

TIMBERLAND BANCORP INC  
Form 10-Q  
August 08, 2016  
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 June 30, 2016

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 91-1863696  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

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

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 AUGUST 4, 2016

Common  
stock, 6,940,568  
\$.01 par  
value

---

INDEX

<u>PART I.</u>	<u>FINANCIAL INFORMATION</u>	Page
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	
	<u>Consolidated Balance Sheets</u>	<u>3</u>
	<u>Consolidated Statements of Income</u>	<u>5</u>
	<u>Consolidated Statements of Comprehensive Income</u>	<u>7</u>
	<u>Consolidated Statements of Shareholders' Equity</u>	<u>8</u>
	<u>Consolidated Statements of Cash Flows</u>	<u>9</u>
	<u>Notes to Unaudited 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>37</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>50</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>51</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>51</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>51</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>51</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>51</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>52</u>

SIGNATURES

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  
CONSOLIDATED BALANCE SHEETS

June 30, 2016 and September 30, 2015

(Dollars in thousands, except per share amounts)

	June 30, 2016 (Unaudited) *	September 30, 2015
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	\$ 16,394	\$ 14,014
Interest-bearing deposits in banks	72,779	78,275
Total cash and cash equivalents	89,173	92,289
Certificates of deposit (“CDs”) held for investment (at cost, which approximates fair value)	52,435	48,611
Investment securities held to maturity, at amortized cost (estimated fair value \$8,535 and \$8,894)	7,618	7,913
Investment securities available for sale	1,363	1,392
Federal Home Loan Bank (“FHLB”) stock	2,804	2,699
Loans held for sale	4,885	3,051
Loans receivable	657,208	614,201
Less: Allowance for loan losses	(9,842)	(9,924)
Net loans receivable	647,366	604,277
Premises and equipment, net	16,224	16,854
Other real estate owned (“OREO”) and other repossessed assets, net	4,762	7,854
Accrued interest receivable	2,270	2,170
Bank owned life insurance (“BOLI”)	18,580	18,170
Goodwill	5,650	5,650
Mortgage servicing rights (“MSRs”), net	1,516	1,478
Other assets	3,493	3,407
Total assets	\$ 858,139	\$ 815,815
Liabilities and shareholders’ equity		
Liabilities		
Deposits:		
Non-interest-bearing demand	\$ 149,575	\$ 141,388
Interest-bearing	565,806	537,524
Total deposits	715,381	678,912
FHLB advances	45,000	45,000
Other liabilities and accrued expenses	3,306	2,716
Total liabilities	763,687	726,628

\* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements



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

June 30, 2016 and September 30, 2015

(Dollars in thousands, except per share amounts)

	June 30, 2016 (Unaudited) *	September 30, 2015
Shareholders' equity		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued	\$ —	\$ —
Common stock, \$.01 par value; 50,000,000 shares authorized; 6,939,068 shares issued and outstanding - June 30, 2016 6,988,848 shares issued and outstanding - September 30, 2015	9,818	10,293
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(728	) (926 )
Retained earnings	85,635	80,133
Accumulated other comprehensive loss	(273	) (313 )
Total shareholders' equity	94,452	89,187
Total liabilities and shareholders' equity	\$ 858,139	\$ 815,815

\* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME

For the three and nine months ended June 30, 2016 and 2015

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
Interest and dividend income				
Loans receivable and loans held for sale	\$8,257	\$7,756	\$24,992	\$22,617
Investment securities	70	59	213	179
Dividends from mutual funds and FHLB stock	22	7	83	21
Interest-bearing deposits in banks and CDs	247	125	649	343
Total interest and dividend income	8,596	7,947	25,937	23,160
Interest expense				
Deposits	508	492	1,520	1,496
FHLB advances	472	471	1,420	1,411
Total interest expense	980	963	2,940	2,907
Net interest income	7,616	6,984	22,997	20,253
Provision for loan losses	—	—	—	—
Net interest income after provision for loan losses	7,616	6,984	22,997	20,253
Non-interest income				
Other than temporary impairment ("OTTI") on investment securities	(4	) —	(27	) —
Adjustment for portion of OTTI transferred from other comprehensive income (loss) before income taxes	—	(4	) (1	) (5
Net OTTI on investment securities	(4	) (4	) (28	) (5
Gain on sale of investment securities available for sale, net	—	—	—	45
Service charges on deposits	989	899	2,898	2,635
ATM and debit card interchange transaction fees	778	691	2,187	1,964
BOLI net earnings	137	133	410	401
Gain on sales of loans, net	443	514	1,230	1,098
Escrow fees	64	57	153	155
Servicing income (loss) on loans sold	60	(1	) 180	(40
Other, net	282	234	750	607
Total non-interest income, net	2,749	2,523	7,780	6,860

See notes to unaudited consolidated financial statements





TIMBERLAND BANCORP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (continued)  
For the three and nine months ended June 30, 2016 and 2015  
(Dollars in thousands, except per share amounts)  
(Unaudited)

	Three Months Ended June 30,		Nine months ended June 30,	
	2016	2015	2016	2015
Non-interest expense				
Salaries and employee benefits	\$3,397	\$ 3,196	\$ 10,333	\$ 9,877
Premises and equipment	773	763	2,301	2,239
Loss (gain) on sales / dispositions of premises and equipment, net	1	(299)	4	(299)
Advertising	192	169	590	529
OREO and other repossessed assets, net	123	193	561	617
ATM and debit card interchange transaction fees	337	336	990	929
Postage and courier	98	104	309	322
State and local taxes	141	189	410	426
Professional fees	202	207	449	606
Federal Deposit Insurance Corporation ("FDIC") insurance	100	142	334	449
Loan administration and foreclosure	92	88	216	207
Data processing and telecommunications	470	449	1,394	1,299
Deposit operations	232	220	638	615
Other	410	463	1,146	1,331
Total non-interest expense	6,568	6,220	19,675	19,147
Income before federal income taxes	3,797	3,287	11,102	7,966
Provision for federal income taxes	1,250	1,128	3,647	2,629
Net income	\$2,547	\$ 2,159	\$ 7,455	\$ 5,337
Net income per common share				
Basic	\$0.37	\$ 0.31	\$ 1.09	\$ 0.77
Diluted	\$0.36	\$ 0.31	\$ 1.05	\$ 0.76
Weighted average common shares outstanding				
Basic	6,822,608	6,902,067	6,846,373	6,897,381
Diluted	7,111,199	7,071,221	7,091,667	7,068,821
Dividends paid per common share	\$0.08	\$ 0.06	\$ 0.28	\$ 0.17

See notes to unaudited consolidated financial statements

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

For the three and nine months ended June 30, 2016 and 2015

(Dollars in thousands)

(Unaudited)

	Three Months Ended June 30, 2016		Nine Months Ended June 30, 2015	
Comprehensive income				
Net income	\$2,547	\$2,159	\$7,455	\$5,337
Unrealized holding gain (loss) on investment securities available for sale, net of income taxes of \$3, (\$7), \$2, and (\$5), respectively	6	(14)	5	(9)
Reclassification adjustment for gain on sale of investment securities available for sale included in net income, net of income taxes of \$0, \$0, \$0, and (\$15), respectively.	—	—	—	(30)
Change in OTTI on investment securities held to maturity, net of income taxes:				
Additional amount recovered related to credit loss for which OTTI was previously recognized, net of income taxes of \$0, \$4, \$6, and \$4, respectively	—	7	11	8
Amount reclassified to credit loss for previously recorded market loss, net of income taxes of \$0, \$2, (\$1), and \$2, respectively	—	3	(1)	4
Accretion of OTTI on investment securities held to maturity, net of income taxes of \$4, \$6, \$13, and \$14, respectively	7	12	25	27
Total other comprehensive income, net of income taxes	\$13	\$8	\$40	\$—
Total comprehensive income	\$2,560	\$2,167	\$7,495	\$5,337

See notes to unaudited consolidated financial statements

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

For the nine months ended June 30, 2016 and 2015

(Dollars in thousands, except per share amounts)

(Unaudited)

	Number of Shares	Amount	Unearned Shares	Retained Earnings	Accumulated Other Compre- hensive Loss	Total
	Common Stock	Common Stock	Issued to ESOP			
Balance, September 30, 2014	7,047,336	\$10,773	\$(1,190 )	\$73,534	\$ (339 )	\$82,778
Net income	—	—	—	5,337	—	5,337
Exercise of stock options	6,300	30	—	—	—	30
Common stock dividends (\$0.17 per common share)	—	—	—	(1,198 )	—	(1,198 )
Earned ESOP shares, net of income taxes	—	54	198	—	—	252
Stock option compensation expense	—	91	—	—	—	91
Balance, June 30, 2015	7,053,636	10,948	(992 )	77,673	(339 )	87,290
Balance, September 30, 2015	6,988,848	10,293	(926 )	80,133	(313 )	89,187
Repurchase of common stock	(66,000 )	(820 )	—	—	—	(820 )
Net income	—	—	—	7,455	—	7,455
Other comprehensive income	—	—	—	—	40	40
Exercise of stock options	16,220	128	—	—	—	128
Common stock dividends (\$0.28 per common share)	—	—	—	(1,953 )	—	(1,953 )
Earned ESOP shares, net of income taxes	—	94	198	—	—	292
Stock option compensation expense	—	123	—	—	—	123
Balance, June 30, 2016	6,939,068	\$9,818	\$(728 )	\$85,635	\$ (273 )	\$94,452

See notes to unaudited consolidated financial statements

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

For the nine months ended June 30, 2016 and 2015

(In thousands)

(Unaudited)

	Nine Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income	\$7,455	\$5,337
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	998	1,014
Amortization of core deposit intangible ("CDI")	—	3
Earned ESOP shares	198	198
Stock option compensation expense	114	89
Stock option tax effect less excess tax benefit	5	1
Gain on sales of OREO and other repossessed assets, net	(47 )	(109 )
Provision for OREO losses	394	490
Loss (gain) on sales/dispositions of premises and equipment, net	4	(299 )
BOLI net earnings	(410 )	(401 )
Gain on sales of loans, net	(1,230 )	(1,098 )
Increase in deferred loan origination fees	40	323
Net OTTI on investment securities	28	5
Gain on sale of investment securities available for sale, net	—	(45 )
Amortization of MSRs	428	452
Loans originated for sale	(41,353)	(39,299)
Proceeds from sales of loans	40,749	37,461
Net change in accrued interest receivable and other assets, and other liabilities and accrued expenses	(151 )	366
Net cash provided by operating activities	7,222	4,488
Cash flows from investing activities		
Net increase in CDs held for investment	(3,824 )	(11,208)
Proceeds from sale of investment securities available for sale	—	1,220
Proceeds from maturities and prepayments of investment securities available for sale	37	224
Purchase of investment securities held to maturity	—	(2,988 )
Proceeds from maturities and prepayments of investment securities held to maturity	388	364
Purchase of FHLB stock	(105 )	—
Redemption of FHLB stock	—	2,547
Increase in loans receivable, net	(43,452)	(31,414)
Additions to premises and equipment	(372 )	(584 )
Proceeds from sale of premises and equipment	—	465
Capitalized improvements to OREO	(142 )	—
Proceeds from sales of OREO and other repossessed assets	3,210	2,216
Net cash used in investing activities	(44,260)	(39,158)

See notes to unaudited consolidated financial statements



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

For the nine months ended June 30, 2016 and 2015

(In thousands)

(Unaudited)

	Nine Months Ended June 30,	
	2016	2015
Cash flows from financing activities		
Net increase in deposits	\$36,469	\$39,602
ESOP tax effect	94	54
Proceeds from exercise of stock options	128	29
Stock option excess tax benefit	4	1
Issuance of common stock	—	1
Repurchase of common stock	(820 )	—
Payment of dividends	(1,953 )	(1,198 )
Net cash provided by financing activities	33,922	38,489
Net (decrease) increase in cash and cash equivalents	(3,116 )	3,819
Cash and cash equivalents		
Beginning of period	92,289	72,354
End of period	\$89,173	\$76,173
Supplemental disclosure of cash flow information		
Income taxes paid	\$3,450	\$2,630
Interest paid	2,924	2,917
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	\$323	\$1,568
Other comprehensive income related to investment securities	40	—

See notes to unaudited consolidated financial statements

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation: The accompanying unaudited 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 consolidated financial statements have been included. All such adjustments are of a normal recurring nature. The unaudited 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, 2015 (“2015 Form 10-K”). The unaudited consolidated results of operations for the nine months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2016.

(b) Principles of Consolidation: The unaudited 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 Corporation. 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 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 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 June 30, 2016 presentation with no change to net income or total shareholders’ equity as previously reported.





## (2) INVESTMENT SECURITIES

Held to maturity and available for sale investment securities have been classified according to management's intent and were as follows as of June 30, 2016 and September 30, 2015 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2016				
Held to maturity				
Mortgage-backed securities ("MBS"):				
U.S. government agencies	\$ 711	\$ 20	\$ (1 )	\$ 730
Private label residential	901	787	(2 )	1,686
U.S. Treasury and U.S. government agency securities	6,006	113	—	6,119
Total	\$ 7,618	\$ 920	\$ (3 )	\$ 8,535
Available for sale				
MBS:				
U.S. government agencies	\$ 352	\$ 31	\$ —	\$ 383
Mutual funds	1,000	—	(20 )	980
Total	\$ 1,352	\$ 31	\$ (20 )	\$ 1,363
September 30, 2015				
Held to maturity				
MBS:				
U.S. government agencies	\$ 828	\$ 23	\$ (1 )	\$ 850
Private label residential	1,081	894	(12 )	1,963
U.S. Treasury and U.S. government agency securities	6,004	77	—	6,081
Total	\$ 7,913	\$ 994	\$ (13 )	\$ 8,894
Available for sale				
MBS:				
U.S. government agencies	\$ 387	\$ 34	\$ —	\$ 421
Mutual funds	1,000	—	(29 )	971
Total	\$ 1,387	\$ 34	\$ (29 )	\$ 1,392

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 June 30, 2016 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total		
	Estimated Fair Value	Unrealized Losses	Quantity	Estimated Fair Value	Unrealized Losses	Quantity	Estimated Fair Value	Unrealized Losses	Quantity
Held to maturity									
MBS:									
U.S. government agencies	\$ 87	\$ —	2	\$ 57	\$ (1)	4	\$ 144	\$ (1)	
Private label residential	1	—	1	139	(2)	11	140	(2)	
Total	\$ 88	\$ —	3	\$ 196	\$ (3)	15	\$ 284	\$ (3)	
Available for sale									
Mutual funds	\$ —	\$ —	—	\$ 980	\$ (20)	1	\$ 980	\$ (20)	
Total	\$ —	\$ —	—	\$ 980	\$ (20)	1	\$ 980	\$ (20)	

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, 2015 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total		
	Estimated Fair Value	Unrealized Losses	Quantity	Estimated Fair Value	Unrealized Losses	Quantity	Estimated Fair Value	Unrealized Losses	Quantity
Held to maturity									
MBS:									
U.S. government agencies	\$ 49	\$ —	4	\$ 63	\$ (1)	5	\$ 112	\$ (1)	
Private label residential	1	—	1	157	(12)	11	158	(12)	
Total	\$ 50	\$ —	5	\$ 220	\$ (13)	16	\$ 270	\$ (13)	
Available for sale									
MBS:									
U.S. government agencies	\$ 1	\$ —	1	\$ 48	\$ —	2	\$ 49	\$ —	
Mutual funds	—	—	—	971	(29)	1	971	(29)	
Total	\$ 1	\$ —	1	\$ 1,019	\$ (29)	3	\$ 1,020	\$ (29)	

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 June 30, 2016, 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 the 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, prepayment speeds and



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 June 30, 2016 and September 30, 2015:

	Range			Weighted	
	Minimum	Maximum		Average	
June 30, 2016					
Constant prepayment rate	6.00%	15.00	%	11.17	%
Collateral default rate	0.06%	15.44	%	5.50	%
Loss severity rate	1.00%	75.00	%	41.23	%
June 30, 2015					
Constant prepayment rate	6.00%	15.00	%	10.38	%
Collateral default rate	0.22%	18.51	%	6.78	%
Loss severity rate	5.41%	68.54	%	44.17	%

The following table presents the OTTI for the three and nine months ended June 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended June 30, 2016		Three Months Ended June 30, 2015	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	\$ (4 )	\$ —	\$ —	\$ —
Adjustment for portion of OTTI transferred from other comprehensive income (loss) before income taxes (1)	—	—	(4 )	—
Net OTTI recognized in earnings (2)	\$ (4 )	\$ —	\$ (4 )	\$ —
	Nine Months Ended June 30, 2016		Nine Months Ended June 30, 2015	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	\$ (27 )	\$ —	\$ —	\$ —
Adjustment for portion of OTTI transferred from other comprehensive income (loss) before income taxes (1)	(1 )	—	(5 )	—
Net OTTI recognized in earnings (2)	\$ (28 )	\$ —	\$ (5 )	\$ —

(1) Represents OTTI related to all other factors.

(2) Represents 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 for the nine months ended June 30, 2016 and 2015 (dollars in thousands):

	Nine Months Ended June 30,	
	2016	2015
Beginning balance of credit loss	\$1,576	\$1,654
Additions:		
Additional increases to the amount related to credit loss for which OTTI was previously recognized	22	5
Subtractions:		
Realized losses previously recorded as credit losses	(74)	(58)
Ending balance of credit loss	\$1,524	\$1,601

There was no realized gain on the sale of investment securities for the three and nine months ended June 30, 2016. There was no realized gain on the sale of investment securities for the three months ended June 30, 2015 and there was a \$45,000 realized gain on the sale of investment securities for the nine months ended June 30, 2015. During the three months ended June 30, 2016, the Company recorded a \$17,000 net realized loss (as a result of the securities being deemed worthless) on 13 held to maturity residential MBS, of which \$15,000 had been recognized previously as a credit loss. During the nine months ended June 30, 2016, the Company recorded a \$81,000 net realized loss (as a result of securities being deemed worthless) on 16 held to maturity residential MBS, of which \$74,000 had been previously recognized as a credit loss. During the three months ended June 30, 2015, the Company recorded a \$20,000 net 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 nine months ended June 30, 2015, the Company recorded a \$58,000 net 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.

The recorded amount of residential MBS, treasury and agency securities pledged as collateral for public fund deposits, federal treasury tax and loan deposits, FHLB collateral and other non-profit organization deposits totaled \$7.10 million and \$7.25 million at June 30, 2016 and September 30, 2015, respectively.

The contractual maturities of debt securities at June 30, 2016 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	\$1	\$ 1	\$3	\$ 3
Due after one year to five years	6,008	6,121	—	—
Due after five to ten years	18	18	—	—
Due after ten years	1,591	2,395	349	380
Total	\$7,618	\$ 8,535	\$352	\$ 383

### (3) GOODWILL

Goodwill is initially recorded when the purchase price paid for an acquisition exceeds the estimated fair value of the net identified tangible and intangible assets acquired. Goodwill is presumed to have an indefinite useful life and is analyzed annually for impairment. The Company performs an annual review during the third quarter of each fiscal year, or more frequently if indicators of potential impairment exist, to determine if the recorded goodwill is impaired.

The goodwill impairment test involves a two-step process. Step one 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.

The Company performed its fiscal year 2016 goodwill impairment test during the quarter ended June 30, 2016 with the assistance of an independent third-party firm specializing in goodwill impairment valuations for financial institutions. The third-party analysis was conducted as of May 31, 2016 and the step one test concluded that the reporting unit's fair value was more than its recorded value and, therefore, step two of the analysis was not necessary. Accordingly, the recorded value of goodwill as of May 31, 2016 was not impaired.

Step one of the goodwill impairment test estimates 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 3.90%, an annual deposit growth rate that ranged from 2.50% to 3.50% and a return on assets that ranged from 0.90% to 1.10%. In addition to the above projections of estimated operating results, key assumptions used to determine the fair value estimate under the income approach were the discount rate of 10.6% and the residual capitalization rate of 7.6%. 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 Duffs and Phelps 2016 Valuation Handbook. 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 are 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 nine 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 or Oregon that were acquired after January 1, 2013. 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 31, 2016 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 discounted cash flow income approach analysis, 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 June 30, 2016, management believed that there had been no events or changes in the circumstances since May 31, 2016 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.

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

Loans receivable and loans held for sale by portfolio segment consisted of the following at June 30, 2016 and September 30, 2015 (dollars in thousands):

	June 30, 2016		September 30, 2015	
	Amount	Percent	Amount	Percent
Mortgage loans:				
One- to four-family	\$117,055	16.5 %	\$116,664	17.4 %
Multi-family	51,672	7.3	52,322	7.8
Commercial	294,887	41.5	291,216	43.5
Construction - custom and owner/builder	88,593	12.5	62,954	9.4
Construction - speculative one- to four-family	8,261	1.2	6,668	1.0
Construction - commercial	21,427	3.0	20,728	3.1
Construction - multi-family	18,090	2.5	20,570	3.1
Land	24,076	3.4	26,140	3.9
Total mortgage loans	624,061	87.9	597,262	89.2
Consumer loans:				
Home equity and second mortgage	38,482	5.4	34,157	5.1
Other	4,490	0.6	4,669	0.7
Total consumer loans	42,972	6.0	38,826	5.8
Commercial business loans	43,571	6.1	33,763	5.0
Total loans receivable	710,604	100.0%	669,851	100.0%
Less:				
Undisbursed portion of construction loans in process	51,163		53,457	
Deferred loan origination fees	2,233		2,193	
Allowance for loan losses	9,842		9,924	
	63,238		65,574	
Loans receivable, net	647,366		604,277	
Loans held for sale	4,885		3,051	
Total loans receivable and loans held for sale, net	\$652,251		\$607,328	



## Allowance for Loan Losses

The following tables set forth information for the three and nine months ended June 30, 2016 and 2015 regarding activity in the allowance for loan losses by portfolio segment (dollars in thousands):

	Three Months Ended June 30, 2016				Ending Allowance
	Beginning Allowance (of)	Provision for Recapture	Charge-offs	Recoveries	
<b>Mortgage loans:</b>					
One-to four-family	\$ 1,323	\$ (83 )	\$ (27 )	\$ 1	\$ 1,214
Multi-family	315	33	—	—	348
Commercial	4,083	19	(128 )	—	3,974
Construction – custom and owner/builder	542	93	—	—	635
Construction – speculative one- to four-family	96	25	—	—	121
Construction – commercial	617	7	—	—	624
Construction – multi-family	409	(22 )	—	—	387
Land	954	9	(50 )	6	919
<b>Consumer loans:</b>					
Home equity and second mortgage	1,021	(55 )	(5 )	—	961
Other	162	(4 )	(2 )	1	157
Commercial business loans	521	(22 )	—	3	502
<b>Total</b>	<b>\$10,043</b>	<b>\$ —</b>	<b>\$(212 )</b>	<b>\$ 11</b>	<b>\$ 9,842</b>

	Nine Months Ended June 30, 2016				Ending Allowance
	Beginning Allowance (of)	Provision for Recapture	Charge-offs	Recoveries	
<b>Mortgage loans:</b>					
One-to four-family	\$ 1,480	\$ (112 )	\$ (55 )	\$ 56	\$ 1,214
Multi-family	392	14	—	—	348
Commercial	4,065	(121 )	(209 )	—	3,974
Construction – custom and owner/builder	451	197	—	—	635
Construction – speculative one- to four-family	123	24	—	2	121
Construction – commercial	426	67	—	—	624
Construction – multi-family	283	—	—	181	387
Land	1,021	(95 )	(58 )	19	919
<b>Consumer loans:</b>					
Home equity and second mortgage	1,073	(13 )	(18 )	—	961
Other	187	(28 )	(7 )	2	157
Commercial business loans	423	67	—	5	502
<b>Total</b>	<b>\$9,924</b>	<b>\$ —</b>	<b>\$(347 )</b>	<b>\$ 265</b>	<b>\$ 9,842</b>

	Three Months Ended June 30, 2015				
	Beginning Allowance of)	Provision for Recapture of)	Charge-offs	Recoveries	Ending Allowance
<b>Mortgage loans:</b>					
One-to four-family	\$1,596	\$ (236 )	\$ (44 )	\$ 137	\$ 1,453
Multi-family	302	11	—	3	316
Commercial	3,601	89	—	—	3,690
Construction – custom and owner/builder	475	2	—	—	477
Construction – speculative one- to four-family	64	15	—	—	79
Construction – commercial	37	185	—	—	222
Construction – multi-family	129	235	—	—	364
Land	2,753	(321 )	(24 )	21	2,429
<b>Consumer loans:</b>					
Home equity and second mortgage	797	4	(7 )	—	794
Other	190	(1)	(3 )	1	187
Commercial business loans	438	17	—	1	456
<b>Total</b>	<b>\$10,382</b>	<b>\$ —</b>	<b>\$ (78 )</b>	<b>\$ 163</b>	<b>\$ 10,467</b>

	Nine Months Ended June 30, 2015				
	Beginning Allowance of)	Provision for Recapture of)	Charge-offs	Recoveries	Ending Allowance
<b>Mortgage loans:</b>					
One-to four-family	\$1,650	\$ (259 )	\$ (201 )	\$ 263	\$ 1,453
Multi-family	387	(74)	—	3	316
Commercial	4,836	(1,146)	—	—	3,690
Construction – custom and owner/builder	450	27	—	—	477
Construction – speculative one- to four-family	52	27	—	—	79
Construction – commercial	78	144	—	—	222
Construction – multi-family	25	339	—	—	364
Land	1,434	991	(28 )	32	2,429
<b>Consumer loans:</b>					
Home equity and second mortgage	879	(58)	(27 )	—	794
Other	176	16	(8 )	3	187
Commercial business loans	460	(7)	—	3	456
<b>Total</b>	<b>\$10,427</b>	<b>\$ —</b>	<b>\$ (264 )</b>	<b>\$ 304</b>	<b>\$ 10,467</b>

The following tables present information on the loans evaluated individually and collectively for impairment in the allowance for loan losses by portfolio segment at June 30, 2016 and September 30, 2015 (dollars 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
June 30, 2016						
Mortgage loans:						
One- to four-family	\$71	\$ 1,143	\$1,214	\$2,592	\$ 114,463	\$117,055
Multi-family	—	348	348	—	51,672	51,672
Commercial	416	3,558	3,974	11,581	283,306	294,887
Construction – custom and owner/builder	—	635	635	—	50,851	50,851
Construction – speculative one- to four-family	—	121	121	—	3,773	3,773
Construction – commercial	—	624	624	—	16,495	16,495
Construction – multi-family	—	387	387	—	14,089	14,089
Land	56	863	919	1,172	22,904	24,076
Consumer loans:						
Home equity and second mortgage	252	709	961	1,035	37,447	38,482
Other	14	143	157	31	4,459	4,490
Commercial business loans	—	502	502	—	43,571	43,571
Total	\$809	\$ 9,033	\$9,842	\$16,411	\$ 643,030	\$659,441
September 30, 2015						
Mortgage loans:						
One- to four-family	\$307	\$ 1,173	\$1,480	\$4,291	\$ 112,373	\$116,664
Multi-family	16	376	392	4,037	48,285	52,322
Commercial	265	3,800	4,065	12,852	278,364	291,216
Construction – custom and owner/builder	—	451	451	—	36,192	36,192
Construction – speculative one- to four-family	—	123	123	—	3,781	3,781
Construction – commercial	—	426	426	—	12,200	12,200
Construction – multi-family	—	283	283	—	5,290	5,290
Land	37	984	1,021	2,305	23,835	26,140
Consumer loans:						
Home equity and second mortgage	362	711	1,073	910	33,247	34,157
Other	24	163	187	36	4,633	4,669
Commercial business loans	—	423	423	—	33,763	33,763
Total	\$1,011	\$ 8,913	\$9,924	\$24,431	\$ 591,963	\$616,394

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 June 30, 2016 and September 30, 2015 (dollars in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Non- Accrual (1)	Past Due 90 Days or More and Still Accruing	Total Past Due	Current	Total Loans
June 30, 2016							
Mortgage loans:							
One- to four-family	\$—	\$ 98	\$ 1,236	\$ —	\$ 1,334	\$ 115,721	\$ 117,055
Multi-family	—	—	—	—	—	51,672	51,672
Commercial	—	—	808	—	808	294,079	294,887
Construction – custom and owner/builder	—	367	—	—	367	50,484	50,851
Construction – speculative one- to four- family	—	—	—	—	—	3,773	3,773
Construction – commercial	—	—	—	—	—	16,495	16,495
Construction – multi-family	—	—	—	—	—	14,089	14,089
Land	215	63	444	—	722	23,354	24,076
Consumer loans:							
Home equity and second mortgage	124	—	436	135	695	37,787	38,482
Other	49	—	31	—	80	4,410	4,490
Commercial business loans	—	—	—	—	—	43,571	43,571
Total	\$ 388	\$ 528	\$ 2,955	\$ 135	\$ 4,006	\$ 655,435	\$ 659,441
September 30, 2015							
Mortgage loans:							
One- to four-family	\$—	\$ 425	\$ 2,368	\$ —	\$ 2,793	\$ 113,871	\$ 116,664
Multi-family	—	—	760	—	760	51,562	52,322
Commercial	—	—	1,016	—	1,016	290,200	291,216
Construction – custom and owner/ builder	—	345	—	—	345	35,847	36,192
Construction – speculative one- to four- family	—	—	—	—	—	3,781	3,781
Construction – commercial	—	—	—	—	—	12,200	12,200
Construction – multi-family	—	—	—	—	—	5,290	5,290
Land	15	32	1,558	—	1,605	24,535	26,140
Consumer loans:							
Home equity and second mortgage	146	14	303	151	614	33,543	34,157
Other	—	—	35	—	35	4,634	4,669
Commercial business loans	—	—	—	—	—	33,763	33,763
Total	\$ 161	\$ 816	\$ 6,040	\$ 151	\$ 7,168	\$ 609,226	\$ 616,394

(1) Includes non-accrual loans past due 90 days or more and other loans classified as non-accrual.

#### 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.

22

---

**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. At June 30, 2016 and September 30, 2015, there were no loans classified as loss.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following tables list the loan credit risk grades utilized by the Company that serve as credit quality indicators by portfolio segment at June 30, 2016 and September 30, 2015 (dollars in thousands):

June 30, 2016	Loan Grades				Total
	Pass	Watch	Special Mention	Substandard	
Mortgage loans:					
One- to four-family	\$ 113,648	\$ 112	\$ 665	\$ 2,630	\$ 117,055
Multi-family	49,861	—	1,811	—	51,672
Commercial	275,402	8,457	7,962	3,066	294,887
Construction – custom and owner/builder	50,516	148	—	187	50,851
Construction – speculative one- to four-family	3,773	—	—	—	3,773
Construction – commercial	16,495	—	—	—	16,495
Construction – multi-family	14,089	—	—	—	14,089
Land	20,313	1,051	1,845	867	24,076
Consumer loans:					
Home equity and second mortgage	36,266	593	707	916	38,482
Other	4,460	—	—	30	4,490
Commercial business loans	43,529	42	—	—	43,571
Total	\$ 628,352	\$ 10,403	\$ 12,990	\$ 7,696	\$ 659,441

September 30, 2015

Mortgage loans:					
One- to four-family	\$ 111,351	\$ 653	\$ 1,339	\$ 3,321	\$ 116,664
Multi-family	45,249	—	6,313	760	52,322
Commercial	270,685	8,040	6,803	5,688	291,216
Construction – custom and owner/builder	36,192	—	—	—	36,192
Construction – speculative one- to four-family	3,781	—	—	—	3,781
Construction – commercial	12,200	—	—	—	12,200
Construction – multi-family	5,290	—	—	—	5,290
Land	20,964	1,105	2,078	1,993	26,140
Consumer loans:					
Home equity and second mortgage	32,172	664	404	917	34,157
Other	4,631	—	—	38	4,669
Commercial business loans	33,635	49	79	—	33,763
Total	\$ 576,150	\$ 10,511	\$ 17,016	\$ 12,717	\$ 616,394

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 when 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 identical. 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 table is a summary of information related to impaired loans by portfolio segment as of June 30, 2016 and for the three and nine months then ended (dollars 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	\$ 1,236	\$ 1,411	\$ —	\$ 1,301	\$ 1,458	\$ 11	\$ 29	\$ 11	\$ 29
Multi-family	—	—	—	—	190	—	—	—	—
Commercial	7,823	8,942	—	8,015	7,839	75	308	59	243
Land	592	1,002	—	596	876	4	12	3	9
Consumer loans:									
Home equity and second mortgage	305	510	—	293	229	—	—	—	—
Commercial business loans	—	—	—	—	18	—	—	—	—
Subtotal	9,956	11,865	—	10,205	10,610	90	349	73	281
With an allowance recorded:									
Mortgage loans:									
One- to four-family	1,356	1,356	71	1,461	2,063	27	90	20	68
Multi-family	—	—	—	—	819	—	—	—	—
Commercial	3,758	3,758	416	3,764	4,291	106	219	84	172
Land	580	580	56	583	612	10	30	8	24
Consumer loans:									
Home equity and second mortgage	730	730	252	732	737	13	33	12	30
Other	31	31	14	32	34	2	2	2	2
Subtotal	6,455	6,455	809	6,572	8,556	158	374	126	296
Total:									
Mortgage loans:									
One- to four-family	2,592	2,767	71	2,762	3,521	38	119	31	97
Multi-family	—	—	—	—	1,009	—	—	—	—
Commercial	11,581	12,700	416	11,779	12,130	181	527	143	415
Land	1,172	1,582	56	1,179	1,488	14	42	11	33
Consumer loans:									
Home equity and second mortgage	1,035	1,240	252	1,025	966	13	33	12	30
Other	31	31	14	32	34	2	2	2	2
Commercial business loans	—	—	—	—	18	—	—	—	—
Total	\$ 16,411	\$ 18,320	\$ 809	\$ 16,777	\$ 19,166	\$ 248	\$ 723	\$ 199	\$ 577

(1) For the three months ended June 30, 2016.

(2) For the nine months ended June 30, 2016.

25

---

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following table is a summary of information related to impaired loans by portfolio segment as of and for the year ended September 30, 2015 (dollars 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	\$ 1,321	\$ 1,546	\$ —	\$ 1,919	\$ 25	\$ 25
Multi-family	760	791	—	570	3	3
Commercial	7,199	8,259	—	9,078	521	412
Construction – custom and owner/builder	—	—	—	118	—	—
Land	1,614	2,150	—	1,028	25	20
Consumer loans:						
Home equity and second mortgage	165	381	—	270	—	—
Commercial business loans	—	6	—	—	—	—
Subtotal	11,059	13,133	—	12,983	574	460
With an allowance recorded:						
Mortgage loans:						
One- to four-family	2,970	2,970	307	3,833	149	112
Multi-family	3,277	3,277	16	3,291	184	137
Commercial	5,653	5,653	265	3,475	202	152
Construction – custom and owner/builder	—	—	—	17	—	—
Land	691	691	37	3,298	32	27
Consumer loans:						
Home equity and second mortgage	745	745	362	516	18	15
Other	36	36	24	28	—	—
Subtotal	13,372	13,372	1,011	14,458	585	443
Total:						
Mortgage loans:						
One- to four-family	4,291	4,516	307	5,752	174	137
Multi-family	4,037	4,068	16	3,861	187	140
Commercial	12,852	13,912	265	12,553	723	564
Construction – custom and owner/builder	—	—	—	135	—	—
Land	2,305	2,841	37	4,326	57	47
Consumer loans:						
Home equity and second mortgage	910	1,126	362	786	18	15
Other	36	36	24	28	—	—
Commercial business loans	—	6	—	—	—	—
Total	\$ 24,431	\$ 26,505	\$ 1,011	\$ 27,441	\$ 1,159	\$ 903

(1) For the year ended September 30, 2015.

A troubled debt restructured loan is a loan for which the Company, for reasons related to a borrower's financial difficulties, grants a significant concession to the borrower that the Company would not otherwise consider. Examples of such concessions 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 rates; a reduction in the face amount of the debt; a reduction in the accrued interest; or re-amorizations, extensions, deferrals and renewals. Troubled debt restructured loans are considered impaired and are individually evaluated for impairment. Troubled debt restructured loans can be classified 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 \$8.21 million and \$13.72 million in troubled debt restructured loans included in impaired loans at June 30, 2016 and September 30, 2015, 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 June 30, 2016



and September 30, 2015 was \$479,000 and \$310,000, respectively. There were no troubled debt restructured loans which incurred a payment default within 12 months of the restructure date during the nine months ended June 30, 2016.

The following tables set forth information with respect to the Company's troubled debt restructured loans by interest accrual status as of June 30, 2016 and September 30, 2015 (dollars in thousands):

	June 30, 2016		
	Accruing	Non-Accrual	Total
Mortgage loans:			
One- to four-family	\$ 1,356	\$ 126	\$ 1,482
Commercial	5,302	—	5,302
Land	727	252	979
Consumer loans:			
Home equity and second mortgage	292	152	444
Total	\$ 7,677	\$ 530	\$ 8,207

	September 30, 2015		
	Accruing	Non-Accrual	Total
Mortgage loans:			
One- to four-family	\$ 1,929	\$ 826	\$ 2,755
Multi-family	3,277	—	3,277
Commercial	6,237	—	6,237
Land	747	255	1,002
Consumer loans:			
Home equity and second mortgage	295	152	447
Total	\$ 12,485	\$ 1,233	\$ 13,718

The following tables set forth information with respect to the Company's troubled debt restructured loans by portfolio segment that occurred during the nine months ended June 30, 2016 and the year ended September 30, 2015 (dollars in thousands):

June 30, 2016  
There were no new troubled debt restructured loans during the nine months ended June 30, 2016.

September 30, 2015	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	End of Period Balance
One-to four-family (1)	1	\$ 48	\$ 48	\$ 48
Total	1	\$ 48	\$ 48	\$ 48

(1) Modification was a result of a reduction in the stated interest rate.



## (5) NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income 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 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. 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 June 30, 2016 and 2015, there were 111,500 and 149,734 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 nine months ended June 30, 2016 and 2015 is as follows (dollars in thousands, except per share amounts):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
Basic net income per common share computation				
Numerator – net income	\$2,547	\$ 2,159	\$7,455	\$ 5,337
Denominator – weighted average common shares outstanding	6,822,608	8,902,067	6,846,376	8,897,381
Basic net income per common share	\$0.37	\$ 0.31	\$ 1.09	\$ 0.77
Diluted net income per common share computation				
Numerator – net income	\$2,547	\$ 2,159	\$7,455	\$ 5,337
Denominator – weighted average shares outstanding	6,822,608	8,902,067	6,846,376	8,897,381
Effect of dilutive stock options (1)	93,041	36,490	69,291	36,680
Effect of dilutive stock warrant (2)	195,550	132,664	175,997	134,760
Weighted average common shares and common stock equivalents	7,111,199	9,071,221	7,091,664	9,068,821
Diluted net income per common share	\$0.36	\$ 0.31	\$ 1.05	\$ 0.76

(1) For the nine months ended June 30, 2016, average options to purchase 56,358 shares of common stock were outstanding but not included in the computation of diluted net income per share because their effect would have been anti-dilutive. For the three months ended June 30, 2016 all outstanding options were included in the computation of diluted net income per share. For the three and nine months ended June 30, 2015, average options to purchase 172,945 and 138,982 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.

(2) Represents a 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 (the "Warrant"). The Warrant was granted on December 23, 2008 to the U.S. Treasury Department ("Treasury") as part of the Company's participation in the Treasury's Troubled Asset Relief Program ("TARP"). On June 12, 2013, the Treasury sold the Warrant to private investors.



(6) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The changes in accumulated other comprehensive income (loss) ("AOCI") by component during the three and nine months ended June 30, 2016 and 2015 are as follows (dollars in thousands):

	Three Months Ended June 30, 2016		
	Changes in fair value of available-for-sale securities		
	Changes in OTTI of on held to maturity (1)	Total (1)	
Balance of AOCI at the beginning of period	\$2	\$(288)	\$(286)
Net change, net of income taxes	6	7	13
Balance of AOCI at the end of period	\$8	\$(281)	\$(273)
	Nine Months Ended June 30, 2016		
	Changes in fair value of available-for-sale securities		
	Changes in OTTI of on held to maturity (1)	Total (1)	
Balance of AOCI at the beginning of period	\$3	\$(316)	\$(313)
Net change, net of income taxes	5	35	40
Balance of AOCI at the end of period	\$8	\$(281)	\$(273)
	Three Months Ended June 30, 2015		
	Changes in fair value of available-for-sale securities		
	Changes in OTTI of on held to maturity (1)	Total (1)	
Balance of AOCI at the beginning of period	\$12	\$(359)	\$(347)
Net change, net of income taxes	(14)	22	8
Balance of AOCI at the end of period	\$(2)	\$(337)	\$(339)

	Nine Months Ended June 30, 2015		
	Changes in fair value in OTTI of available for sale securities on held to maturity securities Total (1)		
Balance of AOCI at the beginning of period	\$37	\$ (376 )	\$(339)
Net change, net of income tax	(39 )	39	—
Balance of AOCI at the end of period	\$(2 )	\$ (337 )	\$(339)

(1) All amounts are net of income taxes.

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

## Stock Compensation Plans

Under the Company's 2003 Stock Option Plan, the Company was able to grant options for up to 300,000 shares of common stock to employees, officers, directors and directors emeriti. Under the Company's 2014 Equity Incentive Plan, which was approved by shareholders on January 27, 2015, the Company is able to grant options and awards of restricted stock (with or without 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 value of the Company's common stock on the date of grant. Generally, options and restricted stock vest in 20% annual installments on each of the five anniversaries from the date of the grant. At June 30, 2016, there were 226,866 shares of common stock available which may be awarded as options or restricted stock pursuant to future grant under the 2014 Equity Incentive Plan. At June 30, 2016, there were no options for shares of common stock available for future grant under the 2003 Stock Option Plan. At June 30, 2016 and 2015, there were no unvested restricted stock grant shares.

Activity under the Plans for the nine months ended June 30, 2016 and 2015 is as follows:

	Nine Months Ended June 30, 2016		Nine Months Ended June 30, 2015	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	341,300	\$ 8.73	221,400	\$ 7.49
Exercised	(16,220)	) 7.88	(6,300)	) 4.84
Granted	—	—	76,000	10.55
Forfeited	(2,900)	) 9.96	(200)	) 4.55
Options outstanding, end of period	322,180	\$ 8.76	290,900	\$ 8.35

The aggregate intrinsic value of options outstanding at June 30, 2016 was \$2.01 million.

At June 30, 2016, there were 211,200 unvested options with an aggregate grant date fair value of \$457,000, all of which the Company assumes will vest. The aggregate intrinsic value of unvested options at June 30, 2016 was \$1.16 million. There were 48,600 options with an aggregate grant date fair value of \$111,000 that vested during the nine months ended June 30, 2016.

At June 30, 2015, there were 217,200 unvested options with an aggregate grant date fair value of \$498,000. There were 42,900 options with an aggregate grant date fair value of \$100,000 that vested during the nine months ended June 30, 2015.

Additional information regarding options outstanding at June 30, 2016 is as follows:

Range of Exercise Prices (\$)	Options Outstanding			Options Exercisable		
	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
\$ 4.01 - 4.55	29,000	\$ 4.21	4.6	25,200	\$ 4.24	4.5
5.86 - 6.00	55,400	5.92	6.1	31,800	5.92	6.1

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

9.00	90,400	9.00	7.3	32,800	9.00	7.3
10.26 - 10.71	147,380	10.57	8.8	21,180	10.49	8.4
	322,180	\$ 8.76	7.6	110,980	\$ 7.32	6.6

30

---



## Expense for Stock Compensation Plans

Compensation expense during the nine months ended June 30, 2016 and 2015 for all stock-based plans was as follows (dollars in thousands):

	Nine Months Ended June 30, 2016 2015	
	Stock Options	Stock Options
Compensation expense	\$123	\$ 91
Less: related tax benefit recognized	(9 )	(2 )
Total	\$114	\$ 89

The compensation expense to be recognized in the years ending September 30 for stock options that have been awarded as of June 30, 2016 is as follows (dollars in thousands):

	Stock Options
Remainder of 2016	\$ 38
2017	146
2018	115
2019	58
2020	36
Total	\$ 393

## (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 June 30, 2016 and September 30, 2015. 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.

GAAP defines fair value and establishes a framework for measuring fair value. Fair value is the 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 three levels for categorizing assets and liabilities under GAAP's fair value measurement requirements are as follows:

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.

Level 2: Significant observable inputs other than quoted prices included within Level 1, such as quoted prices for similar (as opposed to identical) assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities 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.

31

---

The Company's assets measured at fair value on a recurring basis consist of investment securities available for sale. The estimated fair value of MBS are based upon market prices of similar securities or observable inputs (Level 2). The estimated fair value of mutual funds are based upon quoted market prices (Level 1).

The Company had no liabilities measured at fair value on a recurring basis at June 30, 2016 and September 30, 2015. The Company's assets measured at estimated fair value on a recurring basis at June 30, 2016 and September 30, 2015 are as follows (dollars in thousands):

June 30, 2016	Estimated Fair Value			Total
	Level 1	Level 2	Level 3	
Available for sale investment securities				
MBS: U.S. government agencies	\$—	\$383	\$—	—\$383
Mutual funds	980	—	—	980
Total	\$980	\$383	\$—	—\$1,363
September 30, 2015	Estimated Fair Value			Total
	Level 1	Level 2	Level 3	
Available for sale investment securities				
MBS: U.S. government agencies	\$—	\$421	\$—	—\$421
Mutual funds	971	—	—	971
Total	\$971	\$421	\$—	—\$1,392

There were no transfers among Level 1, Level 2 and Level 3 during the nine months ended June 30, 2016 and the year ended September 30, 2015.

The Company may be required, from time to time, to measure certain assets and 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 estimated fair value of impaired loans is calculated using the collateral value method or on a discounted cash flow basis. 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. In some cases, adjustments are made to the appraised values due to various factors including age of the appraisal, age of comparable collateral 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 Held to Maturity:** The estimated fair value of investment securities held to maturity is based upon the assumptions market participants would use in pricing the investment 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 is 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 are based on standard market factors. The valuation of

OREO and other repossessed assets is subject to significant external and internal judgment (Level 3).

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following table summarizes the balances of assets measured at estimated fair value on a non-recurring basis at June 30, 2016 (dollars in thousands):

	Estimated Fair Value	
	Level 1	Level 2 Level 3
Impaired loans:		
Mortgage loans:		
One-to four-family	\$—	\$1,285
Commercial	—	3,342
Land	—	524
Consumer loans:		
Home equity and second mortgage	—	478
Other	—	17
Total impaired loans	—	5,646
Investment securities – held to maturity:		
MBS - private label residential	—	8
OREO and other repossessed assets	—	4,762
Total	\$—	\$8,408

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 June 30, 2016 (dollars in thousands):

	Estimated Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans	\$ 5,646	Market approach	Appraised value less selling costs	NA
OREO and other repossessed assets	\$ 4,762	Market approach	Lower of appraised value or listing price less selling costs	NA

The following table summarizes the balances of assets measured at estimated fair value on a non-recurring basis at September 30, 2015 (dollars in thousands):

	Estimated Fair Value	
	Level 1	Level 2 Level 3
Impaired loans:		
Mortgage loans:		
One-to four-family	\$—	\$2,663
Multi-family	—	3,261
Commercial	—	5,388
Land	—	654
Consumer loans:		
Home equity and second mortgage	—	383
Other	—	12
Total impaired loans	—	12,361
Investment securities – held to maturity:		

MBS - private label residential	—31	—
OREO and other repossessed assets	—	7,854
Total	\$— 31	\$20,215

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 September 30, 2015 (dollars in thousands):

	Estimated Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans	\$ 12,361	Market approach	Appraised value less selling costs	NA
OREO and other repossessed assets	\$ 7,854	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. 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 [for one-to four-family loans] and the guaranteed value of U.S. Small Business Administration ("SBA") loans [made to small businesses under the SBA's 7(a) loan programs]. Quoted market prices are obtained from the Federal Home Loan Mortgage Corporation ("Freddie Mac") and US Bank, National Association.

**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 deemed to be 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 June 30, 2016 and September 30, 2015 (dollars in thousands):

	June 30, 2016				
	Recorded Amount	Fair Value Measurements Using:			
		Estimated Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$89,173	\$89,173	\$89,173	\$	—
CDs held for investment	52,435	52,435	52,435	—	—
Investment securities	8,981	9,898	4,031	5,867	—
FHLB stock	2,804	2,804	2,804	—	—
Loans receivable, net	647,366	656,784	—	—	656,784
Loans held for sale	4,885	5,004	5,004	—	—
Accrued interest receivable	2,270	2,270	2,270	—	—

Financial liabilities

Deposits:

Non-interest-bearing demand	149,575	149,575	149,575	—	—
Interest-bearing	565,806	566,279	416,997	—	149,282
Total deposits	715,381	715,854	566,572	—	149,282
FHLB advances	45,000	46,098	—	46,098	—
Accrued interest payable	305	305	305	—	—

September 30, 2015

	Fair Value Measurements Using:				
	Recorded Amount	Estimated			
		Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$92,289	\$92,289	\$92,289	\$	—
CDs held for investment	48,611	48,611	48,611	—	—
Investment securities	9,305	10,286	3,996	6,290	—
FHLB stock	2,699	2,699	2,699	—	—
Loans receivable, net	604,277	614,734	—	—	614,734
Loans held for sale	3,051	3,139	3,139	—	—
Accrued interest receivable	2,170	2,170	2,170	—	—

Financial liabilities

Deposits:

Non-interest-bearing demand	141,388	141,388	141,388	—	—
Interest-bearing	537,524	538,092	383,419	—	154,673
Total deposits	678,912	679,480	524,807	—	154,673
FHLB advances	45,000	46,742	—	46,742	—
Accrued interest payable	289	289	289	—	—

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the estimated fair value of the Company's financial instruments will change when interest rate levels change, and that change may either be favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to appropriately manage interest rate risk. However, borrowers with fixed interest rate obligations are less likely to prepay in a rising interest rate

environment and more likely to prepay in a falling

35

---

interest rate environment. Conversely, depositors who are receiving fixed interest rates are more likely to withdraw funds before maturity in a rising interest rate environment and less likely to do so in a falling interest rate environment. Management monitors interest rates and maturities of assets and liabilities, and attempts to manage interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

#### (9) RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606), with an effective date for annual reporting periods beginning after December 15, 2016. The core principle of this ASU is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In general, the ASU requires companies to use more judgment and make more estimates than under current guidance, including identifying performance obligations in the contract and estimating the amount of variable consideration to include in the transaction price related to each separate performance obligation. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606), which deferred the effective date of ASU No. 2014-09 to annual periods beginning after December 15, 2017, including interim periods within that reporting period. The adoption of ASU No. 2014-09 is not expected to have a material impact on the Company's 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 consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. This ASU requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this ASU require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in this ASU require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in the current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. 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. 2015-16 is not expected to have a material impact on the Company's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The main provisions of this ASU address the valuation and impairment of certain equity investments along with simplified disclosures about those investments. Equity securities with readily determinable fair values will be treated in the same manner as other financial instruments. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The adoption of ASU No. 2016-01 is not expected to have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). This ASU is intended to increase transparency and comparability among organizations by requiring the recognition of lease assets and lease liabilities on the balance sheet and disclosure of key information about leasing arrangements. The principal change required by this ASU relates to lessee accounting, and is that for operating leases, a lessee is required to (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position, (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis, and (3) classify all cash payments within operating activities in the statement of cash flows. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. This ASU also changes disclosure requirements related to leasing activities, and requires certain qualitative disclosures along with specific quantitative disclosures. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of the amendments in this ASU is permitted. The adoption of ASU No. 2016-02 is being reviewed for any material impact there may be on the Company's future consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, Compensation - Stock Compensation. This ASU includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. This ASU is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The adoption of ASU No. 2016-09 is being reviewed for any material impact there may be on the Company's future consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses. This ASU replaces the existing incurred losses methodology for estimating allowances with a current expected credit losses methodology. ASU No. 2016-13 will apply to most financial assets measured at amortized cost and certain other instruments, including trade and other receivables, loans, held to maturity investment securities and off-balance sheet commitments. This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently evaluating the impact that the adoption of ASU 2016-13 will have on the Company's future 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 consolidated financial condition and results of operations of the Company at and for the three and nine months ended June 30, 2016. 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 loans 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 a formal or informal 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 or 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 risks 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 described elsewhere in this Form 10-Q and in the Company's other reports filed with or furnished to the Securities and Exchange Commission, including our 2015 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 to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements 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. In light of these risks, uncertainties and assumptions, the forward-looking statements discussed in this document might not occur and we caution readers not to place undue reliance on any forward-looking statements. These risks could cause our actual results for fiscal 2016 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 consolidated 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 June 30, 2016, the Company had total assets of \$858.14 million and total shareholders' equity of \$94.45 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 allowance for loan losses reflects the amount that the Company believes is adequate to cover probable credit losses inherent in its loan portfolio.

Net income is also affected by non-interest income and non-interest expenses. For the three and nine month periods ended June 30, 2016, non-interest income consisted primarily of service charges on deposit accounts, gain on sales 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. Non-interest expenses consisted primarily of salaries and employee benefits, premises and equipment, advertising, ATM and debit card interchange transaction fees, OREO and other repossessed asset expenses, postage and courier expenses, state and local taxes, professional fees, FDIC insurance premiums, loan administration and foreclosure expenses, deposit operation expenses and data processing and



telecommunication expenses. Non-interest income and non-interest expenses are affected by the growth of the Company's 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 Consolidated Financial Statements. Critical accounting policies and estimates are discussed in the Company's 2015 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 2015 Form 10-K.

### Comparison of Financial Condition at June 30, 2016 and September 30, 2015

The Company's total assets increased by \$42.32 million, or 5.2%, to \$858.14 million at June 30, 2016 from \$815.82 million at September 30, 2015. The increase in total assets was primarily due to an increase in net loans receivable. The increase in total assets was funded primarily by an increase in total deposits.

Net loans receivable increased by \$43.09 million, or 7.1%, to \$647.37 million at June 30, 2016 from \$604.28 million at September 30, 2015. The increase was primarily due to increases in construction loans, commercial business loans, consumer loans and commercial real estate loans. These increases to net loans receivable were partially offset by decreases in land loans and multi-family loans.

Total deposits increased by \$36.47 million, or 5.4%, to \$715.38 million at June 30, 2016 from \$678.91 million at September 30, 2015. The increase was primarily a result of increases in money market, savings, N.O.W. checking and non-interest-bearing demand account balances, which were partially offset by a decrease in certificates of deposit account balances.

Shareholders' equity increased by \$5.27 million, or 5.9%, to \$94.45 million at June 30, 2016 from \$89.19 million at September 30, 2015. The increase in shareholders' equity was primarily due to net income for the nine months ended June 30, 2016, which was partially offset by the payment of dividends to common shareholders and the repurchase of common stock.

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 \$708,000, or 0.5%, to \$141.61 million at June 30, 2016 from \$140.90 million at September 30, 2015. The increase was primarily due to a \$3.82 million, or 7.9%, increase in CDs held for investment, which was

partially offset by a \$3.12 million, or 3.4%, decrease in cash and cash equivalents.

Investment Securities: Investment securities decreased by \$324,000, or 3.5%, to \$8.98 million at June 30, 2016 from \$9.31 million at September 30, 2015, primarily due to scheduled amortization and prepayments. For additional information on investment securities, see Note 2 of the Notes to Unaudited Consolidated Financial Statements contained in "Item 1, Financial Statements."

FHLB Stock: FHLB stock increased by \$105,000, or 3.9%, to \$2.80 million at June 30, 2016 from \$2.70 million at September 30, 2015, as the Bank's stock requirement with the FHLB was increased due to an increase in the Bank's asset size.

Loans: Net loans receivable increased by \$43.09 million, or 7.1%, to \$647.37 million at June 30, 2016 from \$604.28 million at September 30, 2015. The increase in the portfolio was primarily a result of a \$25.45 million increase in construction loans (primarily one- to four-family custom and owner/builder loans), a \$9.81 million increase in commercial business loans, a \$4.15

million increase in consumer loans and a \$3.67 million increase in commercial real estate loans. In addition, there was a \$2.29 million decrease in the undisbursed portion of construction loans in process. These increases in net loans receivable were partially offset by a \$2.06 million decrease in land loans and a \$650,000 decrease in multi-family loans.

Loan originations decreased by \$4.68 million, or 2.3%, to \$202.15 million for the nine months ended June 30, 2016 from \$206.83 million for the nine months ended June 30, 2015. The Company continued to sell longer-term fixed rate one- to four-family mortgage loans for asset liability management purposes and to generate non-interest income. Sales of fixed rate one- to four-family mortgage loans increased by \$3.29 million, or 8.8%, to \$40.75 million for the nine months ended June 30, 2016 compared to \$37.46 million for the nine months ended June 30, 2015 as more one- to four-family construction loans were completed, converted to permanent financing and then were sold in the secondary market.

For additional information, see Note 4 of the Notes to Unaudited Consolidated Financial Statements contained in “Item 1, Financial Statements.”

**Premises and Equipment:** Premises and equipment decreased by \$630,000, or 3.7%, to \$16.22 million at June 30, 2016 from \$16.85 million at September 30, 2015. The decrease was primarily due to normal depreciation.

**OREO (Other Real Estate Owned):** OREO and other repossessed assets decreased by \$3.09 million, or 39.4%, to \$4.76 million at June 30, 2016 from \$7.85 million at September 30, 2015. The decrease was primarily due to the disposition of 13 OREO properties. At June 30, 2016, total OREO and other repossessed assets consisted of 26 individual properties and one other repossessed asset. The properties consisted of 16 land parcels totaling \$2.66 million, three commercial real estate properties totaling \$648,000, seven single-family homes totaling \$1.38 million and one mobile home with a book value of \$67,000.

**Goodwill:** The recorded amount of goodwill of \$5.65 million at June 30, 2016 was unchanged from September 30, 2015.

**Deposits:** Deposits increased by \$36.47 million, or 5.4%, to \$715.38 million at June 30, 2016 from \$678.91 million at September 30, 2015. The increase was primarily a result of a \$15.47 million increase in money market accounts, a \$9.26 million increase in savings accounts, an \$8.85 million increase in N.O.W. checking accounts and an \$8.19 million increase in non-interest-bearing demand accounts. These increases were partially offset by a \$5.30 million decrease in certificates of deposit accounts.

Deposits consisted of the following at June 30, 2016 and September 30, 2015 (dollars in thousands):

	June 30, 2016		September 30, 2015	
	Amount	Percent	Amount	Percent
Non-interest-bearing demand	\$149,575	21 %	\$141,388	21 %
N.O.W. checking	189,475	26 %	180,628	27 %
Savings	119,576	17 %	110,315	16 %
Money market	100,914	14 %	84,026	12 %
Money market - brokered	7,032	1 %	8,450	1 %
Certificates of deposit under \$100	79,283	11 %	84,824	12 %
Certificates of deposit \$100 and over	66,354	9 %	66,085	10 %
Certificates of deposit - brokered	3,172	1 %	3,196	1 %
Total	\$715,381	100 %	\$678,912	100 %

FHLB Advances: The Company has short- and long-term borrowing lines with the FHLB with total credit available on the lines equal to 35% 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 June 30, 2016, FHLB advances and other borrowings consisted of three \$15.00 million 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%. In the aggregate the three advances maturing in the next fiscal year require interest payments of \$1.85 million annually. Their maturities in December of 2016, August of 2017 and September of 2017 is expected to significantly reduce the Company's interest expense. 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 both June 30, 2016 and September 30, 2015.

Shareholders' Equity: Total shareholders' equity increased by \$5.27 million, or 5.9%, to \$94.45 million at June 30, 2016 from \$89.19 million at September 30, 2015. The increase was primarily due to net income of \$7.46 million for the nine months ended June 30, 2016, which was partially offset by the payment of \$1.95 million in dividends on the Company's common stock and the repurchase of 66,000 shares of the Company's common stock for \$820,000 (an average price of \$12.42 per share). At June 30, 2016, there were 221,893 shares remaining to be repurchased under the Company's existing stock repurchase plan. For additional information, see Item 2 of Part II of this Form 10-Q.

Asset Quality: The non-performing assets to total assets ratio improved to 1.01% at June 30, 2016 from 1.84% at September 30, 2015 as total non-performing assets decreased by \$6.34 million, or 42.3%, to \$8.64 million at June 30, 2016 from \$14.98 million at September 30, 2015. The decrease was primarily due to a \$3.09 million decrease in OREO and other repossessed assets, and a \$3.09 million decrease in non-accrual loans, primarily due to a \$1.13 million decrease in non-accrual one- to four-family loans, and a \$1.11 million decrease in non-accrual land loans.

Troubled debt restructured loans on accrual status (which are not included in the non-performing asset totals) decreased by \$4.81 million, or 38.5%, to \$7.68 million at June 30, 2016 from \$12.49 million at September 30, 2015.

The following table sets forth information with respect to the Company's non-performing assets at June 30, 2016 and September 30, 2015 (dollars in thousands):

	June 30, 2016	September 30, 2015		
Loans accounted for on a non-accrual basis:				
Mortgage loans:				
One- to four-family (1)	\$1,236	\$ 2,368		
Multi-family	—	760		
Commercial	808	1,016		
Land	444	1,558		
Consumer loans:				
Home equity and second mortgage	436	303		
Other	31	35		
Total loans accounted for on a non-accrual basis	2,955	6,040		
Accruing loans which are contractually past due 90 days or more	135	151		
Total of non-accrual and 90 days past due loans	3,090	6,191		
Non-accrual investment securities	789	932		
OREO and other repossessed assets, net (2)	4,762	7,854		
Total non-performing assets (3)	\$8,641	\$ 14,977		
Troubled debt restructured loans on accrual status (4)	\$7,677	\$ 12,485		
Non-accrual and 90 days or more past due loans as a percentage of loans receivable	0.47	% 1.01		%
Non-accrual and 90 days or more past due loans as a percentage of total assets	0.36	% 0.76		%
Non-performing assets as a percentage of total assets	1.01	% 1.84		%
Loans receivable (5)	\$657,208	\$ 614,201		
Total assets	\$858,139	\$ 815,815		

(1) As of June 30, 2016, the balance of non-accrual one- to-four family properties includes \$341 in the process of foreclosure.

(2) As of June 30, 2016, the balance of OREO includes \$1,382 of foreclosed residential real estate property recorded as a result of obtaining physical possession of the property.

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

(4) Does not include troubled debt restructured loans totaling \$530 and \$1,233 reported as non-accrual loans at June 30, 2016 and September 30, 2015, respectively.

(5) Does not include loans held for sale and loan balances are before the allowance for loan losses.



Comparison of Operating Results for the Three and Nine Months Ended June 30, 2016 and 2015

Net income increased by \$388,000, or 18.0%, to \$2.55 million for the quarter ended June 30, 2016 from \$2.16 million for the quarter ended June 30, 2015. Net income per diluted common share increased \$0.05, or 16.1%, to \$0.36 for the quarter ended June 30, 2016 from \$0.31 for the quarter ended June 30, 2015.

Net income increased by \$2.12 million, or 39.7%, to \$7.46 million for the nine months ended June 30, 2016 from \$5.34 million for the nine months ended June 30, 2015. Net income per diluted common share increased \$0.29, or 38.2%, to \$1.05 for the nine months ended June 30, 2016 from \$0.76 for the nine months ended June 30, 2015.

The increase in net income for the three and nine months ended June 30, 2016 was primarily due to increases in net interest income and non-interest income, which was partially offset by an increase in non-interest expense. A more detailed explanation of the income statement categories is presented below.

Net Interest Income: Net interest income increased by \$632,000, or 9.0%, to \$7.62 million for the quarter ended June 30, 2016 from \$6.98 million for the quarter ended June 30, 2015. The net interest margin decreased to 3.83% for the quarter ended June 30, 2016 from 3.88% for the quarter ended June 30, 2015, primarily due to a decreased yield on average interest-bearing assets.

Total interest and dividend income increased by \$649,000, or 8.2%, to \$8.60 million for the quarter ended June 30, 2016 from \$7.95 million for the quarter ended June 30, 2015, primarily due to a \$76.06 million increase in the average balance of total interest-bearing assets to \$796.37 million from \$720.31 million. The average yield on interest-bearing assets decreased to 4.32% for the quarter ended June 30, 2016 from 4.41% for the quarter ended June 30, 2015. During the current quarter, \$34,000 in non-accrual interest was collected compared to \$159,000 for the quarter ended June 30, 2015. Total interest expense increased by \$17,000, or 1.8%, to \$980,000 for the quarter ended June 30, 2016 from \$963,000 for the quarter ended June 30, 2015, as the average balance of interest-bearing liabilities increased by \$34.61 million to \$605.25 million for the quarter ended June 30, 2016 from \$570.64 million for the quarter ended June 30, 2015. The average rate paid on interest-bearing liabilities decreased to 0.65% for the quarter ended June 30, 2016 from 0.68% for the quarter ended June 30, 2015.

Net interest income increased by \$2.74 million, or 13.5%, to \$23.00 million for the nine months ended June 30, 2016 from \$20.25 million for the nine months ended June 30, 2015. The net interest margin for the nine months ended June 30, 2016 increased to 3.91% from 3.81% for the nine months ended June 30, 2015, primarily due an increased yield on average interest-bearing assets.

Total interest and dividend income increased by \$2.78 million, or 12.0%, to \$25.94 million for the nine months ended June 30, 2016 from \$23.16 million for the nine months ended June 30, 2015, primarily due to a \$75.67 million increase in the average balance of interest-bearing assets to \$783.55 million from \$707.88 million, and a \$432,000 increase in the amount of non-accrual interest and pre-payment penalties collected. During the nine months ended June 30, 2016 a total of \$754,000 in non-accrual interest and pre-payment penalties were collected compared to a total of \$322,000 collected during the nine months ended March 31, 2015. Total interest expense increased by \$33,000, or 1.1%, to \$2.94 million for the nine months ended June 30, 2016 from \$2.91 million for the nine months ended June 30, 2015 as the average balance of interest-bearing liabilities increased by \$35.34 million to \$599.13 million for the nine months ended June 30, 2016 from \$563.79 million for the nine months ended June 30, 2015. The average rate paid on interest-bearing liabilities decreased to 0.66% for the nine months ended June 30, 2016 from 0.69% for the nine months ended June 30, 2015.





## 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 June 30,					
	2016			2015		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
Interest-bearing assets:						
Loans receivable (1)(2)	\$647,781	\$ 8,257	5.10 %	\$600,740	\$ 7,756	5.16 %
Investment securities (2)	8,084	70	3.46	6,677	59	3.53
Dividends from mutual funds and FHLB stock	3,776	22	2.34	5,599	7	0.50
Interest-bearing deposits	136,724	247	0.73	107,295	125	0.47
Total interest-bearing assets	796,365	8,596	4.32	720,311	7,947	4.41
Non-interest-bearing assets	55,926			57,130		
Total assets	\$852,291			\$777,441		
Interest-bearing liabilities:						
Savings accounts	\$116,818	15	0.05	\$104,306	14	0.05
Money market accounts	105,884	83	0.32	95,341	71	0.30
N.O.W. checking accounts	187,836	114	0.24	167,003	112	0.27
Certificates of deposit	149,713	296	0.79	158,990	295	0.74
Long-term borrowings (3)	45,000	472	4.22	45,000	471	4.20
Total interest-bearing liabilities	605,251	980	0.65	570,640	963	0.68
Non-interest-bearing deposits	150,331			117,505		
Other liabilities	3,750			3,203		
Total liabilities	759,332			691,348		
Shareholders' equity	92,959			86,093		
Total liabilities and shareholders' equity	\$852,291			\$777,441		
Net interest income		\$ 7,616			\$ 6,984	
Interest rate spread			3.67 %			3.73 %
Net interest margin (4)			3.83 %			3.88 %
Ratio of average interest-bearing assets to average interest-bearing liabilities			131.58 %			126.23 %

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	Nine Months Ended June 30, 2016			2015			
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	
Interest-bearing assets:							
Loans receivable (1)(2)	\$634,981	\$ 24,992	5.25 %	\$591,483	\$ 22,617	5.10 %	
Investment securities (2)	8,182	213	3.45	6,481	179	3.70	
Dividends from mutual funds and FHLB stock	3,705	83	2.99	5,979	21	0.47	
Interest-bearing deposits	136,681	649	0.63	103,937	343	0.44	
Total interest-bearing assets	783,549	25,937	4.41	707,880	23,160	4.36	
Non-interest-bearing assets	57,079			58,424			
Total assets	\$840,628			\$766,304			
Interest-bearing liabilities:							
Savings accounts	\$113,069	46	0.05	\$100,636	39	0.05	
Money market accounts	105,307	242	0.31	92,750	194	0.28	
N.O.W. checking accounts	183,938	340	0.25	163,917	331	0.27	
Certificates of deposit	151,813	892	0.78	161,486	932	0.77	
Long-term borrowings (3)	45,000	1,420	4.22	45,000	1,411	4.19	
Total interest-bearing liabilities	599,127	2,940	0.66	563,789	2,907	0.69	
Non-interest-bearing deposits	146,466			114,883			
Other liabilities	3,661			2,961			
Total liabilities	749,254			681,633			
Shareholders' equity	91,374			84,671			
Total liabilities and shareholders' equity	\$840,628			\$766,304			
Net interest income		\$ 22,997			\$ 20,253		
Interest rate spread			3.76 %			3.67 %	
Net interest margin (4)			3.91 %			3.81 %	
Ratio of average interest-bearing assets to average interest-bearing liabilities			130.78 %			125.56 %	

(1) Does not include interest on loans on non-accrual status. Includes loans held for sale. Amortized net deferred loan fees, late fees, extension fees and prepayment penalties are included with interest and dividends.

(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), (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 June 30, 2016 compared to three months ended June 30, 2015 increase (decrease) due to			Nine months ended June 30, 2016 compared to nine months ended June 30, 2015 increase (decrease) due to		
	Rate	Volume	Net Change	Rate	Volume	Net Change
Interest-bearing assets:						
Loans receivable and loans held for sale	\$(101)	\$ 602	\$ 501	\$677	\$1,698	\$2,375
Investment securities	(1 )	12	11	3	31	34
Dividends from mutual funds and FHLB stock	18	(3 )	15	61	1	62
Interest-bearing deposits	82	40	122	178	128	306
Total net increase (decrease) in income on interest-bearing assets	(2 )	651	649	919	1,858	2,777
Interest-bearing liabilities:						
Savings accounts	—	2	2	3	5	8
N.O.W. checking accounts	(11 )	13	2	(6 )	14	8
Money market accounts	4	8	12	16	32	48
Certificates of deposit accounts	18	(18 )	—	—	(40 )	(40 )
Long term FHLB borrowings	1	—	1	9	—	9
Total net increase in expense on interest-bearing liabilities	12	5	17	22	11	33
Net increase (decrease) in net interest income	\$(14 )	\$ 646	\$ 632	\$897	\$1,847	\$2,744

Provision for Loan Losses: There was no provision for loan losses for the quarters ended June 30, 2016 and 2015, as improved credit quality measures have been sufficient to cover any additional reserves needed for growth and changes in the mix of the loan portfolio. Non-accrual loans decreased by 51% to \$2.96 million at June 30, 2016, from \$6.04 million at September 30, 2015 and decreased by 67.7% from \$9.13 million at June 30, 2015. Total delinquent loans (past due 30 days or more) and non-accrual loans decreased by 44.1% to \$4.01 million at June 30, 2016, from \$7.17 million at September 30, 2015 and decreased by 63.0% from \$10.83 million one year ago. There was a net charge-off for the quarter ended June 30, 2016 of \$201,000 compared to a net recovery of \$85,000 for the quarter ended June 30, 2015.

There was no provision for loan losses for the nine months ended June 30, 2016 and 2015. Net charge-offs for the nine months ended June 30, 2016 were \$82,000 compared to a net recovery of \$40,000 for the nine months ended June 30, 2015.

The Company has established a comprehensive methodology for determining the allowance 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, historical 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 \$9.84 million at June 30, 2016 (1.50% of loans receivable and 318.5% of non-performing loans) was adequate to provide for probable losses inherent in the loan portfolio 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 June 30, 2016 was \$809,000 compared to \$2.31 million at June 30, 2015. The allowance for loan losses was \$10.47 million (1.73% of loans receivable and 108.8% of non-performing loans) at June 30, 2015.

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 consolidated financial condition and results of operations. For additional information, see Note 4 of the Notes to Unaudited Consolidated Financial Statements contained in "Item 1, Financial Statements."

**Non-interest Income:** Total non-interest income increased by \$226,000, or 9.0%, to \$2.75 million for the quarter ended June 30, 2016 from \$2.52 million for the quarter ended June 30, 2015. The increase in non-interest income was primarily due to a \$90,000 increase in service charges on deposits, an \$87,000 increase in ATM and debit card interchange transaction fees, a \$61,000 improvement in servicing income on loans sold and smaller increases several other categories. These increases were partially offset by a \$71,000 decrease in gain on sales of loans, net. The increase in service charges on deposits was primarily due to an increase in the amount of service charges collected on checking accounts owned by business associated with the marijuana (or Initiative-502) industry in Washington State. It is permissible in Washington State to handle accounts associated with this industry in compliance with federal regulatory guidelines. The increase in ATM and debit card interchange transaction fees was primarily due to an increase in debit card transactions. The increase in servicing income on loans sold was primarily due to a decrease in the amortization of mortgage servicing rights, which offsets the servicing income received. The decrease in gain on sale of loans was primarily due to a decrease in the dollar volume of fixed-rate one- to four-family loans sold during the current quarter.

Total non-interest income increased by \$920,000, or 13.4% , to \$7.78 million for the nine months ended June 30, 2016 from \$6.86 million for the nine months ended June 30, 2015. The increase in non-interest income was primarily due to a \$263,000 increase in service charges on deposits, a \$223,000 increase in ATM and debit card interchange transaction fees, a \$220,000 improvement in servicing income on loans sold, a \$132,000 increase in gain on sales of loans and smaller increases in several other categories. The increase in gain on sales of loans was primarily due to an increase in the dollar volume of fixed-rate one-to four-family loans sold during the current nine-month period.

**Non-interest Expense:** Total non-interest expense increased by \$348,000, or 5.6%, to \$6.57 million for the quarter ended June 30, 2016 from \$6.22 million for the quarter ended June 30, 2015. The increased expense was primarily due to a \$201,000 increase in salaries and employee benefits expense. The increase in salary and employee benefits expense was primarily due to annual salary adjustments and the hiring of additional lending personnel. Also impacting the comparison was a non-recurring gain on the sale of excess land during the quarter ended June 30, 2015, which reduced total non-interest expenses by \$299,000.

Total non-interest expense increased by \$528,000, or 2.8%, to \$19.68 million for the nine months ended June 30, 2016 from \$19.15 million for the nine months ended June 30, 2015. The increased expense was primarily due to a \$456,000 increase in salaries and employee benefits expense, the non-recurring gain on sale of excess land in the prior year discussed above and smaller increases in other expense categories. These increases were partially offset by a \$157,000 decrease in professional fees expense, a \$115,000 decrease in FDIC insurance expense and smaller decreases in other expense categories. The decrease in professional fees was in part due to the recovery of expenses associated with several non-accrual loans that were paid off. The decrease in FDIC insurance expense was primarily due to lower assessment rates.

Provision for Federal Income Taxes: The provision for federal income taxes increased by \$122,000, or 10.8%, to \$1.25 million for the quarter ended June 30, 2016 from \$1.13 million for the quarter ended June 30, 2015, primarily as a result of increased income before federal income taxes. The Company's effective tax rate was 32.92% for the quarter ended June 30, 2016 and 34.32% for the quarter ended June 30, 2015.

The provision for federal income taxes increased by \$1.02 million, or 38.7%, to \$3.65 million for the nine months ended June 30, 2016 from \$2.63 million for the nine months ended June 30, 2015, primarily as a result of increased income before federal income taxes. The Company's effective tax rate was 32.85% for the nine months ended June 30, 2016 and 33.00% for the nine months ended June 30, 2015.

## 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 June 30, 2016, 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 19.75%.

The Company's total cash and cash equivalents and CDs held for investment increased by \$708,000, or 0.5%, to \$141.61 million at June 30, 2016 from \$140.90 million at September 30, 2015. 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 June 30, 2016, the Bank maintained an uncommitted credit facility with the FHLB that provided for immediately available advances up to an aggregate amount equal to 35% of total assets, limited by available collateral. The Bank also has a Letter of Credit ("LOC") of up to \$22.0 million with the FHLB for the purpose of collateralizing Washington State public deposits. Any amount pledged for public deposit under the LOC reduces the Bank's available borrowing amount under the FHLB advance agreement. At June 30, 2016, the Bank had \$45.00 million in FHLB advances outstanding and \$22.00 million pledged under the LOC, which left \$189.91 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 June 30, 2016, the Bank had \$53.68 million available for borrowings with the FRB and there was no outstanding balance on this borrowing line. The Bank also maintains a \$10.00 million overnight borrowing line with PCBB. At June 30, 2016, 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 June 30, 2016, the Bank had loan commitments totaling \$76.31 million and undisbursed construction loans in process totaling \$51.16 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 June 30, 2016 totaled \$89.18 million. Historically, the Bank has been able to retain a significant amount of its non-brokered CDs as they mature. At June 30, 2016, the Bank had \$3.17 million in brokered CDs.

## Capital Resources

The Bank, as a state-chartered, federally insured savings bank, is subject to the capital requirements established by the FDIC. Under the FDIC's capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

Based on its capital levels at June 30, 2016, the Bank exceeded all regulatory capital requirements as of that date. Consistent with the Bank's goals to operate a sound and profitable organization, it is the Bank's policy to maintain a



"well-capitalized" status under the regulatory capital categories of the FDIC. Based on capital levels at June 30, 2016, the Bank was considered to be "well-capitalized" under applicable regulatory requirements. Management monitors the capital levels to provide for current and future business opportunities and to maintain the Bank's "well-capitalized" status.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following table compares the Bank's actual capital amounts at June 30, 2016 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	\$87,969	10.38%	\$33,893	4.00%	\$42,366	5.00%
<b>Risk-based Capital Ratios:</b>						
Common equity tier 1 capital	87,969	13.80	28,694	4.50	41,446	6.50
Tier 1 capital	87,969	13.80	38,258	6.00	51,011	8.00
Total capital	95,965	15.05	51,011	8.00	63,764	10.00

In addition to the minimum common equity Tier 1 ("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 retained income that could be utilized for such actions. The new capital conservation buffer requirement began to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase each year until fully implemented in January 2019.

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 June 30, 2016, Timberland Bancorp, Inc. would have exceeded all regulatory requirements.

The following table presents the regulatory capital ratios for Timberland Bancorp, Inc. as of June 30, 2016 (dollars in thousands):

	Actual Amount	Ratio
<b>Leverage Capital Ratio:</b>		
Tier 1 capital	\$90,554	10.68%
<b>Risk-based Capital Ratios:</b>		
Common equity tier 1 capital	90,554	14.20
Tier 1 capital	90,554	14.20
Total capital	98,552	15.45



## Key Financial Ratios and Data

(Dollars in thousands, except per share data)

	Three Months Ended June 30, 2016		Nine Months Ended June 30, 2015	
<b>PERFORMANCE RATIOS:</b>				
Return on average assets (1)	1.20 %	1.11 %	1.18 %	0.93 %
Return on average equity (1)	10.96 %	10.03 %	10.88 %	8.40 %
Net interest margin (1)	3.83 %	3.88 %	3.91 %	3.81 %
Efficiency ratio	63.37 %	65.43 %	63.93 %	70.62 %

	At June 30, 2016	At September 30, 2015	At June 30, 2015
<b>BOOK VALUE:</b>			
Book value per common share	\$13.61	\$12.76	\$12.38

(1) Annualized

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

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, 2015.

## 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 June 30, 2016 the

(a) 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.

(b) **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 June 30, 2016, 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 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 2015 Form 10-K.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) Not applicable
- (b) Not applicable
- (c) Stock Repurchases

There were no shares repurchased by the Company during the quarter ended June 30, 2016. On July 28, 2015 the Company announced a plan to repurchase 352,681 shares of the Company's common stock. As of June 30, 2016, a total of 130,788 shares had been repurchased at an average price of \$11.69 per share and there were 221,893 shares still authorized to be repurchased under the plan. All shares were repurchased through open market broker transactions and no shares were directly repurchased from directors or officers of the Company.

### Item 3. Defaults Upon Senior Securities

Not applicable.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None to be reported.

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 June 30, 2016, formatted on Extensible Business Reporting Language (XBRL) (a) Consolidated Balance Sheets; (b) Consolidated Statements of Income; (c) Consolidated Statements of Comprehensive Income; (d) Consolidated Statements of Shareholders' Equity; (e) Consolidated Statements of Cash Flows; and (f) Notes to Unaudited Consolidated Financial Statements

- 
- (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.

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: August 8, 2016 By: /s/ Michael R. Sand  
Michael R. Sand  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 8, 2016 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 June 30, 2016, formatted on Extensible Business Reporting Language (XBRL) (a) Consolidated Balance Sheets; (b) Consolidated Statements of Income; (c) Consolidated Statements of Comprehensive Income; (d) Consolidated Statements of Shareholders' Equity; (e) Consolidated Statements of Cash Flows; and (f) Notes to Unaudited Consolidated Financial Statements