



Contact: Michael R. Sand,
President & CEO
Dean J. Brydon, CFO
(360) 533-4747
www.timberlandbank.com

Timberland Bancorp Announces Fiscal Second Quarter Results

Non-Performing Assets Decrease Capital Ratios Remain Very Strong

- Risk Based Capital of 15.31%
- Tier 1 Capital of 11.27%

HOQUIAM, WA – April 30, 2010 -- Timberland Bancorp, Inc. (NASDAQ: TSBK) (“Timberland” or “the Company”) today reported a net loss for the three months ended March 31, 2010 of \$(3.18 million) after recording a \$5.20 million provision for loan losses during the quarter and recognizing a \$1.56 million other than temporary impairment (“OTTI”) charge on investment securities. Net loss to common shareholders after adjusting for the preferred stock dividend and the preferred stock discount accretion was \$(3.44 million), or \$(0.51) per diluted common share. This compares to a net loss to common shareholders of \$(35,000), or \$(0.01) per diluted common share for the quarter ended December 31, 2009 and a net loss to common shareholders of \$(1.60 million), or \$(0.24) per diluted common share, for the quarter ended March 31, 2009.

Fiscal Second Quarter 2010 Highlights:

- Capital levels remain very strong: Total Risk Based Capital of 15.31%; Tier 1 Leverage Capital Ratio of 11.27%; Tangible Capital to Tangible Assets Ratio of 10.93%
- Non-performing assets decreased by \$2.6 million during the quarter
- Non-performing assets to total assets ratio decreased to 5.95% at March 31, 2010 from 6.37% at December 21, 2009
- Construction and land development loans decreased 37% year over year and 15% during the quarter
- Loan loss reserves increased to 3.0% of loans receivable and loans held for sale
- Net interest margin remained strong at 3.93% for the current quarter
- Deposits increased 9% year over year
- N.O.W. checking account balances increased to 26% of deposits compared to 19% of deposits one year prior

“We have continued to improve the risk profile of the Bank by reducing our exposure to construction related credits; particularly those involving a speculative component. At quarter end multi-family construction, speculative construction and land development loans represented only 1.1%, 1.7% and 2.6% of the loan portfolio respectively,” said Michael Sand President and CEO.

“The Timberland franchise continues to generate strong core revenues, strong deposit growth from local customers and an above average net interest margin. In addition, capital ratios remain very strong,” continued Sand.

“Nearly half of the provision for loan losses this quarter was due to the re-appraisals of two condominium projects and a land developer’s properties in King County, Washington,” Sand noted. Additional exposure to these types of properties is limited since such properties now represent a minimal percentage of the Bank’s loan portfolio.

“The value of certain property types in the Northwest economy have been adversely affected during this economic cycle, however values appear to be stabilizing. We are seeing signs of strength in property segments that have previously been under considerable stress,” Sand continued. “For example, a subdivision in Clark County in which we have a participation interest closed ten sales and has 13 pending sales (out of 97 available lots) since the first of the year. Prices on the closed sales have averaged substantially above our book value which is based on a 2009 appraisal that projected a four-year absorption period. Recent sales activity suggests a much shorter absorption period. At the end of March we listed our 78 lot Richland, Washington OREO subdivision and in less than 30 days had accepted four full price offers for lots, again at prices substantially above book values. These are encouraging signs that suggest firming property values in these markets,” commented Sand.

The increased OTTI expense realized this quarter was primarily the result of using an updated third party model incorporating harsher assumptions to evaluate the projected cash flows of certain private label mortgage backed securities in the Bank's securities portfolio. The Bank has significantly reduced its exposure to private label mortgage backed securities that were acquired through the in-kind redemption from the AMF family of mutual funds in June 2008. The Bank has reduced its balance of private label mortgage backed securities to \$5.7 million from the June 2008 balance of \$15.3 million.

Capital Ratios and Asset Quality

Timberland Bancorp remains very well capitalized with a total risk-based capital ratio of 15.31%, a Tier 1 leverage capital ratio of 11.27% and a tangible capital to tangible assets ratio of 10.93% at March 31, 2010.

The non-performing assets ("NPAs") to total assets ratio decreased to 5.95% at March 31, 2010 from 6.37% at December 31, 2009. During the quarter ended March 31, 2010 net charge-offs totaled \$3.44 million compared to \$1.84 million during the quarter ended December 31, 2009. Timberland recorded a \$5.20 million provision to its allowance for loan losses during the current quarter compared to a provision of \$2.60 million for the immediately prior quarter. Approximately \$4.1 million of the \$5.2 million provision for the current quarter was associated with updated appraisals received on properties represented by five relationships; three of which involve properties in King County, one is related to a property in Kitsap County and one is related to a property in Pierce County, Washington. The allowance for loan losses totaled \$16.7 million at March 31, 2010, or 3.00% of loans receivable and loans held for sale compared to \$14.9 million, or 2.66% of loans receivable and loans held for sale at December 31, 2009 and \$12.0 million, or 2.13% of loans receivable and loans held for sale one year ago.

Non-performing loans ("NPLs") decreased 24% to \$26.4 million at March 31, 2010 from \$34.6 million at December 31, 2009 and were comprised of 65 loans and 43 credit relationships. NPLs were comprised of the following at March 31, 2010:

- 27 land loans totaling \$7.78 million (of which the largest had a balance of \$844,000)
- Six land development loans totaling \$6.64 million (of which the largest had a balance of \$2.34 million)
- Four commercial real estate loans totaling \$3.47 million (of which the largest had a balance of \$2.84 million)
- 12 single family home loans totaling \$2.69 million (of which the largest had a balance of \$756,000)
- Six single family speculative home loans totaling \$2.45 million (of which the largest had a balance of \$775,000)
- Two condominium construction loans totaling \$2.13 million (of which the largest had a balance of \$1.80 million)
- Two single family construction loans totaling \$991,000 (of which the largest had a balance of \$800,000)
- One commercial business loan with a balance of \$78,000
- Three home equity loans totaling \$70,000
- Two consumer loans totaling \$63,000

Net charge-offs totaled \$3.44 million during the quarter ended March 31, 2010 and were comprised of the following:

- \$1.05 million on two condominium construction loans upon receipt of updated appraisals of the collateral
- \$915,000 on a mini storage facility upon receipt of an updated appraisal of the collateral
- \$770,000 on ten land loans upon receipt of updated appraisals of the collateral
- \$379,000 on two single family construction loans
- \$164,000 on a land development loan upon receipt of an updated appraisal of the collateral
- \$66,000 on two single family speculative construction loans
- \$55,000 on two home equity loans
- \$36,000 on two single family home loans
- \$5,000 on two consumer loans

Other real estate owned ("OREO") and other repossessed items increased to \$13.5 million at March 31, 2010 from \$8.1 million at December 31, 2009 primarily as a result of acquiring a condominium project in King County, Washington. Gaining control of the project will allow us to manage the timely liquidation of the units. This project represents \$3.2 million of the total OREO portfolio. At March 31, 2010 the OREO portfolio consisted of 29 individual properties and three other repossessed assets representing 25 relationships. The properties consisted of two condominium projects totaling \$4.2 million, three land development projects totaling \$4.2 million, 12 single family homes totaling \$3.5 million, two commercial real estate properties totaling \$951,000 and ten land parcels totaling \$508,000. During the quarter ended March 31, 2010 three OREO properties totaling \$721,000 were sold for a net gain of \$67,000. In addition to these sales, ten residential building lots were

sold in the Clark County OREO subdivision previously mentioned. At quarter end, six OREO properties with a combined book value of \$1.01 million were under sales contracts with anticipated closings in April and May 2010. In addition to these properties, sales were pending in the Clark County and Richland, Washington plats previously mentioned.

Balance Sheet Management

Total assets increased by 1% to \$724.8 million at March 31, 2010 from \$716.5 million at December 31, 2009. The increase in total assets was primarily the result of a \$10.2 million increase in cash equivalents and certificates of deposits (“CD’s”) held for investment. “We continue to build and maintain a high level of liquidity, both on balance sheet and through off-balance sheet sources,” said Dean Brydon, Chief Financial Officer. Liquidity as measured by cash equivalents, CDs held for investment and available for sale investments securities increased to 16.5% of liabilities at March 31, 2010 from 15.2% at December 31, 2009 and 11.8% one year ago.

Loans receivable and loans held for sale decreased by 1% to \$555.3 million at March 31, 2010 from \$562.1 million at December 31, 2009. “The mix of loans in our portfolio continues to improve,” said Brydon. “Overall, we have reduced our total exposure to construction and land development loans by 15% during the last quarter and by 37% from one year ago.” During the current quarter the one-to-four family speculative construction portfolio decreased by 20%, the land development portfolio decreased by 15% and the multi-family construction portfolio decreased by 68%.

LOAN PORTFOLIO

(\$ in thousands)

	March 31, 2010		Dec. 31, 2009		March 31, 2009	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Mortgage Loans:						
One-to-four family	\$ 113,295	20%	\$ 112,678	19%	\$ 120,519	20%
Multi-family	33,236	6	27,833	5	22,472	4
Commercial	198,171	34	197,614	34	164,778	27
Construction and land development	100,938	18	118,552	20	160,980	27
Land	<u>63,856</u>	<u>11</u>	<u>65,159</u>	<u>11</u>	<u>67,388</u>	<u>11</u>
Total mortgage loans	509,496	89	521,836	89	536,137	89
Consumer Loans:						
Home equity and second mortgage	39,303	7	40,212	7	43,948	7
Other	<u>9,477</u>	<u>1</u>	<u>9,449</u>	<u>2</u>	<u>10,767</u>	<u>2</u>
Total consumer loans	48,780	8	49,661	9	54,715	9
Commercial business loans	<u>18,173</u>	<u>3</u>	<u>13,023</u>	<u>2</u>	<u>15,624</u>	<u>2</u>
Total loans	576,449	<u>100%</u>	584,520	<u>100%</u>	606,476	<u>100%</u>
Less:						
Undisbursed portion of construction loans in process	(18,824)		(20,096)		(37,543)	
Unearned income	(2,286)		(2,337)		(2,511)	
Allowance for loan losses	<u>(16,687)</u>		<u>(14,931)</u>		<u>(12,049)</u>	
Total loans receivable, net	\$ <u>538,652</u>		\$ <u>547,156</u>		\$ <u>554,373</u>	

CONSTRUCTION LOAN COMPOSITION

(\$ in thousands)

<u>Portfolio</u>	March 31, 2010		Dec. 31, 2009		March 31, 2009	
	<u>Amount</u>	<u>Percent of Loan Portfolio</u>	<u>Amount</u>	<u>Percent of Loan Portfolio</u>	<u>Amount</u>	<u>Percent of Loan</u>
Custom and owner / builder	\$ 29,101	5%	\$ 32,014	6%	\$ 35,061	6%
Speculative	10,070	2	12,523	2	24,393	4
Commercial real estate	40,369	7	36,890	6	47,642	8

Multi-family (including condominium)	6,135	1	19,084	3	29,979	5
Land development	<u>15,263</u>	<u>3</u>	<u>18,041</u>	<u>3</u>	<u>23,905</u>	<u>4</u>
Total construction loans	<u>\$100,938</u>	<u>18%</u>	<u>\$118,552</u>	<u>20%</u>	<u>\$160,980</u>	<u>27%</u>

Total loan originations were \$42.3 million for the quarter ended March 31, 2010 compared to \$54.1 million for the preceding quarter and \$98.3 million for the comparable quarter one year ago. Timberland continues to sell fixed rate one-to-four family mortgage loans into the secondary market for asset–liability management purposes and to generate non-interest income. During the quarter ended March 31, 2010, \$13.5 million one-to-four family fixed-rate mortgage loans were sold on the secondary market compared to \$18.9 million for the preceding quarter and \$61.1 million for the quarter ended one year ago.

Timberland’s investment securities decreased by \$800,000 during the quarter to \$18.2 million at March 31, 2010 from \$19.0 million at December 31, 2009, primarily as a result of impairment related write-downs, prepayments and regular amortization. During the quarter ended March 31, 2010, other-than-temporary-impairment (“OTTI”) credit related write-downs of \$1.6 million were recorded on the private label mortgage-backed securities that were acquired in the in-kind redemption from the AMF family of mutual funds in June 2008. At March 31, 2010 the Bank’s remaining private label mortgage-backed securities portfolio totaled \$5.7 million.

DEPOSIT BREAKDOWN

(\$ in thousands)

	March 31, 2010		Dec. 31, 2009		March 31, 2009	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Non-interest bearing	\$ 49,870	9%	\$ 50,525	9%	\$ 53,783	11%
N.O.W. checking	141,119	26	133,510	25	95,093	19
Savings	64,800	12	61,697	11	54,525	11
Money market	57,716	10	63,965	12	62,940	12
Certificates of deposit under \$100	144,957	26	136,838	25	139,863	28
Certificates of deposit \$100 and over	89,262	16	90,478	17	73,703	14
Certificates of deposit - brokered	<u>4,000</u>	<u>1</u>	<u>4,000</u>	<u>1</u>	<u>25,991</u>	<u>5</u>
Total deposits	<u>\$551,724</u>	<u>100%</u>	<u>\$541,013</u>	<u>100%</u>	<u>\$505,898</u>	<u>100%</u>

Total deposits increased by 2% to \$551.7 million at March 31, 2010, from \$541.0 million at December 31, 2009 primarily as a result of a \$7.6 million increase in N.O.W. checking account balances, a \$6.9 million increase in CD account balances and a \$3.1 million increase in savings account balances. These increases were partially offset by a \$6.2 million decrease in money market account balances. Timberland held no true brokered funds in its deposit base at March 31, 2010. The \$4.0 million in deposits noted on the balance sheet as brokered deposits consisted of reciprocal deposits exchanged through the Certificate of Deposits Account Registry Service (“CDARS”) program.

Total shareholders’ equity decreased \$2.34 million to \$84.87 million at March 31, 2010, from \$87.21 million at December 31, 2009. The decrease in equity was primarily a result of the net loss for the quarter, which was partially offset by a reduction in the accumulated other comprehensive loss equity component. Timberland continues to remain very well capitalized with a total risk based capital ratio of 15.31% and a Tier 1 leverage capital of 11.27%. Book value per common share was \$9.82 and tangible book value per common share was \$8.93 at March 31, 2010.

Operating Results

Fiscal second quarter operating revenue (net interest income before provision for loan losses, plus non-interest income excluding OTTI charges), decreased by 10% to \$8.4 million compared to \$9.3 million in the comparable quarter one year ago and decreased by 2% from \$8.7 million for the immediately prior quarter. The decrease was primarily the result of decreased non-interest income, which was partially offset by an increase in net interest income. Decreased gains on sale of loans as mortgage banking activity slowed, was primarily responsible for the decline in non-interest income. Also affecting the comparison to the comparable quarter a year ago was a \$134,000 non-recurring gain on the Bank’s investment in bank owned life insurance (“BOLI”) recorded during the quarter ended March 31, 2009. For the first six months of fiscal 2010, operating

revenue (excluding OTTI charges) decreased by 4.1% to \$17.1 million compared to \$17.8 million for the first six months of fiscal 2009 primarily due to decreased gains on sale of loan and decreased BOLI income.

Net interest income before the provision for loan losses increased slightly to \$6.45 million for the quarter ended March 31, 2010, from \$6.42 million for the comparable quarter one year ago with interest and dividend income decreasing by 7% and interest expense decreasing by 20%. The increase in net interest income was primarily due to a decrease in funding costs and an increased level of average interest earnings assets for the current quarter. In spite of the challenging interest rate environment, Timberland's net interest margin remained strong at 3.93% for the current quarter compared to 3.94% for the quarter ended December 31, 2009 and 4.06% for the quarter one year ago. The net interest margin was reduced by approximately 10 basis points for the quarter ended March 31, 2010 by the reversal of interest income on loans placed on non-accrual during the quarter. For the first six months of fiscal 2010, net interest income before the provision for loan losses decreased slightly to \$12.84 million compared to \$12.88 million for the first six months of fiscal 2009. Timberland's net interest margin for the first six months of fiscal 2010 was 3.94% compared to 4.12% for the first six months of fiscal 2009.

Timberland recorded a \$5.2 million provision to its allowance for loan losses for the quarter ended March 31, 2010, compared to \$2.6 million in the preceding quarter and \$5.2 million in the comparable quarter one year prior. For the first six months of fiscal 2010, the provision for loan losses totaled \$7.8 million compared to \$6.5 million in the first six months of fiscal 2009. Net charge-offs for the quarter ended March 31, 2010 totaled \$3.4 million compared to \$1.8 million for the quarter ended December 31, 2009 and \$1.2 million for the quarter ended March 31, 2009. Year to date, net charge-offs were \$6.2 million compared to \$2.4 million in the first six months of fiscal 2009.

Total operating (non-interest) expenses increased by 23% to \$6.69 million for the second fiscal quarter from \$5.44 million from the comparable quarter one year ago and increased by 22% from \$5.50 million for the immediately prior quarter. Increased insurance expenses and increased OREO related expenses accounted for the majority of the increased expense. A non-recurring accrual adjustment increased the FDIC insurance expense by \$503,000 for the quarter ended March 31, 2010. Without this non-recurring adjustment the FDIC insurance expense would have been \$303,000 for current quarter compared to \$99,000 for comparable quarter one year ago. The Company's general liability insurance (including D&O coverage) expense increased by \$89,000 for the current quarter compared to the comparable quarter one year ago. OREO related expenses increased by \$245,000 to \$344,000 for the current quarter compared to \$99,000 for the quarter ended March 31, 2009. The increased OREO expenses for the current quarter were primarily a result of valuation write-downs based on updated appraisals received for several Bank owned properties. Partially offsetting these increases was a change in the Bank's vacation policy which reduced salaries and employee benefit expenses by approximately \$177,000 during the current quarter. Year to date, total operating expenses increased by 11% to \$12.19 million from \$10.98 million for the first half of fiscal 2009.

About Timberland Bancorp, Inc.

Timberland Bancorp operates 22 branches in the state of Washington in Hoquiam, Aberdeen, Ocean Shores, Montesano, Elma, Olympia, Lacey, Tumwater, Yelm, Puyallup, Edgewood, Tacoma, Spanaway (Bethel Station), Gig Harbor, Poulsbo, Silverdale, Auburn, Chehalis, Winlock, and Toledo.

TIMBERLAND BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

(\$ in thousands, except per share amounts) (unaudited)	March 31, <u>2010</u>	Three Months Ended Dec. 31, <u>2009</u>	March 31, <u>2009</u>
Interest and dividend income			
Loans receivable	\$ 8,832	\$ 9,065	\$ 9,419
Investments and mortgage-backed securities	239	216	347
Dividends from mutual funds	9	9	9
Federal funds sold	--	--	5
Interest bearing deposits in banks	<u>77</u>	<u>51</u>	<u>21</u>
Total interest and dividend income	9,157	9,341	9,801
Interest expense			
Deposits	1,958	2,077	2,385
FHLB advances and other borrowings	<u>753</u>	<u>873</u>	<u>999</u>
Total interest expense	<u>2,711</u>	<u>2,950</u>	<u>3,384</u>
Net interest income	6,446	6,391	6,417
Provision for loan losses	<u>5,195</u>	<u>2,600</u>	<u>5,176</u>
Net interest income after provision for loan losses	1,251	3,791	1,241
Non-interest income			
OTTI loss, net	(1,556)	(320)	(964)
Realized loss on investment securities	(1)	(16)	(29)
Service charges on deposits	1,022	1,130	1,009
Gain on sale of loans, net	300	449	1,022
Bank owned life insurance ("BOLI") net earnings	115	134	256
Servicing income on loans sold	25	29	21
Valuation allowance on mortgage servicing rights ("MSRs")(22)	--	--	--
ATM transaction fees	386	362	306
Other	<u>161</u>	<u>201</u>	<u>291</u>
Total non-interest income	430	1,969	1,912
Non-interest expense			
Salaries and employee benefits	2,921	2,981	2,826
Premises and equipment	702	701	696
Advertising	220	172	229
OREO and other repossessed items expense, net	344	50	99
ATM expenses	171	155	161
FDIC insurance	806	200	99
Postage and courier	142	128	126
Amortization of core deposit intangible	48	48	54
State and local taxes	153	141	154
Professional fees	196	172	213
Other	<u>989</u>	<u>750</u>	<u>785</u>
Total non-interest expense	6,692	5,498	5,442
Income (loss) before income taxes	(5,011)	262	(2,289)
Provision (benefit) for income taxes	<u>(1,833)</u>	<u>38</u>	<u>(896)</u>
Net income (loss)	<u><u>\$ (3,178)</u></u>	<u><u>\$ 224</u></u>	<u><u>\$ (1,393)</u></u>
Preferred stock dividends	\$ 208	\$ 208	\$ 208

Preferred stock discount accretion	<u>52</u>	<u>51</u>	<u>--</u>
Net loss to common shareholders	<u>\$ (3,438)</u>	<u>\$ (35)</u>	<u>\$ (1,601)</u>
Loss per common share:			
Basic	\$ (0.51)	\$ (0.01)	\$ (0.24)
Diluted	\$ (0.51)	\$ (0.01)	\$ (0.24)
Weighted average common shares outstanding:			
Basic	6,713,958	6,709,985	6,614,216
Diluted	6,713,958	6,709,985	6,614,216

TIMBERLAND BANCORP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS

Six Months Ended

(\$ in thousands, except per share) (unaudited)	March 31, <u>2010</u>	March 31, <u>2009</u>
Interest and dividend income		
Loans receivable	\$ 17,897	\$ 18,989
Investments and mortgage-backed securities	456	760
Dividends from mutual funds and FHLB stock	18	19
Federal funds sold	--	28
Interest bearing deposits in banks	<u>128</u>	<u>30</u>
Total interest and dividend income	18,499	19,826
Interest expense		
Deposits	4,036	4,882
FHLB advances and other borrowings	<u>1,626</u>	<u>2,064</u>
Total interest expense	<u>5,662</u>	<u>6,946</u>
Net interest income	12,837	12,880
Provision for loan losses	<u>7,795</u>	<u>6,491</u>
Net interest income after provision for loan losses	5,042	6,389
Non-interest income		
OTTI loss, net	(1,876)	(2,134)
Realized loss on investment securities	(17)	(29)
Service charges on deposits	2,152	2,159
Gain on sale of loans, net	749	1,303
BOLI net earnings	249	378
Servicing income on loans sold	54	54
Valuation allowance on MSR's	(22)	--
ATM transaction fees	747	594
Other	<u>363</u>	<u>493</u>
Total non-interest income	2,399	2,818
Non-interest expense		
Salaries and employee benefits	5,902	5,899
Premises and equipment	1,403	1,359
Advertising	392	420
OREO and other repossessed items expense, net	395	160
ATM expenses	326	286
FDIC insurance	1,005	186
Postage and courier	270	244
Amortization of core deposit intangible	95	109
State and local taxes	294	297
Professional fees	368	348
Other	<u>1,740</u>	<u>1,669</u>
Total non-interest expense	12,190	10,977
Loss before income taxes	(4,749)	(1,770)
Provision (benefit) for income taxes	<u>(1,795)</u>	<u>(739)</u>
Net loss	<u>\$ (2,954)</u>	<u>\$ (1,031)</u>
Preferred stock dividends	\$ 416	\$ 227
Preferred stock discount accretion	<u>103</u>	<u>--</u>

Net loss to common shareholders	\$ (3,473)	\$ (1,258)
Loss per common share:		
Basic	\$ (0.52)	\$ (0.19)
Diluted	\$ (0.52)	\$ (0.19)
Weighted average common shares outstanding:		
Basic	6,711,950	6,592,257
Diluted	6,711,950	6,592,257

TIMBERLAND BANCORP, INC.
CONSOLIDATED BALANCE SHEET

(\$ in thousands, except per share amounts) (unaudited)

	March 31, 2010	Dec. 31, 2009	March 31, 2009
Assets			
Cash equivalents:			
Cash and due from financial institutions	\$ 9,883	\$ 11,676	\$ 10,001
Interest-bearing deposits in other banks	<u>65,574</u>	<u>57,250</u>	<u>46,892</u>
	75,457	68,926	56,893
 Certificate of deposits ("CDs") held for investment	 18,108	 14,442	 --
 Investments and mortgage-backed securities:			
Held to maturity	5,982	6,413	10,726
Available for sale	12,225	12,594	14,563
FHLB stock	<u>5,705</u>	<u>5,705</u>	<u>5,705</u>
	23,912	24,712	30,994
 Loans receivable	 554,880	 559,153	 558,644
Loans held for sale	459	2,934	7,778
Less: Allowance for loan losses	<u>(16,687)</u>	<u>(14,931)</u>	<u>(12,049)</u>
Net loans receivable	538,652	547,156	554,373
 Accrued interest receivable	 2,996	 2,997	 2,913
Premises and equipment	17,751	17,951	17,698
OREO and other repossessed items	13,477	8,119	2,827
BOLI	13,158	13,042	13,280
Goodwill	5,650	5,650	5,650
Core deposit intangible	659	707	863
Mortgage servicing rights, net	2,678	2,691	1,912
Other assets	<u>12,278</u>	<u>10,073</u>	<u>5,601</u>
Total Assets	\$ <u>724,776</u>	\$ <u>716,466</u>	\$ <u>693,004</u>
 Liabilities and Shareholders' Equity			
Non-interest-bearing deposits	\$ 49,870	\$ 50,525	\$ 53,783
Interest-bearing deposits	<u>501,854</u>	<u>490,488</u>	<u>452,115</u>
Total deposits	551,724	541,013	505,898
 FHLB advances	 75,000	 75,000	 95,000
Federal Reserve Bank advances	10,000	10,000	--
Other borrowings: repurchase agreements	445	622	689
Other liabilities and accrued expenses	<u>2,738</u>	<u>2,625</u>	<u>3,074</u>
Total Liabilities	<u>639,907</u>	<u>629,260</u>	<u>604,661</u>
 Shareholders' Equity			
Preferred stock - \$.01 par value; 1,000,000 shares authorized; 16,641 shares, Series A, issued and outstanding	15,657	15,605	15,437
Series A shares: \$1,000 per share liquidation value			
Common stock - \$.01 par value; 50,000,000 shares authorized; 7,045,036 shares issued and outstanding	10,357	10,343	10,301
Unearned shares- Employee Stock Ownership Plan	(2,379)	(2,446)	(2,644)
Retained earnings	62,098	65,607	66,775
Accumulated other comprehensive loss	<u>(864)</u>	<u>(1,903)</u>	<u>(1,526)</u>
Total Shareholders' Equity	<u>84,869</u>	<u>87,206</u>	<u>88,343</u>
Total Liabilities and Shareholders' Equity	\$ <u>724,776</u>	\$ <u>716,466</u>	\$ <u>693,004</u>

KEY FINANCIAL RATIOS AND DATA

(\$ in thousands, except per share amounts) (unaudited)

	<u>Three Months Ended</u>		
	<u>March 31,</u> <u>2010</u>	<u>Dec. 31,</u> <u>2009</u>	<u>March 31,</u> <u>2009</u>
PERFORMANCE RATIOS:			
Return (loss) on average assets (a)	(1.78)%	0.13%	(0.82)%
Return (loss) on average equity (a)	(14.56)%	1.02%	(6.10)%
Net interest margin (a)	3.93%	3.94%	4.06%
Efficiency ratio	97.32%	65.77%	65.34%
Core efficiency ratio (b)	68.46%	62.10%	56.74%
	<u>Six Months Ended</u>		
	<u>March 31,</u> <u>2010</u>		<u>March 31,</u> <u>2009</u>
Return (loss) on average assets (a)	(0.84)%		(0.31)%
Return (loss) on average equity (a)	(6.75)%		(2.46)%
Net interest margin (a)	3.94%		4.12%
Efficiency ratio	80.01%		69.93%
Core efficiency ratio (b)	65.44%		59.95%
	<u>March 31,</u> <u>2010</u>	<u>Dec. 31,</u> <u>2009</u>	<u>March 31,</u> <u>2009</u>
ASSET QUALITY RATIOS:			
Non-performing loans	\$ 26,351	\$ 34,563	\$ 19,867
Non-performing investment securities	3,262	2,976	310
OREO and other repossessed assets	<u>13,477</u>	<u>8,119</u>	<u>2,827</u>
Total non-performing assets	\$43,090	\$ 45,658	\$ 23,004
Non-performing assets to total assets (c)	5.95%	6.37%	3.32%
Allowance for loan losses to non-performing loans	63%	43%	61%
Allowance for loan losses to net loans receivable	3.00%	2.66%	2.13%
Troubled debt restructured loans (d)	\$18,623	\$ 9,799	\$ --
Past due 90 days and still accruing	\$ 5,216	\$ 6,299	\$ --
CAPITAL RATIOS:			
Tier 1 leverage capital	11.27%	11.95%	12.47%
Tier 1 risk based capital	14.04%	14.63%	15.01%
Total risk based capital	15.31%	15.90%	16.27%
Tangible capital to tangible assets	10.93%	11.39%	11.92%
BOOK VALUES:			
Book value per common share	\$ 9.82	\$ 10.16	\$ 10.74
Tangible book value per common share (e)	\$ 8.93	\$ 9.26	\$ 9.79

(a) Annualized

(b) Calculation excludes OTTI losses, OREO expenses, realized losses on investment securities, valuation allowance on MSR's and amortization of CDI. For the periods ending March 31, 2010 the non-recurring FDIC insurance expense accrual adjustment (\$512) has also been excluded.

(c) Non-performing assets include non-accrual loans, non-accrual investment securities, and other real estate owned and other repossessed assets

(d) At December 31, 2009 all troubled debt restructured loans were on non-accrual status and included in total non-performing loans. At March 31, 2010, \$10,265 of the \$18,623 in troubled debt restructured loans were on non-accrual status and included in total non-performing loans.

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

AVERAGE BALANCE SHEET:

	<u>Three Months Ended</u>		
	<u>March 31,</u> <u>2010</u>	<u>Dec. 31,</u> <u>2009</u>	<u>March 31,</u> <u>2009</u>
Average total loans	\$ 562,335	\$ 561,378	\$ 568,981
Average total interest-earning assets (a)	655,357	648,716	632,479
Average total assets	712,205	701,614	678,750
Average total interest-bearing deposits	496,148	474,898	434,896
Average FHLB advances and other borrowings	76,561	85,537	97,786
Average shareholders' equity	87,333	87,756	91,368

	<u>Six Months Ended</u>	
	<u>March 31,</u> <u>2010</u>	<u>March 31,</u> <u>2009</u>
Average total loans	\$ 561,851	\$ 566,858
Average total interest-earning assets (a)	652,020	624,898
Average total assets	706,827	671,001
Average total interest-bearing deposits	485,406	432,657
Average FHLB advances and other borrowings	81,099	99,124
Average shareholders' equity	87,547	83,951

(a) Includes loans on non-accrual status

Disclaimer

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