TIMBERLAND BANCORP INC
Form 8-K
April 25, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): April 24, 2003

Timberland Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Washington	0-23333	91-1863696
State or other jurisdiction of incorporation	Commission File Number	(I.R.S. Employer Identification No.)

624 Simpson Avenue, Hoquiam, Washington	98550
(Address of principal executive offices)	(Zip Code)

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

Not Applicable
(Former name or former address, if changed since last report)

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(c) Exhibits

99.1 Press Release of Timberland Bancorp, Inc. dated April 24, 2003.

Item 9. Regulation FD Disclosure

On April 24, 2003, Timberland Bancorp, Inc. issued its earnings release for the quarter ended March 31, 2003. A copy of the earnings release is attached hereto as Exhibit 99.1, which is incorporated herein by reference.

The information being furnished under this "Item 9. Regulation FD Disclosure" is intended to be furnished under "Item 12. Disclosure of Results of Operations and Financial Condition."

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, hereunto duly authorized.

TIMBERLAND BANCORP, INC.

DATE: April 25, 2003

By: /s/Dean J. Brydon

Dean J. Brydon
Chief Financial Officer

Exhibit 99.1

PRESS RELEASE: FOR IMMEDIATE PUBLICATION

For further information contact: Clarence Hamre, CEO
Michael Sand, President
Dean Brydon, CFO
At (360) 533-4747

Timberland Bancorp, Inc. Second Quarter Earnings Increase 10%

Announces planned technology investment during the next two quarters at an anticipated cost of approximately $0.09 per share

HOQUIAM, Wash. April 24, 2003 Timberland Bancorp, Inc. (Nasdaq: TSBK), ("Company") the holding company for Timberland Bank, ("Bank"), today reported net income of $1.79 million, or $0.45 per diluted share, for the quarter ended March 31, 2003. This represents a 10% increase in earnings per share from the $0.41 per diluted share the Company earned for the quarter ended March 31, 2002. The improved earnings for the current quarter are primarily a result of increased non-interest income.

The growth of non-interest income has been an important component of the Company's increased profitability. Non-interest income increased 43% to $1.50 million for the current quarter from $1.05 million for the quarter ended March 31, 2002, primarily due to strong mortgage banking activity, increased deposit-related fee income and income from the Bank Owned Life Insurance ("BOLI") program.

The Bank has continued to sell fixed rate loans secured by residential properties during this low interest rate cycle. During the quarter ended March 31, 2003, $27.5 million in fixed rate mortgage loans were sold resulting in a gain of $394,000 ($260,000 after income tax). This compares to a gain of

$220,000 ($145,000 after income tax) for the quarter ended March 31, 2002.

Non-interest income also increased due to the continued success of the Bank's checking account acquisition program, which has been responsible for growth in deposit-related fee income. Service charges on deposits increased by 21% to $461,000 for the current quarter compared to the same period a year ago. Since the program began in December 2000, the Bank has increased the number of its consumer checking accounts by 96% and increased its consumer checking account balances by $28.5 million. Timberland plans to continue the emphasis on increasing its checking account base and believes that the marketing program will further the Bank's initiatives of increasing the level of lower-costing deposits and growing non-interest income.

Income from the BOLI program that was implemented in September 2002 increased non-interest income by $134,000 during the quarter.

Net interest income decreased 1.5% from the quarter ended March 31, 2002 to $4.75 million for the current quarter. The decrease was primarily due to the Company's interest earning assets repricing downward at a greater rate than the Company's funding sources and a shift in the makeup of total earning assets. The Company's net interest margin reflected this compression as it decreased to 4.75% for the current quarter from 5.21% for the quarter ended March 31, 2002. The Company remains asset sensitive and is positioned to benefit from increasing interest rates.

The Bank's 15th full-service office will be located in downtown Olympia (Thurston County) and is scheduled to open in August 2003. This office will be Timberland's fourth Thurston County location and will serve as the headquarters for the Bank's Commercial Lending and Business Banking Divisions. This downtown Olympia site is centrally located and will provide a good strategic location as the Company continues to expand its commercial banking initiatives. Commercial real estate, commercial business, and commercial construction loans now comprise 33% of the Bank's loan portfolio.

Technology Improvements

President, Michael Sand also announced the Bank's plans for upcoming technology improvements. "We will be converting to the Kirchman Bankway core processing system from our current in-house supported system in July of this year. In addition to the core processing system, Timberland will also be changing its internet banking provider, its ATM service provider and its loan platform system. We believe that these changes will enhance customer service, streamline our loan processing system, and allow us to offer more products to our commercial and retail customers." It is estimated that expenses related to the technology upgrades and conversion will reduce earnings over the next two quarters by a total of $0.09 per share.

Disclaimer

This report contains certain "forward-looking statements." The Company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is including this statement for the express purpose of availing itself of the protection of such safe harbor with forward looking statements. These forward-looking statements may describe future plans or strategies and include the Company's expectations of future financial results. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results to differ materially from stated objectives. These risk factors include but are not limited to the effect of interest rate changes, competition in the financial services market for both deposits and loans as well as regional and general economic conditions. The words "believe," "expect," "anticipate," "estimate," "project," and similar expressions identify forward-looking statements. The Company's ability to predict results or the effect of future plans or strategies is inherently uncertain and undue reliance should not be placed on such statements.

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
For the three and six months ended March 31, 2003 and 2002
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2003	2002	Six Months Ended March 31, 2003	2002
Interest and Dividend Income				
Loans receivable	$6,379	$6,898	$12,962	$14,246
Investments and mortgage-backed securities	244	404	487	815
Dividends from investments	287	173	546	333
Interest bearing deposits in banks	83	41	205	63
Total interest and dividend income	6,993	7,516	14,200	15,457
Interest Expense				
Deposits	1,412	1,872	3,023	3,974
Federal Home Loan Bank advances	831	821	1,681	1,681
Total interest expense	2,243	2,693	4,704	5,655
Net interest income	4,750	4,823	9,496	9,802
Provision for Loan Losses	107	200	280	592
Net interest income after provision for loan losses	4,643	4,623	9,216	9,210
Non-Interest Income				
Service charges on deposits	461	380	992	783
Gain on sale of loans, net	394	220	823	500
Loss on sale of securities	- -	(19)	- -	(16)
BOLI net earnings	134	- -	269	- -
Escrow fees	61	72	135	145
Servicing income on loans sold	83	114	195	251
ATM transaction fees	189	137	375	270
Other	177	142	356	275
Total non-interest income	1,499	1,046	3,145	2,208
Non-interest Expense				
Salaries and employee benefits	2,031	1,724	4,041	3,432
Premises and equipment	370	368	733	687
Advertising	176	191	380	432
Loss from real estate operations and				

write-downs	42	27	73	60
ATM expenses	152	164	301	271
Other	763	672	1,496	1,370
Total non-interest expense	3,534	3,146	7,024	6,252
Income before federal income taxes	2,608	2,523	5,337	5,166
Federal Income Taxes	818	894	1,678	1,830
Net Income	$1,790	$ 1,629	$ 3,659	$ 3,336
Earnings Per Common Share:				
Basic	$0.47	$0.42	$0.95	$0.85
Diluted	$0.45	$0.41	$0.91	$0.83
Weighted average shares outstanding:				
Basic	3,820,273	3,881,782	3,838,604	3,934,081
Diluted	4,009,862	4,014,645	4,010,795	4,038,635

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
SUMMARY BALANCE SHEETS
March 31, 2003 and September 30, 2002
(Dollars in thousands)
(unaudited)

	March 31, 2003	September 30, 2002
ASSETS		
Cash and due from financial institutions	$ 11,039	$ 10,580
Interest bearing deposits in banks	30,075	25,493
Investments and mortgage-backed securities held to maturity	470	- -
Investments and mortgage-backed securities available for sale	52,207	41,582
Federal Home Loan Bank stock	5,313	5,139
Loans receivable	310,109	322,997
Loans held for sale	2,466	3,161
Less: Allowance for loan losses	(3,868)	(3,630)
Total loans	308,707	322,528
Accrued interest receivable	1,533	1,604
Premises and equipment	13,019	11,664
Real estate owned	900	680
Bank owned life insurance ("BOLI")	10,305	10,036
Other assets	2,257	1,748
TOTAL ASSETS	$ 435,825	$ 431,054
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Deposits	$ 296,579	$ 292,316
Federal Home Loan Bank advances	61,684	61,759
Other liabilities and accrued expenses	1,759	2,583

TOTAL LIABILITIES	360,022	356,658
SHAREHOLDERS' EQUITY		
Common stock - $.01 par value; 50,000,000 shares authorized; March 31, 2003 - 4,253,217 shares issued, 3,768,777 shares outstanding September 30, 2002 - 4,340,976 shares issued, 3,856,536 shares outstanding (Unallocated ESOP shares and unvested MRDP shares are not considered outstanding)	42	43
Additional paid in capital	34,148	35,857
Unearned shares - Employee Stock Ownership Plan	(5,155)	(5,419)
Unearned shares - Management Recognition & Development Plan	(1,504)	(1,826)
Retained earnings	47,824	45,210
Accumulated other comprehensive income	448	531
TOTAL SHAREHOLDERS' EQUITY	75,803	74,396
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 435,825	$ 431,054

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TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
KEY FINANCIAL RATIOS AND DATA
(Dollars in thousands, except per share data)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002	Six Months Ended March 31, 2003	Six Months Ended March 31, 2002
PERFORMANCE RATIOS:				
Return on average assets (1)	1.67%	1.69%	1.69%	1.73%
Return on average equity (1)	9.41%	9.08%	9.69%	9.27%
Net interest margin (1)	4.75%	5.21%	4.71%	5.31%
Efficiency ratio	56.56%	53.60%	55.57%	52.06%

	March 31, 2003	September 30, 2002
ASSET QUALITY RATIOS:		
Non-performing loans	$ 3,400	$ 3,741
REO & other repossessed assets	900	680
Total non-performing assets	4,300	4,421
Non-performing assets to total assets	0.99%	1.03%
Allowance for loan losses to non-performing loans	113.76%	97.03%
Book Value Per Share (2)	$ 17.82	$ 17.14
Book Value Per Share (3)	$ 19.39	$ 18.69

(1) Annualized
(2) Calculation includes ESOP shares not committed to be released
(3) Calculation excludes ESOP shares not committed to be released

Three Months Six Months

	Ended March 31, 2003	Ended March 31, 2002	Ended March 31, 2003	Ended March 31, 2002
AVERAGE BALANCE SHEET:				
Average Total Loans	$315,469	$319,621	$320,335	$321,337
Average Total Interest Earning Assets	400,137	370,156	402,827	369,188
Average Total Assets	429,792	385,964	432,336	385,484
Average Total Interest Bearing Deposits	266,514	229,566	269,276	227,786
Average FHLB Advances	61,698	63,589	61,716	64,805
Average Shareholders' Equity	76,062	71,755	75,531	72,002

Comparison of Financial Condition at March 31, 2003 and September 30, 2002

Total Assets: Total assets increased to $435.8 million at March 31, 2003 from $431.1 million at September 30, 2002. This change is reflected primarily in a $15.7 million increase in investments and interest bearing deposits in banks, which is partially offset by a $13.8 million decrease in total loans.

Investments and Interest Bearing Deposits in Banks: Investments and interest bearing deposits in banks increased by $15.7 million to $82.8 million at March 31, 2003 from $67.1 million at September 30, 2002. This increase is primarily due to investing proceeds from loan sales, loan prepayments, and increased customer deposits.

Loans: Net loans receivable, including loans held-for-sale, decreased to $308.7 million at March 31, 2003 from $322.5 at September 30, 2002, primarily reflected in a $14.4 million decrease in the Bank's one-to-four family mortgage loan portfolio. The portfolio decrease was primarily due to loan prepayments, as a result of the historically low home mortgage rates, and the sale of a majority of the one-to-four family mortgages generated during the period. During the six months ended March 31, 2003, the Bank originated loans of $109.3 million and sold $62.3 million in fixed rate one-to-four family mortgage loans. Management elected to sell a majority of the fixed rate residential loans originated instead of adding them to the Bank's portfolio due to the low rate environment.

Deposits: Deposits increased to $296.6 million at March 31, 2003 from $292.3 million at September 30, 2002, primarily due to a $9.6 million increase in the Bank's passbook savings accounts, a $5.4 million increase in N.O.W. checking accounts and a $3.8 million increase in non-interest bearing accounts. These increases are partially offset by a $9.9 million decrease in certificate of deposit accounts and a $4.7 million decrease in money market accounts.

Shareholders' Equity: Total shareholders' equity increased by $1.4 million to $75.8 million at March 31, 2003 from $74.4 million at September 30, 2002. The components of shareholders' equity were primarily affected by net income of $3.7 million, the repurchase of 116,259 shares of the Company's stock for $2.2 million and the payment of $1.0 million in dividends to shareholders. Also affecting shareholders' equity was a $344,000 increase to additional paid in capital from the exercise of stock options, and decreases of $322,000 and $264,000 in the equity components related to unearned shares issued to the Management Recognition and Development Plan and Employee Stock Ownership Plans, respectively.

On February 11, 2003, the Company announced the completion of its tenth stock repurchase program. The Company repurchased 193,659 shares at an average price of $17.76 per share. The Company repurchased 76,259 of these shares during the quarter ended March 31, 2003.

On February 14, 2003 the Company announced a plan to repurchase 380,028 shares of the Company's stock. This marked the Company's eleventh stock repurchase plan. As of March 31, 2003, the Company had purchased 40,000 of these shares and cumulatively had repurchased 2,638,563 (39.9%) of the 6,612,500 shares that were issued when the Company went public in January 1998.

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Comparison of Operating Results for the Three and Six Months Ended March 31, 2003 and 2002

Net Income: Net income for the quarter ended March 31, 2003 was $1.79 million, or $0.45 per diluted share ($0.47 per basic share) compared to $1.63 million, or $0.41 per diluted share ($0.42 per basic share) for the quarter ended March 31, 2002. The primary factor affecting the improved performance in the current quarter was increased non-interest income.

Net income for the six months ended March 31, 2003 was $3.66 million, or $0.91 per diluted share ($0.95 per basic share) compared to $3.34 million, or $0.83 per diluted share ($0.85 per basic share) for the six months ended March 31, 2002.

Net Interest Income: Net interest income decreased $73,000 to $4.75 million for the quarter ended March 31, 2003 from $4.82 million for the quarter ended March 31, 2002. Total interest income decreased $523,000 to $6.99 million for the quarter ended March 31, 2003 from $7.52 million for the quarter ended March 31, 2002, primarily due to a reduction in average yields on earning assets. The yield on earning assets was 6.99% for the quarter ended March 31, 2003 compared to 8.12% for the quarter ended March 31, 2002. In addition to overall lower market rates, the yield was also impacted by a shift in the makeup of total earning assets. In 2002, loans, the Company's highest yielding class of assets, comprised 86.3% of average earning assets. In 2003, loans were 78.8% of average earning assets. This change was largely influenced by the decision to sell many of the loans originated in the current quarter. That had the effect of increasing the gain on loans sold, at the expense of interest income. The impact of lower average yields was, however, partially offset by increased levels of average earning assets. Total interest expense decreased $450,000 to $2.24 million for the quarter ended March 31, 2003 from $2.69 million for the quarter ended March 31, 2002. The average cost of funds for each of the Bank's deposit account types for the current quarter was lower than a year ago. The overall cost of funds decreased to 2.73% for the quarter ended March 31, 2003 from 3.67% for the quarter ended March 31, 2002. As a result of these changes, the net interest margin decreased to 4.75% for the quarter ended March 31, 2003 from 5.21% for the quarter ended March 31, 2002.

Net interest income decreased $306,000 to $9.50 million for the six months ended March 31, 2003 from $9.80 million for the six months ended March 31, 2002. Total interest income decreased $1.26 million to $14.20 million for the six months ended March 31, 2003 from $15.46 million for the six months ended March 31, 2002, primarily due to a reduction in average yields on earning assets. The yield on earning assets was 7.05% for the six months ended March 31, 2003 compared to 8.37% for the six months ended March 31,

2002. The impact of lower average yields was, however, partially offset by increased levels of average earning assets. Total interest expense decreased $951,000 to $4.70 million for the six months ended March 31, 2003 from $5.66 million for the six months ended March 31, 2002. The average cost of funds for each of the Bank's deposit account types for the current period was lower than a year ago. The overall cost of funds decreased to 2.84% for the six months ended March 31, 2003 from 3.87% for the six months ended March 31, 2002. As a result of these changes, the net interest margin decreased to 4.71% for the six months ended March 31, 2003 from 5.31% for the six months ended March 31, 2002.

Provision for Loan Losses: The Company's non-performing asset ("NPA") ratio decreased to 0.99% at March 31,2003 from 1.27% at March 31, 2002. The provision for loan losses decreased to $107,000 for the three months ended March 31, 2003 from $200,000 for the three months ended March 31, 2002. Management deemed the allowance for loan losses of $3.868 million at March 31, 2003 (1.25% of loans receivable and 113.8% of non-performing loans) adequate to provide for probable losses based on an evaluation of known and inherent risks in the loan portfolio at that date. The allowance for loan losses was $3.450 million (1.12% of loans receivable and 84.9% of non-performing loans) at March 31, 2002. The increase in the level of the allowance for loan losses primarily resulted from a slight change in the mix of the loan portfolio. Net charge-offs for the current quarter were $16,000 compared to $102,000 in the same quarter of 2002. For the six months ended March 31, 2003 and 2002, net charge-offs were $43,000 and $192,000, respectively.

Non-interest Income: Total non-interest income increased $453,000 to $1.50 million for the quarter ended March 31, 2003 from $1.05 million for the quarter ended March 31, 2002, primarily due to a $174,000 increase in gain on sale of

loans, the recognition of $134,000 in BOLI income, and an $81,000 increase in service charges on deposits. The increased loan sale gains are primarily a result of the Bank selling $27.5 million in fixed-rate one-to-four family loans during the current quarter. During the same period in 2002, the Bank sold $23.9 million in fixed-rate one-to-four family loans. The increased deposit-related service charge income is primarily a result of the Bank's checking account acquisition program.

For the six months ended March 31, 2003 non-interest income increased $937,000 to $3.15 million from $2.21 million for the six months ended March 31, 2002. This increase is primarily due to a $323,000 increase in gain on sale of loans, the recognition of $269,000 in BOLI income, a $209,000 increase in service charges on deposits, and a $105,000 increase in ATM transaction fees.

Non-interest Expense: Total non-interest expense increased by $388,000 to $3.53 million for the three months ended March 31, 2003 from $3.15 million for the three months ended March 31, 2002. This increase is primarily due to a $307,000 increase in salaries and employee benefits. The increase in salaries and employee benefits is primarily a result of adding employees to staff the Silverdale branch, increasing staffing levels in several other departments, and salary increases in October of 2002.

For the six months ended March 31, 2003 non-interest expense increased by $772,000 to $7.02 million from $6.25 million for the six months ended March 31, 2002. This increase is primarily due to a $609,000 increase in salaries and employee benefits for the reasons stated above.

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
LOANS RECEIVABLE BREAKDOWN
(Dollars in thousands)

The following table sets forth the composition of the Company's loan portfolio by type of loan.

	At March 31, 2003		At September 30, 2002	
	Amount	Percent	Amount	Percent
Mortgage Loans:				
One-to-four family (1)(2)	$ 98,711	29.08%	$113,144	31.28%
Multi family	23,626	6.96	24,135	6.67
Commercial	95,380	28.10	97,644	27.00
Construction and land development	74,740	22.01	80,144	22.16
Land	15,470	4.56	15,453	4.27
Total mortgage loans	307,927	90.71	330,520	91.38
Consumer Loans:				
Home equity and second mortgage	15,120	4.45	13,718	3.79
Other	8,039	2.37	8,097	2.24
	23,159	6.82	21,815	6.03
Commercial business loans	8,387	2.47	9,365	2.59
Total loans	339,473	100.00%	361,700	100.00%
Less:				
Undisbursed portion of loans in process	(24,035)		(32,324)	
Unearned income	(2,863)		(3,218)	
Allowance for loan losses	(3,868)		(3,630)	
Market value adjustment of loans held-for-sale	- -		- -	
Total loans receivable, net	$308,707		$322,528	

(1) Includes loans held-for-sale.
(2) Includes real estate contracts totaling $1.1 million at March 31, 2003.

TIMBERLAND BANCORP, INC. AND SUBSIDIARIES
DEPOSIT BREAKDOWN

(Dollars in thousands)

The following table sets forth the balances of deposits in the various types of savings accounts offered by the Bank at the dates indicated.

	March 31, 2003	September 30, 2002
Non-interest bearing	$ 27,393	$ 23,585
N.O.W checking	47,659	42,222
Passbook savings	49,900	40,328
Money market accounts	43,218	47,888
Certificates of deposit under $100,000	105,603	102,052
Certificates of deposit $100,000 and over	22,806	36,241
Total deposits	$296,579	$292,316

Timberland Bancorp, Inc. stock trades on the NASDAQ national market under the symbol "TSBK." The Bank owns and operates branches in the state of Washington in Hoquiam, Aberdeen, Ocean Shores, Montesano, Lacey, Puyallup, Edgewood, Auburn, Yelm, Poulsbo, Spanaway (Bethel Station), Tumwater, Tacoma, and Silverdale.

CONTACT:
Timberland Bancorp, Inc.
Clarence Hamre, CEO, Michael Sand, President or Dean Brydon, CFO 360/533-4747