  - (4) Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1997; and to the Registrant's Current Report on Form 8-K dated April 13, 2007.
  - (5) Incorporated by reference to the Registrant's 1999 Annual Meeting Proxy Statement dated December 15, 1998.
  - (6) Incorporated by reference to the Registrant's 2004 Annual Meeting Proxy Statement dated December 24, 2003.
  - (7) Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended September 30, 2005.
  - (8) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on March 29, 2013.
  - (9) Attached as Appendix A to the Registrant's Annual Meeting Proxy Statement filed on December 19, 2014.
- Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Timberland Bancorp, Inc.

Date: May 8, 2015

By: /s/ Michael R. Sand  
Michael R. Sand  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 8, 2015

By: /s/ Dean J. Brydon  
Dean J. Brydon  
Chief Financial Officer  
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit No. Description of Exhibit

31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act
101	The following materials from Timberland Bancorp Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted on Extensible Business Reporting Language (XBRL) (a) Condensed Consolidated Balance Sheets; (b) Condensed Consolidated Statements of Income; (c) Condensed Consolidated Statements of Comprehensive Income; (d) Condensed Consolidated Statements of Shareholders' Equity; (e) Condensed Consolidated Statements of Cash Flows; and (f) Notes to Unaudited Condensed Consolidated Financial Statements*

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise not subject to liability under those sections.