

TIMBERLAND BANCORP INC
Form 10-Q
August 07, 2017
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, 2017

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 000-23333

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.

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 3, 2017

Common

stock, 7,358,877

\$.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>36</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>49</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>49</u>
<u>PART II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>49</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>49</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>50</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>50</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>50</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>50</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, 2017 and September 30, 2016

(Dollars in thousands, except per share amounts)

	June 30, 2017 (Unaudited) *	September 30, 2016
Assets		
Cash and cash equivalents:		
Cash and due from financial institutions	\$ 17,476	\$ 16,686
Interest-bearing deposits in banks	114,964	92,255
Total cash and cash equivalents	132,440	108,941
Certificates of deposit (“CDs”) held for investment (at cost, which approximates fair value)	41,187	53,000
Investment securities held to maturity, at amortized cost (estimated fair value \$7,912 and \$8,395)	7,244	7,511
Investment securities available for sale, at fair value	1,260	1,342
Federal Home Loan Bank of Des Moines (“FHLB”) stock	1,107	2,204
Other investments, at cost	3,000	—
Loans held for sale	3,523	3,604
Loans receivable, net of allowance for loan losses of \$9,610 and \$9,826	687,158	663,146
Premises and equipment, net	18,465	16,159
Other real estate owned (“OREO”) and other repossessed assets, net	3,417	4,117
Accrued interest receivable	2,437	2,348
Bank owned life insurance (“BOLI”)	19,127	18,721
Goodwill	5,650	5,650
Mortgage servicing rights (“MSRs”), net	1,781	1,573
Other assets	3,213	3,072
Total assets	\$ 931,009	\$ 891,388
Liabilities and shareholders’ equity		
Liabilities		
Deposits:		
Non-interest-bearing demand	\$ 197,527	\$ 172,283
Interest-bearing	621,291	589,251
Total deposits	818,818	761,534
FHLB borrowings	—	30,000
Other liabilities and accrued expenses	3,575	3,020
Total liabilities	822,393	794,554

* Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements

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

June 30, 2017 and September 30, 2016

(Dollars in thousands, except per share amounts)

	June 30, 2017 (Unaudited) *	September 30, 2016
Shareholders' equity		
Preferred stock, \$.01 par value; 1,000,000 shares authorized; none issued	\$ —	\$ —
Common stock, \$.01 par value; 50,000,000 shares authorized; 7,354,577 shares issued and outstanding - June 30, 2017 6,943,868 shares issued and outstanding - September 30, 2016	13,223	9,961
Unearned shares issued to Employee Stock Ownership Plan ("ESOP")	(463) (661
Retained earnings	96,018	87,709
Accumulated other comprehensive loss	(162) (175
Total shareholders' equity	108,616	96,834
Total liabilities and shareholders' equity	\$ 931,009	\$ 891,388

* 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, 2017 and 2016

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Interest and dividend income				
Loans receivable and loans held for sale	\$9,652	\$8,257	\$27,280	\$24,992
Investment securities	69	70	207	213
Dividends from mutual funds, other investments and FHLB stock	23	22	60	83
Interest-bearing deposits in banks and CDs	421	247	1,081	649
Total interest and dividend income	10,165	8,596	28,628	25,937
Interest expense				
Deposits	549	508	1,637	1,520
FHLB borrowings	369	472	979	1,420
Total interest expense	918	980	2,616	2,940
Net interest income	9,247	7,616	26,012	22,997
Recapture of loan losses	(1,000)	—	(1,250)	—
Net interest income after recapture of loan losses	10,247	7,616	27,262	22,997
Non-interest income				
Other than temporary impairment ("OTTI") on investment securities	—	(4)	—	(27)
Adjustment for portion of OTTI transferred from other comprehensive income before income taxes	—	—	—	(1)
Net OTTI on investment securities	—	(4)	—	(28)
Service charges on deposits	1,153	989	3,348	2,898
ATM and debit card interchange transaction fees	855	778	2,448	2,187
BOLI net earnings	133	137	406	410
Gain on sales of loans, net	561	443	1,656	1,230
Escrow fees	51	64	191	153
Servicing income on loans sold	106	60	302	180
Other, net	297	282	873	750
Total non-interest income, net	3,156	2,749	9,224	7,780

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, 2017 and 2016

(Dollars in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Nine months ended June 30,	
	2017	2016	2017	2016
Non-interest expense				
Salaries and employee benefits	\$3,741	\$ 3,397	\$11,176	\$ 10,333
Premises and equipment	767	774	2,298	2,305
Advertising	170	192	499	590
OREO and other repossessed assets, net	4	123	22	561
ATM and debit card interchange transaction fees	375	337	1,036	990
Postage and courier	109	98	324	309
State and local taxes	176	141	484	410
Professional fees	230	202	629	449
Federal Deposit Insurance Corporation ("FDIC") insurance	99	100	319	334
Loan administration and foreclosure	20	92	113	216
Data processing and telecommunications	480	470	1,394	1,394
Deposit operations	301	232	850	638
Other	466	410	1,462	1,146
Total non-interest expense	6,938	6,568	20,606	19,675
Income before federal income taxes	6,465	3,797	15,880	11,102
Provision for federal income taxes	2,188	1,250	5,328	3,647
Net income	\$4,277	\$ 2,547	\$10,552	\$ 7,455
Net income per common share				
Basic	\$0.59	\$ 0.37	\$1.49	\$ 1.09
Diluted	\$0.58	\$ 0.36	\$1.44	\$ 1.05
Weighted average common shares outstanding				
Basic	7,269,566	6,822,608	7,088,134	6,846,373
Diluted	7,432,171	7,111,199	7,348,487	7,091,661
Dividends paid per common share	\$0.11	\$ 0.08	\$0.31	\$ 0.28

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, 2017 and 2016

(Dollars in thousands)

(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Comprehensive income				
Net income	\$4,277	\$2,547	\$10,552	\$7,455
Unrealized holding gains (losses) on investment securities available for sale, net of income taxes of \$3, \$3, (\$11) and \$2, respectively	5	6	(22) 5
Change in OTTI on investment securities held to maturity, net of income taxes:				
Adjustments related to other factors for which OTTI was previously recognized, net of income taxes of \$0, \$0, \$0 and \$6, respectively	—	—	—	10
Amount reclassified to credit loss (recorded as market loss), net of income taxes of \$0, \$0, \$0 and \$1, respectively	—	—	—	1
Accretion of OTTI on investment securities held to maturity, net of income taxes of \$5, \$4, \$18 and \$13, respectively	11	7	35	24
Total other comprehensive income, net of income taxes	16	13	13	40
Total comprehensive income	\$4,293	\$2,560	\$10,565	\$7,495

See notes to unaudited consolidated financial statements

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

For the nine months ended June 30, 2017 and 2016

(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, 2015	6,988,848	\$ 10,293	\$ (926)	\$ 80,133	\$ (313)	\$ 89,187
Net income	—	—	—	7,455	—	7,455
Other comprehensive income	—	—	—	—	40	40
Repurchase of common stock	(66,000)	(820)	—	—	—	(820)
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
Balance, September 30, 2016	6,943,868	9,961	(661)	87,709	(175)	96,834
Net income	—	—	—	10,552	—	10,552
Other comprehensive income	—	—	—	—	13	13
Exercise of stock warrant	370,899	2,496	—	—	—	2,496
Exercise of stock options	39,810	265	—	—	—	265
Common stock dividends (\$0.31 per common share)	—	—	—	(2,243)	—	(2,243)
Earned ESOP shares, net of income taxes	—	230	198	—	—	428
Stock option compensation expense	—	271	—	—	—	271
Balance, June 30, 2017	7,354,577	\$ 13,223	\$ (463)	\$ 96,018	\$ (162)	\$ 108,616

See notes to unaudited consolidated financial statements

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

For the nine months ended June 30, 2017 and 2016

(In thousands)

(Unaudited)

	Nine Months Ended June 30,	
	2017	2016
Cash flows from operating activities		
Net income	\$10,552	\$7,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Recapture of loan losses	(1,250)	—
Depreciation	946	998
Earned ESOP shares	198	198
Stock option compensation expense	118	114
Stock option tax effect less excess tax benefit	22	5
Gain on sales of OREO and other repossessed assets, net	(53)	(47)
Provision for OREO losses	42	394
(Gain) loss on sales/dispositions of premises and equipment, net	(3)	4
BOLI net earnings	(406)	(410)
Gain on sales of loans, net	(1,656)	(1,230)
Loans originated for sale	(54,805)	(41,353)
Proceeds from sales of loans	56,542	40,749
Increase in deferred loan origination fees	80	40
Net OTTI on investment securities	—	28
Amortization of MSRs	369	428
Net change in accrued interest receivable and other assets, and other liabilities and accrued expenses	(326)	(151)
Net cash provided by operating activities	10,370	7,222
Cash flows from investing activities		
Net decrease (increase) in CDs held for investment	11,813	(3,824)
Proceeds from maturities and prepayments of investment securities held to maturity	387	388
Proceeds from maturities and prepayments of investment securities available for sale	49	37
Purchase of FHLB stock	(103)	(105)
Redemption of FHLB stock	1,200	—
Purchase of other investments	(3,000)	—
Increase in loans receivable, net	(23,566)	(43,452)
Additions to premises and equipment	(3,249)	(372)
Capitalized improvements to OREO	—	(142)
Proceeds from sales of OREO and other repossessed assets	1,435	3,210
Net cash used in investing activities	(15,034)	(44,260)

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, 2017 and 2016

(In thousands)

(Unaudited)

	Nine Months Ended	
	June 30,	
	2017	2016
Cash flows from financing activities		
Net increase in deposits	\$57,284	\$36,469
Repayment of FHLB borrowings	(30,000)	—
ESOP tax effect	230	94
Proceeds from exercise of stock options	265	128
Stock option excess tax benefit	131	4
Proceeds from exercise of stock warrant	2,492	—
Issuance of common stock	4	—
Repurchase of common stock	—	(820)
Payment of dividends	(2,243)	(1,953)
Net cash provided by financing activities	28,163	33,922
Net increase in cash and cash equivalents	23,499	(3,116)
Cash and cash equivalents		
Beginning of period	108,941	92,289
End of period	\$132,440	\$89,173
Supplemental disclosure of cash flow information		
Income taxes paid	\$5,376	\$3,450
Interest paid	2,701	2,924
Supplemental disclosure of non-cash investing activities		
Loans transferred to OREO and other repossessed assets	\$724	\$323
Other comprehensive income related to investment securities	13	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, 2016 (“2016 Form 10-K”). The unaudited consolidated results of operations for the nine months ended June 30, 2017 are not necessarily indicative of the results that may be expected for the entire fiscal year ending September 30, 2017.

(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, 2017 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, 2017 and September 30, 2016 (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
June 30, 2017				
Held to maturity				
Mortgage-backed securities ("MBS"):				
U.S. government agencies	\$ 565	\$ 12	\$ (1)	\$ 576
Private label residential	671	651	(4)	1,318
U.S. Treasury and U.S government agency securities	6,008	16	(6)	6,018
Total	\$ 7,244	\$ 679	\$ (11)	\$ 7,912
Available for sale				
MBS: U.S. government agencies	\$ 288	\$ 21	\$ —	\$ 309
Mutual funds	1,000	—	(49)	951
Total	\$ 1,288	\$ 21	\$ (49)	\$ 1,260
September 30, 2016				
Held to maturity				
MBS:				
U.S. government agencies	\$ 670	\$ 18	\$ (1)	\$ 687
Private label residential	835	762	(2)	1,595
U.S. Treasury and U.S. government agency securities	6,006	107	—	6,113
Total	\$ 7,511	\$ 887	\$ (3)	\$ 8,395
Available for sale				
MBS: U.S. government agencies	\$ 336	\$ 30	\$ —	\$ 366
Mutual funds	1,000	—	(24)	976
Total	\$ 1,336	\$ 30	\$ (24)	\$ 1,342

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Held to maturity and available for sale investment securities with unrealized losses were as follows for June 30, 2017 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	\$46	\$ (1)	2	\$81	\$ —	5	\$127	\$ (1)
Private label residential	21	(1)	2	92	(3)	11	113	(4)
U.S. Treasury and U.S. government agency securities	2,987	(6)	1	—	—	—	2,987	(6)
Total	\$3,054	\$ (8)	5	\$173	\$ (3)	16	\$3,227	\$ (11)
Available for sale								
Mutual funds	\$—	\$ —	—	\$951	\$ (49)	1	\$951	\$ (49)
Total	\$—	\$ —	—	\$951	\$ (49)	1	\$951	\$ (49)

Held to maturity and available for sale investment securities with unrealized losses were as follows for September 30, 2016 (dollars in thousands):

	Less Than 12 Months			12 Months or Longer			Total	
	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses	Quantity	Estimated Fair Value	Gross Unrealized Losses
Held to maturity								
MBS:								
U.S. government agencies	\$9	\$ —	1	\$96	\$ (1)	5	\$105	\$ (1)
Private label residential	1	—	1	112	(2)	10	113	(2)
Total	\$10	\$ —	2	\$208	\$ (3)	15	\$218	\$ (3)
Available for sale								
Mutual funds	\$—	\$ —	—	\$976	\$ (24)	1	\$976	\$ (24)
Total	\$—	\$ —	—	\$976	\$ (24)	1	\$976	\$ (24)

The Company has evaluated the investment securities in the above tables 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, 2017, 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 estimates of the credit loss component on OTTI securities as of June 30, 2017 and 2016:

	Range		Weighted	
	Minimum	Maximum	Average	
June 30, 2017				
Constant prepayment rate	6.00%	15.00	%	11.54 %
Collateral default rate	0.09%	9.88	%	4.66 %
Loss severity rate	6.00%	62.00	%	41.93 %
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 %

The following table presents the OTTI for the three and nine months ended June 30, 2017 and 2016 (dollars in thousands):

	Three Months Ended June 30, 2017		Three Months Ended June 30, 2016	
	Held To Maturity	Available For Sale	Held To Maturity	Available For Sale
Total OTTI	\$ —	\$ —	—\$ (4)	\$ —
Adjustment for portion of OTTI recorded as other comprehensive income before income taxes (1)	—	—	—	—
Net OTTI recognized in earnings (2)	\$ —	\$ —	—\$ (4)	\$ —
	Nine Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
	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 before income taxes (1)	—	—	(1)	—
Net OTTI recognized in earnings (2)	\$ —	\$ —	—\$ (28)	\$ —

(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, 2017 and 2016 (dollars in thousands):

	Nine Months Ended June 30,	
	2017	2016
Beginning balance of credit loss	\$ 1,505	\$ 1,576
Additions:		
Additional increases to the amount related to credit loss for which OTTI was previously recognized	—	22
Subtractions:		
Realized losses previously recorded as credit losses	(48)	(74)
Ending balance of credit loss	\$ 1,457	\$ 1,524

During the three months ended June 30, 2017, the Company recorded a \$12,000 net realized loss (as a result of the securities being deemed worthless) on 15 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, 2017, the Company recorded a \$48,000 net realized loss (as a result of securities being deemed worthless) on 18 held to maturity residential MBS, of which the entire amount had been previously recognized as a credit loss. 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.

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 \$6.88 million and \$7.04 million at June 30, 2017 and September 30, 2016, respectively.

The contractual maturities of debt securities at June 30, 2017 were as follows (dollars in thousands). Expected maturities may differ from scheduled maturities due to 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	\$ 14	\$ 14	\$ —	\$ —
Due after one year to five years	5,995	6,005	—	—
Due after five to ten years	14	14	—	—
Due after ten years	1,221	1,879	288	309
Total	\$ 7,244	\$ 7,912	\$ 288	\$ 309

(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 annual goodwill impairment test begins with a qualitative assessment of whether it is "more likely than not" that the reporting unit's fair value is less than its carrying amount. If an entity concludes that it is not "more likely than not" that the fair value of a reporting unit is less than its carrying amount, it need not perform a two-step impairment test. In the case of the

15

Company, the services offered through the Bank and its subsidiary are managed as one strategic unit and represent the Company's only reporting unit.

Management's qualitative assessment takes into consideration macroeconomic conditions, industry and market considerations, cost or margin factors, financial performance and share price. Based on this assessment, the Company determined that it is not "more likely than not" that the Company's fair value is less than its carrying amount and therefore goodwill was determined not to be impaired at May 31, 2017.

If the Company's qualitative assessment concluded that it is "more likely than not" that the fair value of its reporting unit is less than its carrying amount, it must perform the two-step impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized, if any. The first step of the goodwill impairment test compares the estimated fair value of the reporting unit with its carrying amount, or the book value, including goodwill. If the estimated fair value of the reporting unit equals or exceeds its book value, goodwill is considered not impaired, and the second step of the impairment test is unnecessary.

The second step, if necessary, measures the amount of goodwill impairment loss to be recognized. The reporting unit must determine fair value for all assets and liabilities, excluding goodwill. The net of the assigned fair value of assets and liabilities is then compared to the book value of the reporting unit, and any excess book value becomes the implied fair value of goodwill. If the carrying amount of the goodwill exceeds the newly calculated implied fair value of goodwill, an impairment loss is recognized in the amount required to write-down the goodwill to the implied fair value.

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. Any change in these indicators 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, 2017, management believed that there had been no events or changes in the circumstances since May 31, 2017 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 by portfolio segment consisted of the following at June 30, 2017 and September 30, 2016 (dollars in thousands):

	June 30, 2017		September 30, 2016	
	Amount	Percent	Amount	Percent
Mortgage loans:				
One- to four-family (a)	\$ 121,705	15.8 %	\$ 118,560	16.4 %
Multi-family	61,051	7.9	62,303	8.6
Commercial	331,901	43.0	312,525	43.2
Construction - custom and owner/builder	109,578	14.3	93,049	12.9
Construction - speculative one- to four-family	8,002	1.0	8,106	1.1
Construction - commercial	20,067	2.6	9,365	1.3
Construction - multi-family	11,057	1.4	12,590	1.7
Land	24,333	3.2	21,627	3.0
Total mortgage loans	687,694	89.2	638,125	88.2
Consumer loans:				
Home equity and second mortgage	36,320	4.7	39,727	5.5
Other	3,789	0.5	4,139	0.5
Total consumer loans	40,109	5.2	43,866	6.0
Commercial business loans	43,407	5.6	41,837	5.8
Total loans receivable	771,210	100.0%	723,828	100.0%
Less:				
Undisbursed portion of construction loans in process	72,133		48,627	
Deferred loan origination fees, net	2,309		2,229	
Allowance for loan losses	9,610		9,826	
	84,052		60,682	
Loans receivable, net	\$687,158		\$663,146	

(a) Does not include one- to four-family loans held for sale totaling \$3,523 and \$3,604 at June 30, 2017 and September 30, 2016, respectively.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Allowance for Loan Losses

The following tables set forth information for the three and nine months ended June 30, 2017 and 2016 regarding activity in the allowance for loan losses by portfolio segment (dollars in thousands):

	Three Months Ended June 30, 2017				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One- to four-family	\$1,126	\$ (11)	\$ —	\$ —	\$ 1,115
Multi-family	480	(16)	—	—	464
Commercial	4,316	(1,040)	—	1,061	4,337
Construction – custom and owner/builder	695	17	—	—	712
Construction – speculative one- to four-family	85	(15)	—	5	75
Construction – commercial	268	15	—	—	283
Construction – multi-family	96	36	—	—	132
Land	947	1	(49)	5	904
Consumer loans:					
Home equity and second mortgage	957	(2)	—	—	955
Other	130	6	(2)	—	134
Commercial business loans	490	9	—	—	499
Total	\$9,590	\$ (1,000)	\$ (51)	\$ 1,071	\$ 9,610

	Nine Months Ended June 30, 2017				
	Beginning Allowance	Provision for (Recapture of) Loan Losses	Charge-offs	Recoveries	Ending Allowance
Mortgage loans:					
One-to four-family	\$1,239	\$ (145)	\$ —	\$ 21	\$ 1,115
Multi-family	473	(9)	—	—	464
Commercial	4,384	(1,095)	(13)	1,061	4,337
Construction – custom and owner/builder	619	93	—	—	712
Construction – speculative one- to four-family	130	(60)	—	5	75
Construction – commercial	268	15	—	—	283
Construction – multi-family	316	(184)	—	—	132
Land	820	120	(51)	15	904
Consumer loans:					
Home equity and second mortgage	939	16	—	—	955
Other	156	(18)	(6)	2	134
Commercial business loans	482	17	—	—	499
Total	\$9,826	\$ (1,250)	\$ (70)	\$ 1,104	\$ 9,610

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	Three Months Ended June 30, 2016				
	Beginning Allowance	Provision		Recoveries	Ending Allowance
		for (Recapture of) Loan Losses	Charge-offs		
Mortgage loans:					
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
Consumer loans:					
Home equity and second mortgage	1,021	(55)	(5)	—	961
Other	162	(4)	(2)	1	157
Commercial business loans	521	(22)	—	3	502
Total	\$10,043	\$ —	\$ (212)	\$ 11	\$ 9,842

	Nine Months Ended June 30, 2016				
	Beginning Allowance	Provision		Recoveries	Ending Allowance
		for (Recapture of) Loan Losses	Charge-offs		
Mortgage loans:					
One-to four-family	\$1,480	\$ (267)	\$ (55)	\$ 56	\$ 1,214
Multi-family	392	(44)	—	—	348
Commercial	4,065	118	(209)	—	3,974
Construction – custom and owner/builder	451	184	—	—	635
Construction – speculative one- to four-family	123	(4)	—	2	121
Construction – commercial	426	198	—	—	624
Construction – multi-family	283	(77)	—	181	387
Land	1,021	(63)	(58)	19	919
Consumer loans:					
Home equity and second mortgage	1,073	(94)	(18)	—	961
Other	187	(25)	(7)	2	157
Commercial business loans	423	74	—	5	502
Total	\$9,924	\$ —	\$ (347)	\$ 265	\$ 9,842

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following tables present information on the loans evaluated individually and collectively for impairment in the allowance for loan losses by portfolio segment at June 30, 2017 and September 30, 2016 (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, 2017						
Mortgage loans:						
One- to four-family	\$—	\$ 1,115	\$1,115	\$1,469	\$ 120,236	\$ 121,705
Multi-family	—	464	464	—	61,051	61,051
Commercial	20	4,317	4,337	4,084	327,817	331,901
Construction – custom and owner/builder	—	712	712	—	59,352	59,352
Construction – speculative one- to four-family	—	75	75	—	2,506	2,506
Construction – commercial	—	283	283	—	9,417	9,417
Construction – multi-family	—	132	132	—	5,296	5,296
Land	89	815	904	1,054	23,279	24,333
Consumer loans:						
Home equity and second mortgage	320	635	955	560	35,760	36,320
Other	—	134	134	—	3,789	3,789
Commercial business loans	—	499	499	—	43,407	43,407
Total	\$429	\$ 9,181	\$9,610	\$7,167	\$ 691,910	\$ 699,077
September 30, 2016						
Mortgage loans:						
One- to four-family	\$70	\$ 1,169	\$1,239	\$2,264	\$ 116,296	\$ 118,560
Multi-family	—	473	473	—	62,303	62,303
Commercial	413	3,971	4,384	11,309	301,216	312,525
Construction – custom and owner/builder	—	619	619	367	51,662	52,029
Construction – speculative one- to four-family	—	130	130	—	4,074	4,074
Construction – commercial	—	268	268	—	6,841	6,841
Construction – multi-family	—	316	316	—	11,539	11,539
Land	53	767	820	1,268	20,359	21,627
Consumer loans:						
Home equity and second mortgage	227	712	939	999	38,728	39,727
Other	13	143	156	30	4,109	4,139
Commercial business loans	—	482	482	—	41,837	41,837
Total	\$776	\$ 9,050	\$9,826	\$16,237	\$ 658,964	\$ 675,201

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following tables present an analysis of loans by aging category and portfolio segment at June 30, 2017 and September 30, 2016 (dollars in thousands):

	30-59	60-89	Non- Accrual (1)	Past Due 90 Days or More and Still Accruing	Total Past Due	Current	Total Loans
	Days Past Due	Days Past Due					
June 30, 2017							
Mortgage loans:							
One- to four-family	\$—	\$ 4	\$ 896	\$ —	\$ 900	\$ 120,805	\$ 121,705
Multi-family	—	—	—	—	—	61,051	61,051
Commercial	108	—	403	—	511	331,390	331,901
Construction – custom and owner/builder	—	—	—	—	—	59,352	59,352
Construction – speculative one- to four- family	—	—	—	—	—	2,506	2,506
Construction – commercial	—	—	—	—	—	9,417	9,417
Construction – multi-family	—	—	—	—	—	5,296	5,296
Land	—	102	496	—	598	23,735	24,333
Consumer loans:							
Home equity and second mortgage	—	87	260	—	347	35,973	36,320
Other	68	—	—	—	68	3,721	3,789
Commercial business loans	—	17	—	—	17	43,390	43,407
Total	\$ 176	\$ 210	\$ 2,055	\$ —	\$ 2,441	\$ 696,636	\$ 699,077
September 30, 2016							
Mortgage loans:							
One- to four-family	\$—	\$ 207	\$ 914	\$ —	\$ 1,121	\$ 117,439	\$ 118,560
Multi-family	—	—	—	—	—	62,303	62,303
Commercial	113	—	612	—	725	311,800	312,525
Construction – custom and owner/ builder	—	—	367	—	367	51,662	52,029
Construction – speculative one- to four- family	—	—	—	—	—	4,074	4,074
Construction – commercial	—	—	—	—	—	6,841	6,841
Construction – multi-family	—	—	—	—	—	11,539	11,539
Land	—	—	548	—	548	21,079	21,627
Consumer loans:							
Home equity and second mortgage	37	—	402	135	574	39,153	39,727
Other	31	—	30	—	61	4,078	4,139
Commercial business loans	37	38	—	—	75	41,762	41,837
Total	\$ 218	\$ 245	\$ 2,873	\$ 135	\$ 3,471	\$ 671,730	\$ 675,201

(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 on-going monitoring of the credit quality of its loan portfolio:

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

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

Special Mention: Special mention loans are defined as those loans deemed by management to have some potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the payment prospects of the loan.

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, 2017 and September 30, 2016, there were no loans classified as loss.

The following tables present an analysis of loans by credit quality indicator and portfolio segment at June 30, 2017 and September 30, 2016 (dollars in thousands):

June 30, 2017	Loan Grades				Total
	Pass	Watch	Special Mention	Substandard	
Mortgage loans:					
One- to four-family	\$ 118,923	\$ 507	\$ 648	\$ 1,627	\$ 121,705
Multi-family	59,289	—	1,762	—	61,051
Commercial	321,664	6,274	3,560	403	331,901
Construction – custom and owner/builder	59,352	—	—	—	59,352
Construction – speculative one- to four-family	2,506	—	—	—	2,506
Construction – commercial	9,417	—	—	—	9,417
Construction – multi-family	5,296	—	—	—	5,296
Land	20,955	1,030	1,807	541	24,333
Consumer loans:					
Home equity and second mortgage	35,661	155	55	449	36,320
Other	3,723	—	—	66	3,789
Commercial business loans	43,374	33	—	—	43,407
Total	\$680,160	\$7,999	\$7,832	\$ 3,086	\$699,077

September 30, 2016

Mortgage loans:					
One- to four-family	\$ 115,131	\$ 364	\$ 661	\$ 2,404	\$ 118,560
Multi-family	60,504	—	1,799	—	62,303
Commercial	292,756	8,411	10,746	612	312,525
Construction – custom and owner/builder	51,432	229	—	368	52,029
Construction – speculative one- to four-family	4,074	—	—	—	4,074
Construction – commercial	6,841	—	—	—	6,841
Construction – multi-family	11,539	—	—	—	11,539
Land	18,010	1,043	1,859	715	21,627
Consumer loans:					
Home equity and second mortgage	38,261	590	—	876	39,727
Other	4,078	—	—	61	4,139
Commercial business loans	41,797	40	—	—	41,837
Total	\$644,423	\$10,677	\$15,065	\$ 5,036	\$675,201

Impaired Loans

In accordance with GAAP, a loan is considered impaired when it is probable that a creditor will be unable to collect all amounts (principal and interest) when due according to the contractual terms of the loan agreement. Smaller balance homogeneous loans, such as residential mortgage loans and consumer loans, may be collectively evaluated for impairment. When a loan has been identified as being impaired, the amount of the impairment is measured by using discounted cash flows, except when, as an alternative, the current estimated fair value of the collateral, reduced by estimated costs to sell (if applicable), or observable market price is used. The valuation of real estate collateral is subjective in nature and may be adjusted in future periods because of changes in economic conditions. Management considers third-party appraisals, as well as independent fair market value assessments from realtors or persons involved in selling real estate, in determining the estimated fair value of particular properties. In addition, as certain of these third-party appraisals and independent fair market value assessments are only updated periodically, changes in the values of specific properties may have occurred subsequent to the most recent appraisals. Accordingly, the amounts of any such potential changes and any related adjustments are generally recorded at the time such information is received. When the measurement of the impaired loan is less than the recorded investment in the loan (including accrued interest and net deferred loan origination fees or costs), impairment is recognized by creating or adjusting an allocation of the allowance for loan losses and uncollected accrued interest is reversed against interest income. If ultimate collection of principal is in doubt, all cash receipts on impaired loans are applied to reduce the principal balance.

The categories of non-accrual loans and impaired loans overlap, although they are not identical.

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, 2017 and for the three and nine months then ended (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance (Loan Balance Plus Charge Off)	Related Allowance	Quarter to Date Average Recorded Investment ("QTD") (1)	Year to Date Average Recorded Investment ("YTD") (2)	QTD Interest Income Recognized (1)	YTD Interest Income Recognized (2)	QTD Cash Basis Interest Recognized (1)	YTD Cash Basis Interest Recognized (2)
With no related allowance recorded:									
Mortgage loans:									
One- to four-family	\$ 1,423	\$ 1,570	\$ —	\$ 1,145	\$ 1,024	\$ 23	\$ 46	\$ 20	\$ 43
Commercial	839	839	—	1,540	4,384	2	166	2	127
Construction – custom and owner/ builder	—	—	—	—	184	—	7	—	7
Land	252	369	—	345	566	—	8	—	6
Consumer loans:									
Home equity and second mortgage	125	125	—	254	324	—	—	—	—
Commercial business loans	—	—	—	27	14	—	—	—	—
Subtotal	2,639	2,903	—	3,311	6,496	25	227	22	183
With an allowance recorded:									
Mortgage loans:									
One- to four-family	46	46	—	479	901	1	50	1	38
Commercial	3,245	3,245	20	3,629	3,681	45	159	35	128
Land	802	802	89	683	627	9	28	7	23
Consumer loans:									
Home equity and second mortgage	435	435	320	513	554	5	25	5	23
Other	—	—	—	14	22	—	—	—	—
Subtotal	4,528	4,528	429	5,318	5,785	60	262	48	212
Total:									
Mortgage loans:									
One- to four-family	1,469	1,616	—	1,624	1,925	24	96	21	81
Commercial	4,084	4,084	20	5,169	8,065	47	325	37	255
Construction – custom and owner/ builder	—	—	—	—	184	—	7	—	7
Land	1,054	1,171	89	1,028	1,193	9	36	7	29
Consumer loans:									
Home equity and second mortgage	560	560	320	767	878	5	25	5	23
Other	—	—	—	14	22	—	—	—	—

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Commercial business loans	—	—	—	27	14	—	—	—	—
Total	\$ 7,167	\$ 7,431	\$ 429	\$ 8,629	\$ 12,281	\$ 85	\$ 489	\$ 70	\$ 395

(1) For the three months ended June 30, 2017.

(2) For the nine months ended June 30, 2017.

24

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, 2016 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance (Loan Balance Plus Charge Off)	Related Allowance	Average Recorded Investment (1)	Interest Income Recognized (1)	Cash Basis Interest Income Recognized (1)
With no related allowance recorded:						
Mortgage loans:						
One- to four-family	\$ 914	\$ 1,060	\$ —	\$ 1,349	\$ 38	\$ 38
Multi-family	—	—	—	152	—	—
Commercial	7,566	8,685	—	7,784	421	330
Construction – custom and owner/builder	367	367	—	73	—	—
Land	693	1,101	—	839	16	12
Consumer loans:						
Home equity and second mortgage	402	593	—	264	—	—
Commercial business loans	—	—	—	15	—	—
Subtotal	9,942	11,806	—	10,476	475	380
With an allowance recorded:						
Mortgage loans:						
One- to four-family	1,350	1,350	70	1,921	118	89
Multi-family	—	—	—	655	—	—
Commercial	3,743	3,743	413	4,181	275	215
Land	575	575	53	604	39	32
Consumer loans:						
Home equity and second mortgage	597	597	227	709	44	40
Other	30	30	13	33	2	2
Subtotal	6,295	6,295	776	8,103	478	378
Total:						
Mortgage loans:						
One- to four-family	2,264	2,410	70	3,270	156	127
Multi-family	—	—	—	807	—	—
Commercial	11,309	12,428	413	11,965	696	545
Construction – custom and owner/builder	367	367	—	73	—	—
Land	1,268	1,676	53	1,443	55	44
Consumer loans:						
Home equity and second mortgage	999	1,190	227	973	44	40
Other	30	30	13	33	2	2
Commercial business loans	—	—	—	15	—	—
Total	\$ 16,237	\$ 18,101	\$ 776	\$ 18,579	\$ 953	\$ 758

(1) For the year ended September 30, 2016.

A troubled debt restructured ("TDR") 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-amortizations, extensions, deferrals and renewals. TDR loans are considered impaired and are individually evaluated for impairment. TDR loans are classified as either accrual or non-accrual. TDR 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 \$3.61 million and \$8.16 million in TDR loans included in impaired loans at June 30, 2017 and September 30, 2016, respectively, and had no commitments at these dates to lend additional funds on these loans. The allowance for loan losses allocated to TDR loans at June 30, 2017 and September 30, 2016 was \$9,000 and \$465,000, respectively. There were no TDR loans which incurred a payment default within 12 months of the restructure date during the nine months ended June 30, 2017.

The following tables set forth information with respect to the Company's TDR loans by interest accrual status as of June 30, 2017 and September 30, 2016 (dollars in thousands):

	June 30, 2017		
	Accruing	Non-Accrual	Total
Mortgage loans:			
One- to four-family	\$573	\$ —	\$573
Commercial	2,229	—	2,229
Land	559	252	811
Total	\$3,361	\$ 252	\$3,613

	September 30, 2016		
	Accruing	Non-Accrual	Total
Mortgage loans:			
One- to four-family	\$1,350	\$ 126	\$1,476
Commercial	5,268	—	5,268
Land	720	253	973
Consumer loans:			
Home equity and second mortgage	291	152	443
Total	\$7,629	\$ 531	\$8,160

The were no new TDR loans during the nine months ended June 30, 2017 or the year ended September 30, 2016.

(5) NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income to common shareholders by the weighted average number of common shares outstanding during the period, without considering any dilutive items. Diluted net income per common share is computed by dividing net income to common shareholders by the weighted average number of common shares and common stock equivalents for items that are dilutive, net of shares assumed to be repurchased using the treasury stock method at the average share price for the Company's common stock during the period. 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, 2017 and 2016, there were 79,032 and 111,500 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, 2017 and 2016 is as follows (dollars in thousands, except per share amounts):

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
Basic net income per common share computation				
Numerator – net income	\$4,277	\$ 2,547	\$10,552	\$ 7,455
Denominator – weighted average common shares outstanding	7,269,566	8,822,608	7,088,134	6,846,373
Basic net income per common share	\$0.59	\$ 0.37	\$ 1.49	\$ 1.09
Diluted net income per common share computation				
Numerator – net income	\$4,277	\$ 2,547	\$10,552	\$ 7,455
Denominator – weighted average common shares outstanding	7,269,566	8,822,608	7,088,134	6,846,373
Effect of dilutive stock options (1)	162,607	93,041	153,941	69,291
Effect of dilutive stock warrant (2)	—	195,550	106,411	175,997
Weighted average common shares outstanding - assuming dilution	7,432,173	9,111,199	7,348,486	7,091,661
Diluted net income per common share	\$0.58	\$ 0.36	\$ 1.44	\$ 1.05

(1) For the three and nine months ended June 30, 2017 all outstanding options were included in the computation of diluted net income per share. 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 common 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 earnings per share.

(2) Represented 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. On January 31, 2017, the Warrant was exercised and 370,899 shares of the Company's common stock were issued in exchange for \$2.50 million.

(6) ACCUMULATED OTHER COMPREHENSIVE LOSS

The changes in accumulated other comprehensive loss ("AOCI") by component during the three and nine months ended June 30, 2017 and 2016 are as follows (dollars in thousands):

	Three Months Ended June 30, 2017		
	Changes in fair value of available for sale securities (1)	Changes in OTTI on held to maturity securities (1)	Total (1)
Balance of AOCI at the beginning of period	\$(23)	\$ (155)	\$(178)
Net change	5	11	16
Balance of AOCI at the end of period	\$(18)	\$ (144)	\$(162)

	Nine Months Ended June 30, 2017		
	Changes in fair value of available for sale securities (1)	Changes in OTTI on held to maturity securities (1)	Total (1)
Balance of AOCI at the beginning of period	\$4	\$ (179)	\$(175)
Net change	(22)	35	13
Balance of AOCI at the end of period	\$(18)	\$ (144)	\$(162)

	Three Months Ended June 30, 2016		
	Changes in fair value of available for sale securities (1)	Changes in OTTI on held to maturity securities (1)	Total (1)
Balance of AOCI at the beginning of period	\$2	\$ (288)	\$(286)
Net change	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 (1)		
	Change in value	OTTI on held to maturity (1)	Total
Balance of AOCI at the beginning of period	\$3	\$ (316)	\$(313)
Net change	5	35	40
Balance of AOCI at the end of period	\$8	\$ (281)	\$(273)

(1) All amounts are net of income taxes.

(7) 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, 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 market 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, and options generally have a maximum contractual term of ten years from the date of grant. At June 30, 2017, there were 171,866 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, 2017, there were no options available for future grant under the 2003 Stock Option Plan.

At both June 30, 2017 and 2016, there were no unvested restricted stock grant shares. There were no restricted stock grants awarded during the nine months ended June 30, 2017 and 2016.

Stock option activity for the nine months ended June 30, 2017 and 2016 is summarized as follows:

	Nine Months Ended June 30, 2017		Nine Months Ended June 30, 2016	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding, beginning of period	373,130	\$ 9.82	341,300	\$ 8.73
Exercised	(39,810)) 6.65	(16,220)) 7.88
Forfeited	(4,950)) 6.28	(2,900)) 9.96
Options outstanding, end of period	328,370	\$ 10.26	322,180	\$ 8.76

The aggregate intrinsic value of options exercised during the nine months ended June 30, 2017 and 2016 was \$545,000 and \$82,000, respectively.

At June 30, 2017, there were 201,100 unvested options with an aggregate grant date fair value of \$393,000, all of which the Company assumes will vest. The aggregate intrinsic value of unvested options at June 30, 2017 was \$2.79 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, 2017.

At June 30, 2016, there were 211,200 unvested options with an aggregate grant date fair value of \$457,000. 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.

Additional information regarding options outstanding at June 30, 2017 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	10,200	\$ 4.27	3.4	10,200	\$ 4.27	3.4
5.86 - 6.00	40,800	5.93	5.3	29,000	5.94	5.3
9.00	83,000	9.00	6.3	44,600	9.00	6.3
10.26 - 10.71	139,370	10.58	7.8	43,470	10.54	7.6
15.67	55,000	15.67	9.3	—	N/A	N/A
	328,370	\$ 10.26	7.5	127,270	\$ 8.45	6.6

The aggregate intrinsic value of options outstanding at June 30, 2017 and 2016 was \$4.93 million and \$2.01 million, respectively.

Compensation expense during the nine months ended June 30, 2017 and 2016 for all stock-based plans was as follows (dollars in thousands):

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	Nine Months Ended June 30,	
	2017	2016
Stock options	\$271	\$123
Less: related tax benefit recognized	(153)	(9)
Total	\$118	\$114

29

As of June 30, 2017, unrecognized compensation cost related to non-vested stock options was \$305,000, which is expected to be recognized over a weighted average life of 1.85 years.

(8) FAIR VALUE MEASUREMENTS

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.

The Company's assets measured at fair value on a recurring basis consist of investment securities available for sale. The estimated fair values of MBS are based upon market prices of similar securities or observable inputs (Level 2). The estimated fair values 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, 2017 and September 30, 2016. The Company's assets measured at estimated fair value on a recurring basis at June 30, 2017 and September 30, 2016 are as follows (dollars in thousands):

June 30, 2017	Estimated Fair Value			Total
	Level 1	Level 2	Level 3	
Available for sale investment securities				
MBS: U.S. government agencies	\$—	\$309	\$—	—\$309
Mutual funds	951	—	—	951
Total	\$951	\$309	\$—	—\$1,260
September 30, 2016	Estimated Fair Value			Total
	Level 1	Level 2	Level 3	
Available for sale investment securities				
MBS: U.S. government agencies	\$—	\$366	\$—	—\$366
Mutual funds	976	—	—	976
Total	\$976	\$366	\$—	—\$1,342

There were no transfers among Level 1, Level 2 and Level 3 during the nine months ended June 30, 2017 and the year ended September 30, 2016.

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a non-recurring 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 comparables included in the appraisal and known changes in the market

and in the collateral. Such adjustments may be significant and typically result in a Level 3 classification of the inputs for determining fair value. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Investment Securities 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: OREO and other repossessed assets are recorded at estimated fair value less estimated costs to sell. 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).

The following table summarizes the balances of assets measured at estimated fair value on a non-recurring basis at June 30, 2017 (dollars in thousands):

	Estimated Fair Value		
	Level 1	Level 2	Level 3
Impaired loans:			
Mortgage loans:			
One- to four-family	\$—		—\$46
Commercial	—		3,225
Land	—		713
Consumer loans:			
Home equity and second mortgage	—		115
Total impaired loans	—		4,099
OREO and other repossessed assets	—		3,417
Total	\$—		—\$7,516

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, 2017 (dollars in thousands):

	Estimated Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans	\$ 4,099	Market approach	Appraised value less selling costs	NA
OREO and other repossessed assets	\$ 3,417	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, 2016 (dollars in thousands):

	Estimated Fair Value		
	Level 1	Level 2	Level 3
Impaired loans:			
Mortgage loans:			
One- to four-family	\$—	\$—	\$1,280
Commercial	—	—	3,330
Land	—	—	522
Consumer loans:			
Home equity and second mortgage	—	—	370
Other	—	—	17
Total impaired loans	—	—	5,519
Investment securities – held to maturity:			
MBS - private label residential	—	20	—
OREO and other repossessed assets	—	—	4,117
Total	\$—	\$20	\$9,636

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, 2016 (dollars in thousands):

	Estimated Fair Value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans	\$ 5,519	Market approach	Appraised value less selling costs	NA
OREO and other repossessed assets	\$ 4,117	Market approach	Lower of appraised value or listing price less selling costs	NA

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, 2017 and September 30, 2016. 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.

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.

Other Investments: The Bank invests in the Solomon Hess SBA Loan fund. Shares in the funds are not publicly traded and therefore have no readily determinable fair market value, therefore they are recorded on the balance sheet at cost. An investor can have its investment in the funds redeemed for the balances of its capital account at any quarter end with 60 days notice to the fund.

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 the FHLB.

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 Borrowings: The estimated fair value of FHLB borrowings 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.

The recorded amounts and estimated fair values of financial instruments were as follows as of June 30, 2017 and September 30, 2016 (dollars in thousands):

	June 30, 2017				
	Recorded Amount	Fair Value	Level 1	Level 2	Level 3
Fair Value Measurements Using:					
Financial assets					
Cash and cash equivalents	\$132,440	\$132,440	\$132,440	\$ —	—
CDs held for investment	41,187	41,187	41,187	—	—
Investment securities	8,504	9,172	3,952	5,220	—
FHLB stock	1,107	1,107	1,107	—	—
Other investments	3,000	3,000	3,000	—	—
Loans receivable, net	687,158	686,285	—	—	686,285
Loans held for sale	3,523	3,616	3,616	—	—
Accrued interest receivable	2,437	2,437	2,437	—	—
Financial liabilities					
Deposits:					
Non-interest-bearing demand	197,527	197,527	197,527	—	—
Interest-bearing	621,291	621,863	481,001	—	140,862
Total deposits	818,818	819,390	678,528	—	140,862
Accrued interest payable	162	162	162	—	—

September 30, 2016

Fair Value Measurements Using:

	Recorded Amount	Estimated			
		Fair Value	Level 1	Level 2	Level 3
Financial assets					
Cash and cash equivalents	\$108,941	\$108,941	\$108,941	\$ —	—
CDs held for investment	53,000	53,000	53,000	—	—
Investment securities	8,853	9,737	4,029	5,708	—
FHLB stock	2,204	2,204	2,204	—	—
Loans receivable, net	663,146	671,017	—	—	671,017
Loans held for sale	3,604	3,714	3,714	—	—
Accrued interest receivable	2,348	2,348	2,348	—	—
Financial liabilities					
Deposits:					
Non-interest-bearing demand	172,283	172,283	172,283	—	—
Interest-bearing	589,251	589,762	441,277	—	148,485
Total deposits	761,534	762,045	613,560	—	148,485
FHLB borrowings	30,000	30,684	—	30,684	—
Accrued interest payable	247	247	247	—	—

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 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). 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 new guidance 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. This ASU is effective for annual periods beginning after December 15, 2017, including interim periods within that reporting period. The Company's primary source of revenue is interest income, which is recognized when earned and is deemed to be in compliance with this ASU. Accordingly, the adoption of ASU No. 2014-09 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 the fair value of 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 effect of adoption will depend on leases at the time of adoption. Once adopted, the Company expects to report higher assets and liabilities as a result of including right-of-use assets and lease liabilities related to certain banking offices and certain equipment under noncancelable operating lease agreements, however, based on current leases the adoption of ASU No. 2016-02 is not expected to have a material impact 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. 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 Company is currently evaluating the impact that the adoption of ASU No. 2016-09 will have 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 with respect 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. In addition, this ASU requires credit losses relating to available for sale debt securities to be recorded through an allowance for credit losses rather than a reduction of the carrying amount. ASU No. 2016-13 also changes the accounting for purchased credit-impaired debt securities and loans. The standard retains many of the current disclosure requirements in current GAAP and expands certain disclosure requirements. 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 No. 2016-13 will have on the Company's future consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment. This ASU simplifies the subsequent measurement of goodwill and eliminates Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under ASU No. 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU No. 2017-04 will be effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early application of this ASU is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU No. 2017-04 is not expected to have a material impact on the Company's future consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The ASU shortens the amortization period for certain callable debt securities held at a premium. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The adoption of ASU No. 2017-08 is not expected to have a material impact on the Company's future consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation--Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU was issued to provide clarity as to when to apply modification accounting when there is a change in the terms or conditions of a share-based payment award. According to this ASU, an entity should account for the effects of a modification unless the fair value, vesting conditions, and balance sheet classification of the award are the same after the modification as compared to the original award prior to modification. ASU No. 2017-09 is effective for fiscal years, and

interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The adoption of ASU No. 2017-09 is not expected to have a material impact 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, 2017. 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. 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," "probably," "projects," "outlook" or similar 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. 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 2016 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 2017 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, 2017, the Company had total assets of \$931.01 million and total shareholders' equity of \$108.62 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 (recapture of) 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 (recapture of) 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 period ended June 30, 2017, 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, servicing income on loans sold and other operating income. Non-interest income is reduced by net OTTI losses on investment securities, if any. 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, data processing and telecommunication expenses, deposit operation expenses and other non-interest 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

37

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 2016 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 2016 Form 10-K.

Comparison of Financial Condition at June 30, 2017 and September 30, 2016

The Company's total assets increased by \$39.62 million, or 4.4%, to \$931.01 million at June 30, 2017 from \$891.39 million at September 30, 2016. The increase in total assets was primarily due to an increase in total cash and cash equivalents and net loans receivable. The increase in total assets was funded primarily by an increase in total deposits.

Net loans receivable increased by \$24.01 million, or 3.6%, to \$687.16 million at June 30, 2017 from \$663.15 million at September 30, 2016. The increase was primarily due to increases in commercial real estate loans, one- to four-family custom and owner/builder construction loans, commercial construction loans, one- to four- family mortgage loans, land loans and commercial business loans. These increases to net loans receivable were partially offset by a decrease in consumer loans, multi-family construction loans, multi-family loans and an increase in the undisbursed portion of construction loans in process.

Total deposits increased by \$57.28 million, or 7.5%, to \$818.82 million at June 30, 2017 from \$761.53 million at September 30, 2016. The increase was primarily a result of increases in non-interest-bearing demand, savings, money market, and N.O.W. checking account balances which were partially offset by a decrease in certificates of deposit.

Shareholders' equity increased by \$11.78 million, or 12.2%, to \$108.62 million at June 30, 2017 from \$96.83 million at September 30, 2016. The increase in shareholders' equity was primarily due to net income for the nine months ended June 30, 2017 and funds received from the exercise of the Warrant. These increases to shareholders' equity were partially offset by the payment of dividends to common shareholders.

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

Cash and Cash Equivalents and CDs Held for Investment: Cash and cash equivalents and CDs held for investment increased by \$11.69 million, or 7.2%, to \$173.63 million at June 30, 2017 from \$161.94 million at September 30, 2016. The increase was primarily due to a \$23.50 million increase in cash and cash equivalents, which was partially offset by an \$11.81 million decrease in CDs held for investment.

Investment Securities: Investment securities decreased by \$349,000, or 3.9%, to \$8.50 million at June 30, 2017 from \$8.85 million at September 30, 2016. This decrease is 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 decreased by \$1.10 million or 49.8%, to \$1.11 million at June 30, 2017 from \$2.20 million at September 30, 2016 as excess stock was redeemed. The required investment in FHLB stock decreased primarily due to a decrease in FHLB borrowings.

Other Investments: Other investments increased by \$3.00 million at June 30, 2017 from nothing at September 30, 2016 due to the Bank investing in the Solomon Hess SBA Loan Fund. This investment is utilized to help satisfy compliance with the Bank's Community Reinvestment Act ("CRA") investment test requirements.

Loans: Net loans receivable increased by \$24.01 million, or 3.6%, to \$687.16 million at June 30, 2017 from \$663.15 million at September 30, 2016. The increase in the portfolio was primarily a result of a \$19.38 million increase in commercial real estate loans, a \$16.53 million increase in custom and owner/builder construction loans, a \$10.70 million increase in commercial construction loans, a \$3.15 million increase in one- to four-family mortgage loans, a \$2.71 million increase in land loans, and a \$1.57 million increase in commercial business loans. These increases in net loans receivable were partially offset by a \$23.51 million increase in the amount of undisbursed construction loans in process, a \$3.76 million decrease in consumer loans, a \$1.53 million decrease in multi-family construction loans, and a \$1.25 million decrease in multi-family loans.

Loan originations increased by \$60.43 million, or 29.9%, to \$262.58 million for the nine months ended June 30, 2017 from \$202.15 million for the nine months ended June 30, 2016, primarily due to increased market demand. 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. The Company also (on a much smaller volume) sells the guaranteed portion of U.S. Small Business Administration ("SBA") loans. Sales of fixed rate one- to four-family mortgage loans and SBA loans increased by \$15.79 million, or 38.7%, to \$56.54 million for the nine months ended June 30, 2017 compared to \$40.75 million for the nine months ended June 30, 2016 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 increased by \$2.31 million, or 14.3%, to \$18.47 million at June 30, 2017 from \$16.16 million at September 30, 2016. The increase was primarily a result of the Bank purchasing the building that it had been leasing for its Gig Harbor branch office for \$1.84 million in December 2016 and a remodel of the Bank's Edgewood branch office.

OREO (Other Real Estate Owned): OREO and other repossessed assets decreased by \$700,000, or 17.0%, to \$3.42 million at June 30, 2017 from \$4.12 million at September 30, 2016. The decrease was primarily due to the disposition of nine OREO properties and one other repossessed asset. At June 30, 2017, total OREO and other repossessed assets consisted of 17 individual properties. The properties consisted of 12 land parcels totaling \$1.90 million, three single-family homes totaling \$927,000, and two commercial real estate properties totaling \$587,000.

Goodwill: The recorded amount of goodwill of \$5.65 million at June 30, 2017 was unchanged from September 30, 2016.

Deposits: Deposits increased by \$57.28 million, or 7.5%, to \$818.82 million at June 30, 2017 from \$761.53 million at September 30, 2016. The increase was primarily a result of a \$25.24 million increase in non-interest bearing demand account balances, a \$13.54 million increase in money market account balances, a \$13.28 million increase in savings account balances, and a \$12.91 million increase in negotiable order of withdrawal ("N.O.W.") checking account balances. These increases were partially offset by a \$7.68 million decrease in certificates of deposit accounts.

Deposits consisted of the following at June 30, 2017 and September 30, 2016 (dollars in thousands):

	June 30, 2017		September 30, 2016	
	Amount	Percent	Amount	Percent
Non-interest-bearing demand	\$197,527	24 %	\$172,283	23 %
N.O.W. checking	216,719	26 %	203,812	27 %
Savings	136,750	17 %	123,474	16 %
Money market	119,025	15 %	107,083	14 %
Money market - brokered	8,506	1 %	6,908	1 %
Certificates of deposit under \$250	121,505	15 %	128,330	17 %
Certificates of deposit \$250 and over	15,590	2 %	16,439	2 %
Certificates of deposit - brokered	3,196	— %	3,205	— %
Total	\$818,818	100 %	\$761,534	100 %

FHLB Borrowings: 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. There were no FHLB borrowings at June 30, 2017 and \$30.00 million at September 30, 2016 as the Company prepaid on April 26, 2017 FHLB borrowings with a weighted average cost of 3.98% and incurred prepayment penalties of \$282,000. Prepaying the FHLB borrowings eliminated interest expense by approximately \$100,000 per month.

Shareholders' Equity: Total shareholders' equity increased by \$11.78 million, or 12.2%, to \$108.62 million at June 30, 2017 from \$96.83 million at September 30, 2016. The increase was primarily due to net income of \$10.55 million for the nine months ended June 30, 2017 and the exercise of the Warrant for \$2.50 million, which was partially offset by the payment of \$2.24 million in dividends on the Company's common stock. The Company did not repurchase any shares of its common stock during the nine months ended June 30, 2017, and at June 30, 2017, had 221,893 shares authorized 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 0.65% at June 30, 2017 from 0.88% at September 30, 2016 as total non-performing assets decreased by \$1.80 million, or 22.9%, to \$6.06 million at June 30, 2017 from \$7.86 million at September 30, 2016. The decrease was primarily due to an \$818,000 decrease in non-accrual loans and a \$700,000 decrease in OREO and other repossessed assets.

TDR loans on accrual status (which are not included in the non-performing asset totals) decreased by \$4.27 million, or 55.9%, to \$3.36 million at June 30, 2017 from \$7.63 million at September 30, 2016, primarily due loan payoffs. As part of the TDR repayments, the Company recovered, to the allowance for loan losses, \$1.06 million in previously charged off amounts. In addition, the Company collected \$718,000 in non-accrual interest in connection with these TDR repayments during the quarter ended June 30, 2017.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

The following table sets forth information with respect to the Company's non-performing assets at June 30, 2017 and September 30, 2016 (dollars in thousands):

	June 30, 2017	September 30, 2016		
Loans accounted for on a non-accrual basis:				
Mortgage loans:				
One- to four-family (1)	\$896	\$914		
Commercial	403	612		
Construction – custom and owner/builder	—	367		
Land	496	548		
Consumer loans:				
Home equity and second mortgage	260	402		
Other	—	30		
Total loans accounted for on a non-accrual basis	2,055	2,873		
Accruing loans which are contractually past due 90 days or more	—	135		
Total of non-accrual and 90 days past due loans	2,055	3,008		
Non-accrual investment securities	590	734		
OREO and other repossessed assets, net (2)	3,417	4,117		
Total non-performing assets (3)	\$6,062	\$7,859		
TDR loans on accrual status (4)	\$3,361	\$7,629		
Non-accrual and 90 days or more past due loans as a percentage of loans receivable	0.29	% 0.45	%	
Non-accrual and 90 days or more past due loans as a percentage of total assets	0.22	% 0.34	%	
Non-performing assets as a percentage of total assets	0.65	% 0.88	%	
Loans receivable (5)	\$696,768	\$672,972		
Total assets	\$931,009	\$891,388		

(1) As of June 30, 2017 and September 30, 2016, the balance of non-accrual one- to-four family properties included \$100,000 and \$138,000, respectively, in the process of foreclosure.

(2) As of June 30, 2017 and September 30, 2016, the balance of OREO included \$927,000 and \$1.07 million, respectively, of foreclosed residential real estate property recorded as a result of obtaining physical possession of the property.

(3) Does not include TDR loans on accrual status.

(4) Does not include TDR loans totaling \$252,000 and \$531,000 reported as non-accrual loans at June 30, 2017 and September 30, 2016, 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, 2017 and 2016

Net income increased by \$1.73 million, or 67.9%, to \$4.28 million for the quarter ended June 30, 2017 from \$2.55 million for the quarter ended June 30, 2016. Net income per diluted common share increased \$0.22, or 61.1%, to \$0.58 for the quarter ended June 30, 2017 from \$0.36 for the quarter ended June 30, 2016.

Net income increased by \$3.10 million, or 41.5%, to \$10.55 million for the nine months ended June 30, 2017 from \$7.46 million for the nine months ended June 30, 2016. Net income per common share increased \$0.39, or 37.1%, to \$1.44 for the nine months ended June 30, 2017 from \$1.05 for the nine months ended June 30, 2016.

The increase in net income for the three and nine months ended June 30, 2017 was primarily due to increases in net interest income, non-interest income, and recapture of loan losses, which were 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 \$1.63 million, or 21.4%, to \$9.25 million for the quarter ended June 30, 2017 from \$7.62 million for the quarter ended June 30, 2016. Total interest and dividend income increased by \$1.57 million, or 18.25%, to \$10.17 million for the quarter ended June 30, 2017 from \$8.60 million for the quarter ended June 30, 2016, primarily due to an increase in the average balance of total interest-earning assets and a \$785,000 increase in non-accrual interest and prepayment penalties collected. The average balance of total interest-earning assets increased by \$66.56 million, or 8.4%, to \$862.92 million for the quarter ended June 30, 2017 from \$796.37 million for the quarter ended June 30, 2016. The average balance of loans receivable increased \$46.15 million, or 7.1%, between the periods. During the quarter ended June 30, 2017, a total of \$819,000 in non-accrual interest and prepayment penalties was collected compared to \$34,000 for the quarter ended June 30, 2016. The average yield on interest-earning assets increased to 4.71% for the quarter ended June 30, 2017 from 4.32% for the quarter ended June 30, 2016, primarily due to the increase in non-accrual interest and prepayment penalties collected. Total interest expense decreased by \$62,000, or 6.3%, to \$918,000 for the quarter ended June 30, 2017 from \$980,000 for the quarter ended June 30, 2016. The decrease in interest expense was primarily due to a \$103,000 decrease in interest expense on FHLB borrowings, as the average balance of FHLB borrowings decreased by \$36.43 million, or 81.0%, to \$8.57 million for the quarter ended June 30, 2017 from \$45.00 million for the quarter ended June 30, 2016. Partially offsetting the decrease in FHLB borrowing interest expense due to the lower average balances were prepayment penalties of \$282,000 (included as interest expense) incurred for paying off the borrowings before their scheduled maturities. The decrease in interest expense on FHLB borrowings was partially offset by a \$41,000 increase in interest expense on deposits as the average balance of interest-bearing deposits increased by \$50.96 million, or 9.1%, to \$611.21 million for the quarter ended June 30, 2017 from \$560.25 million for the quarter ended June 30, 2016. As a result of these changes, the net interest margin increased to 4.29% for the quarter ended June 30, 2017 from 3.83% for the quarter ended June 30, 2016. The net interest margin for the current quarter was increased by approximately 25 basis points due to the net effect of collecting \$819,000 in non-accrual interest and prepayment penalties and paying the \$282,000 in FHLB borrowing prepayment penalties.

Net interest income increased by \$3.02 million, or 13.1%, to \$26.01 million for the nine months ended June 30, 2017 from \$23.00 million for the nine months ended June 30, 2016. Total interest and dividend income increased by \$2.69 million, or 10.4%, to \$28.63 million for the nine months ended June 30, 2017 from \$25.94 million for the nine months ended June 30, 2016, primarily due to an increase in the average balance of total interest-earning assets and a \$318,000 increase in non-accrual interest and prepayment penalties collected. The average balance of total interest-earning assets increased by \$77.29 million, or 9.9%, to \$860.84 million for the nine months ended June 30, 2017 from \$783.55 million for the nine months ended June 30, 2016. During the nine months ended June 30, 2017 a total of \$1.07 million in non-accrual interest and prepayment penalties was collected compared to a total of \$754,000 during the nine months ended June 30, 2016. Total interest expense decreased by \$324,000, or 11.0%, to \$2.62 million for the nine months ended June 30, 2017 from \$2.94 million for the nine months ended June 30, 2016. The decrease in interest expense was primarily due to a \$441,000 decrease in interest expense on FHLB borrowings, as the average balance of FHLB borrowings decreased by \$22.14 million, or 49.2%, to \$22.86 million for the nine months ended June 30, 2017 from \$45.00 million for the nine months ended June 30, 2016. The decrease in interest expense on FHLB borrowings was partially offset by a \$117,000 increase in interest expense on deposits as the average balance of interest-bearing deposits increased by \$53.73 million, or 9.7%, to \$607.86 million for the nine months ended June 30, 2017 from \$554.13 million for the nine months ended June 30, 2016. As a result of these changes, the net interest margin for the nine months ended June 30, 2017 increased to 4.03% from 3.91% for the nine months ended June 30,

2016.

42

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-earning 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,					
	2017			2016		
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost
Interest-earning assets:						
Loans receivable (1)(2)	\$693,931	\$ 9,652	5.58 %	\$647,781	\$ 8,257	5.10 %
Investment securities (2)	7,610	69	3.63	8,084	70	3.46
Dividends from mutual funds, other investments and FHLB stock	4,872	23	1.89	3,776	22	2.34
Interest-earning deposits	156,507	421	1.08	136,724	247	0.73
Total interest-earning assets	862,920	10,165	4.71	796,365	8,596	4.32
Non-interest-earning assets	57,841			55,926		
Total assets	\$920,761			\$852,291		
Interest-bearing liabilities:						
Savings	\$137,108	20	0.06	\$116,818	15	0.05
Money market	125,787	110	0.35	105,884	83	0.32
N.O.W. checking	207,060	113	0.22	187,836	114	0.24
Certificates of deposit	141,254	306	0.87	149,713	296	0.79
Short-term borrowings	—	—	—	—	—	—
Long-term borrowings (3)	8,571	369	17.27	45,000	472	4.22
Total interest-bearing liabilities	619,780	918	0.59	605,251	980	0.65
Non-interest-bearing deposits	190,631			150,331		
Other liabilities	4,379			3,750		
Total liabilities	814,790			759,332		
Shareholders' equity	105,971			92,959		
Total liabilities and shareholders' equity	\$920,761			\$852,291		
Net interest income		\$ 9,247			\$ 7,616	
Interest rate spread			4.12 %			3.67 %
Net interest margin (4)			4.29 %			3.83 %
Ratio of average interest-earning assets to average interest-bearing liabilities			139.23 %			131.58 %

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

	Nine Months Ended June 30,			2016			
	2017						
	Average Balance	Interest and Dividends	Yield/ Cost	Average Balance	Interest and Dividends	Yield/ Cost	
Interest-earning assets:							
Loans receivable (1)(2)	\$688,936	\$ 27,280	5.29 %	\$634,981	\$ 24,992	5.25 %	
Investment securities (2)	7,717	207	3.58	8,182	213	3.45	
Dividends from mutual funds, other investments and FHLB stock	3,730	60	2.15	3,705	83	2.99	
Interest-earning deposits	160,458	1,081	0.90	136,681	649	0.63	
Total interest-earning assets	860,841	28,628	4.43	783,549	25,937	4.41	
Non-interest-earning assets	58,324			57,079			
Total assets	\$919,165			\$840,628			
Interest-bearing liabilities:							
Savings	\$132,922	57	0.06	\$113,069	46	0.05	
Money market	124,650	314	0.34	105,307	242	0.31	
N.O.W. checking	206,037	346	0.22	183,938	340	0.25	
Certificates of deposit	144,249	920	0.85	151,813	892	0.78	
Long-term borrowings (3)	22,857	979	5.73	45,000	1,420	4.22	
Total interest-bearing liabilities	630,715	2,616	0.55	599,127	2,940	0.66	
Non-interest-bearing deposits	182,117			146,466			
Other liabilities	4,368			3,661			
Total liabilities	817,200			749,254			
Shareholders' equity	101,965			91,374			
Total liabilities and shareholders' equity	\$919,165			\$840,628			
Net interest income		\$ 26,012			\$ 22,997		
Interest rate spread			3.88 %			3.76 %	
Net interest margin (4)			4.03 %			3.91 %	
Ratio of average interest-earning assets to average interest-bearing liabilities			136.49 %			130.78 %	

(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 borrowings with original maturities of one year or greater. Includes prepayment penalties of \$282,000 for both the three and nine months ended June 30, 2017.

(4) Net interest income divided by total average interest-earning 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, 2017 compared to three months ended June 30, 2016 increase (decrease) due to			Nine months ended June 30, 2017 compared to nine months ended June 30, 2016 increase (decrease) due to		
	Rate	Volume	Net Change	Rate	Volume	Net Change
Interest-earning assets:						
Loans receivable and loans held for sale	\$784	\$611	\$1,395	\$152	\$2,136	\$2,288
Investment securities	3	(4)	(1)	—	(6)	(6)
Dividends from mutual funds, other investments and FHLB stock	(4)	5	1	(23)	—	(23)
Interest-earning deposits	133	41	174	304	128	432
Total net increase in income on interest-earning assets	916	653	1,569	433	2,258	2,691
Interest-bearing liabilities:						
Savings	2	3	5	2	9	11
Money market	10	17	27	(6)	12	6
N.O.W. checking	(12)	11	(1)	19	53	72
Certificates of deposit	27	(17)	10	31	(3)	28
Long term FHLB borrowings	527	(630)	(103)	8	(449)	(441)
Total net increase (decrease) in expense on interest-bearing liabilities	554	(616)	(62)	54	(378)	(324)
Net increase in net interest income	\$362	\$1,269	\$1,631	\$379	\$2,636	\$3,015

Provision for (Recapture of) Loan Losses: For the quarter ended June 30, 2017 there was a \$1.00 million recapture of loan losses compared to no provision for or (recapture of) loan losses for the quarter ended June 30, 2016. The recapture of loan losses during the quarter was primarily due to net recoveries and overall improvements in credit quality metrics. For the quarter ended June 30, 2017 there were net recoveries of \$1.02 million, compared to a net charge-off of \$201,000 for the quarter ended June 30, 2016.

For the nine months ended June 30, 2017 there was a \$1.25 million recapture of loan losses compared to no provision for or (recapture of) loan losses for the nine months ended June 30, 2016. The recapture of loan losses for the nine months ended June 30, 2017 was primarily due to net recoveries and overall improvements in credit quality metrics. Net recoveries for the nine months ended June 30, 2017 were \$1.03 million compared to net charge-offs of \$82,000 for the nine months ended June 30, 2016.

Non-accrual loans decreased by 28.2% to \$2.06 million at June 30, 2017, from \$2.87 million at September 30, 2016 and decreased by 30.4% from \$2.96 million at June 30, 2016. Total delinquent loans (past due 30 days or more) and non-accrual loans decreased by 29.7% to \$2.44 million at June 30, 2017, from \$3.47 million at September 30, 2016 and decreased by 39.2% from \$4.01 million one year ago.

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

45

allowance for loan losses of \$9.61 million at June 30, 2017 (1.38% of loans receivable and 467.6% 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, 2017 was \$429,000 compared to \$776,000 at September 30, 2016 and \$809,000 at June 30, 2016. The allowance for loan losses was \$9.83 million (1.46% of loans receivable and 326.7% of non-performing loans) at September 30, 2016 and \$9.84 million (1.50% of loans receivable and 318.5% of non-performing loans) at June 30, 2016.

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 \$407,000, or 14.8%, to \$3.16 million for the quarter ended June 30, 2017 from \$2.75 million for the quarter ended June 30, 2016. The increase in non-interest income was primarily due to a \$164,000 increase in service charges on deposits, a \$118,000 increase in gain on sale of loans, net, a \$77,000 increase in ATM and debit card interchange transaction fees and smaller increases in several other categories. 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 businesses 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 gain on sale of loans was primarily due to an increase in the dollar volume of fixed-rate one- to four-family loans sold during the current quarter. The increase in ATM and debit card interchange transaction fees was primarily due to an increase in debit card transactions.

Total non-interest income increased by \$1.44 million, or 18.6%, to \$9.22 million for the nine months ended June 30, 2017 from \$7.78 million for the nine months ended June 30, 2016. The increase in non-interest income was primarily due to a \$450,000 increase in service charges on deposits, a \$426,000 increase in gain on sale of loans, a \$261,000 increase in ATM and debit card interchange transaction fees and smaller increases in several other categories. 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 businesses associated with the marijuana industry. The increase in gain on sale 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. The increase in ATM and debit card interchange transaction fees was primarily due to an increase in debit card transactions.

Non-interest Expense: Total non-interest expense increased by \$370,000, or 5.6%, to \$6.94 million for the quarter ended June 30, 2017 from \$6.57 million for the quarter ended June 30, 2016. The increased expense was primarily due to a \$344,000 increase in salaries and employee benefits expense and smaller increases in several other categories. These increases were partially offset by a \$119,000 decrease in OREO and other repossessed assets expense and smaller decreases in several other categories. The increase in salary and employee benefits expense was primarily due to annual salary adjustments and the hiring of additional lending personnel.

Total non-interest expense increased by \$931,000, or 4.7%, to \$20.61 million for the nine months ended June 30, 2017 from \$19.68 million for the nine months ended June 30, 2016. The increased expense was primarily due to a \$843,000

increase in salaries and employee benefits expense, a \$212,000 increase in deposit operations expense, a \$180,000 increase in professional fees expense and smaller increases in several other categories. These increases were partially offset by a \$539,000 decrease in OREO and other repossessed assets expense and smaller decreases in several other categories. The increase in salaries and employee benefits expense was primarily due annual salary adjustments and the hiring of additional lending personnel. The increase in deposit operations expense was primarily due to an increase in the level of checking account acquisition promotional costs and check fraud expenses. The increase in professional fees for the nine months ended June 30, 2017, was primarily a result of legal fee recoveries associated with several non-accrual loans that were paid off during the comparable period one year ago, which reduced professional fees for the nine months ended June 30, 2016. The decrease in OREO and other repossessed assets expense was primarily due to a decrease in the level of market value write-downs on OREO properties and gains on the sale of several OREO properties.

The efficiency ratio for the current quarter improved to 55.94% from 63.37% for the comparable quarter one year ago as the increases in net interest income and non-interest income outpaced the increase in non-interest expense. The efficiency ratio for the nine months ended June 30, 2017 improved to 58.48% from 63.93% for the nine months ended June 30, 2016.

Provision for Federal Income Taxes: The provision for federal income taxes increased by \$938,000, or 75.0%, to \$2.19 million for the quarter ended June 30, 2017 from \$1.25 million for the quarter ended June 30, 2016, primarily as a result of increased income before federal income taxes. The Company's effective tax rate was 33.84% for the quarter ended June 30, 2017 and 32.92% for the quarter ended June 30, 2016.

The provision for federal income taxes increased by \$1.68 million, or 46.1%, to \$5.33 million for the nine months ended June 30, 2017 from \$3.65 million for the nine months ended June 30, 2016, primarily as a result of increased income before federal income taxes. The Company's effective tax rate was 33.55% for the nine months ended June 30, 2017 and 32.85% for the nine months ended June 30, 2016.

Liquidity

The Company's primary sources of funds are customer deposits, proceeds from principal and interest payments on loans, the sale of loans, maturing investment securities, maturing CDs held for investment, FHLB borrowings 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, 2017, 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 21.56%.

The Company's total cash and cash equivalents and CDs held for investment increased by \$11.69 million, or 7.2%, to \$173.63 million at June 30, 2017 from \$161.94 million at September 30, 2016. 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, 2017, 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, 2017, the Bank had \$22.00 million pledged under the LOC, which left \$283.05 million available for additional FHLB borrowings. The Bank maintains a short-term borrowing line with the FRB with available total credit based on eligible collateral. At June 30, 2017, the Bank had \$60.45 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, 2017, 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, 2017, the Bank had loan commitments totaling \$84.67 million and undisbursed construction loans in process totaling \$72.13 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, 2017 totaled \$76.45 million. Historically, the Bank has been able to retain a significant amount of its non-brokered CDs as they mature. At June 30, 2017, the Bank had \$3.20 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.

Edgar Filing: TIMBERLAND BANCORP INC - Form 10-Q

Based on its capital levels at June 30, 2017, 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, 2017, 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.

The following table compares the Bank's actual capital amounts at June 30, 2017 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
Leverage Capital Ratio:						
Tier 1 capital	\$100,254	10.98%	\$36,529	4.00%	\$45,661	5.00%
Risk-based Capital Ratios:						
Common equity tier 1 capital	100,254	15.39	29,323	4.50	42,355	6.50
Tier 1 capital	100,254	15.39	39,097	6.00	52,129	8.00
Total capital	108,420	16.64	52,129	8.00	65,161	10.00

In addition to the minimum common equity Tier 1 ("CET1"), Tier 1 and total capital ratios, the Bank now has to maintain a capital conservation buffer consisting of additional CET1 capital 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 increases each year until fully implemented to an amount equal to 2.5% of risk weighted assets in January 2019. At June 30, 2017, the conservation buffer was 1.25%.

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, 2017, 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, 2017 (dollars in thousands):

	Actual	Ratio
	Amount	
Leverage Capital Ratio:		
Tier 1 capital	\$104,696	11.42%

Risk-based Capital Ratios:

Common equity tier 1 capital 104,696 16.05

Tier 1 capital 104,696 16.05

Total capital 112,870 17.30

Key Financial Ratios and Data

(Dollars in thousands, except per share data)

	Three Months		Nine Months	
	Ended		Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
PERFORMANCE RATIOS:				
Return on average assets	1.86 %	1.20 %	1.53 %	1.18 %
Return on average equity	16.14 %	10.96 %	13.80 %	10.88 %
Net interest margin	4.29 %	3.83 %	4.03 %	3.91 %
Efficiency ratio	55.94 %	63.37 %	58.48 %	63.93 %

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, 2016.

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, 2017 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.

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, 2017, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. The Company continued, however, to implement suggestions from its internal auditor and independent auditors to strengthen existing controls. The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all errors and fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can

(b) provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns in controls or procedures can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; as over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the Risk Factors previously disclosed in Item 1A of the Company's 2016 Form 10-K.

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

49

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

There were no shares repurchased by the Company during the quarter ended June 30, 2017. On July 28, 2015 the Company announced a plan to repurchase 352,681 shares of the Company's common stock. As of June 30, 2017, 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 (2)
- 4.1 Warrant to purchase shares of Company's common stock dated December 23, 2008 (3)
- 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 (3)
- 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, 2017, formatted on Extensible Business Reporting Language (XBRL) (a) Consolidated Balance Sheets; (b)
- 101 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 June 1, 2017.

- (3) Incorporated by reference to the Registrant's Current Report on Form 8-K filed on December 23, 2008.
- (4) Incorporated by reference to the Registrant's Current Report on Form 8-K dated April 16, 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 Exhibit 99.2 included in the Registrant's Registration Statement on Form S-8 (333-1161163).
- (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 7, 2017 By: /s/ Michael R. Sand
Michael R. Sand
Chief Executive Officer
(Principal Executive Officer)

Date: August 7, 2017 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, 2017, 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