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TIERONE CORP
Form 10-Q
November 12, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 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 September 30, 2003

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: 000-50015

TierOne Corporation

(Exact name of Registrant as specified in its charter)

Wisconsin

04-3638672

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

1235 "N" Street
Lincoln, Nebraska

68508

(Address of Principal Executive Offices)

(Zip Code)

(402) 475-0521

(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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: At November 5, 2003, the registrant had 22,272,775 shares of common stock, \$.01 par value per share, outstanding.

PART I - FINANCIAL INFORMATION

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Interim financial information required by Rule 10-01 of Regulation S-X and Item 303 of Regulation S-K is included in this Form 10-Q as referenced below.

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TierOne Corporation and Subsidiaries
Consolidated Balance Sheets
September 30, 2003 (Unaudited) and December 31, 2002
(dollars in thousands, except per share data)

	September 30, 2003 -----	Dec -----
Assets		
Cash and due from banks	\$ 30,603	
Federal funds sold	56,000	

Total cash and cash equivalents	86,603	
Investment securities:		
Held to maturity	146	
Available for sale	33,860	
Mortgage-backed securities, available for sale	19,151	
Loans held for sale	15,824	
Loans receivable, net	1,849,171	
Federal Home Loan Bank stock	36,818	
Premises and equipment, net	27,318	
Accrued interest receivable	8,920	
Other assets	20,624	

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Total assets	\$ 2,098,435
	=====
Liabilities and Shareholders' Equity	
Liabilities:	
Deposits	\$ 1,186,825
Advances from Federal Home Loan Bank and other borrowings	521,733
Advance payments from borrowers for taxes, insurance and other escrow funds	21,924
Accrued interest payable	4,645
Accrued expenses and other liabilities	21,676

Total liabilities	1,756,803

Shareholders' equity:	
Preferred stock, \$0.01 par value, 10,000,000 shares authorized; none issued	--
Common stock, \$0.01 par value; 60,000,000 shares authorized; 22,575,075 shares issued and outstanding	226
Additional paid-in capital	353,553
Retained earnings, substantially restricted	20,136
Unearned common stock held by Employee Stock Ownership Plan	(16,555)
Unearned common stock held by Management Recognition and Retention Plan	(15,664)
Accumulated other comprehensive loss, net	(64)

Total shareholders' equity	341,632
Commitments and contingent liabilities	

Total liabilities and shareholders' equity	\$ 2,098,435
	=====

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Income (Unaudited)
(dollars in thousands, except per share data)

	For the Three Months Ended	For the Ni
	September 30,	Sep
	-----	-----
	2003	2003
	-----	-----

Interest income:

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Loans receivable	\$ 26,608	\$ 25,329	\$ 80,774
Investment and mortgage-backed securities	540	1,095	2,687
Other interest-earning assets	33	118	132
	-----	-----	-----
Total interest income	27,181	26,542	83,593
	-----	-----	-----
Interest expense:			
Deposits	5,316	7,941	17,405
Advances from Federal Home Loan Bank and other borrowings	4,802	3,323	13,396
	-----	-----	-----
Total interest expense	10,118	11,264	30,801
	-----	-----	-----
Net interest income	17,063	15,278	52,792
Provision for loan losses	1,106	1,262	2,793
	-----	-----	-----
Net interest income after provision for loan losses	15,957	14,016	49,999
	-----	-----	-----
Other income:			
Fees and service charges	3,048	1,119	4,627
Income (loss) from real estate operations, net	(14)	224	(6)
Net gain (loss) on sales of:			
Loans held for sale	2,618	806	7,226
Real estate owned	(1)	4	(80)
Other operating income	860	761	2,266
	-----	-----	-----
Total other income	6,511	2,914	14,033
	-----	-----	-----
Other expense:			
Salaries and employee benefits	7,340	5,640	20,755
Occupancy, net	1,495	1,393	4,254
Data processing	432	358	1,250
Advertising	957	848	2,585
Other operating expense	2,164	1,794	6,379
	-----	-----	-----
Total other expense	12,388	10,033	35,223
	-----	-----	-----
Income before income taxes	10,080	6,897	28,809
Income tax expense	3,792	2,487	10,691
	-----	-----	-----
Net income	\$ 6,288	\$ 4,410	\$ 18,118
	=====	=====	=====
Net income per common share, basic*	\$ 0.31	--	\$ 0.88
	=====	=====	=====
Net income per common share, diluted*	\$ 0.30	--	\$ 0.87
	=====	=====	=====

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Average common shares outstanding, basic (000's)*	20,497	--	20,693
	=====	=====	=====
Average common shares outstanding, diluted (000's)*	20,806	--	20,874
	=====	=====	=====

* Information applicable to post stock conversion period only. The Company completed its initial public offering on October 1, 2002 and did not have any stock outstanding prior thereto.

See accompanying notes to consolidated financial statements.

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TierOne Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity and
Comprehensive Income
Nine Months Ended September 30, 2003 (Unaudited)
(dollars in thousands)

	Common stock	Additional paid-in capital	Retained earnings, substantially restricted	Unearned common stock held by the Employee Stock Ownership Pla
	-----	-----	-----	-----
Balance at December 31, 2002	\$ 226	\$ 355,741	\$ 2,018	\$ (17,684)
	-----	-----	-----	-----
Common stock earned by employees in Employee Stock Ownership Plan	--	1,010	--	1,129
Common stock purchased by the Management Recognition and Retention Plan	--	(3,198)	--	--
Amortization of awards under the Management Recognition and Retention Plan	--	--	--	--
Comprehensive income:				
Net income	--	--	18,118	--
Change in unrealized loss on available for sale securities, net of tax	--	--	--	--
	-----	-----	-----	-----
Total comprehensive income	--	--	18,118	--
	-----	-----	-----	-----
Balance at September 30, 2003	\$ 226	\$ 353,553	\$ 20,136	\$ (16,555)
	=====	=====	=====	=====

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	Accumulated other comprehensive loss	Total shareholders' equity
	-----	-----
Balance at December 31, 2002	\$ (405)	\$ 339,896
	-----	-----
Common stock earned by employees in Employee Stock Ownership Plan	--	2,139
Common stock purchased by the Management Recognition and Retention Plan	--	(20,044)
Amortization of awards under the Management Recognition and Retention Plan	--	1,182
Comprehensive income:		
Net income	--	18,118
Change in unrealized loss on available for sale securities, net of tax	341	341
	-----	-----
Total comprehensive income	341	18,459
	-----	-----
Balance at September 30, 2003	\$ (64)	\$ 341,632
	=====	=====

See accompanying notes to consolidated financial statements.

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TierOne Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2003 and 2002 (Unaudited)
(dollars in thousands)

	September 30,	September 30,
	2003	2002
	-----	-----
Reconciliation of net income to net cash provided by (used in) operating activities:		
Net income	\$ 18,118	\$ 18,118
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net premium amortization of investment and mortgage-backed securities	2,234	2,234
Depreciation and amortization	1,876	1,876
Employee Stock Ownership Plan expense	2,139	2,139
Management Recognition and Retention Plan expense	1,182	1,182
Amortization of premiums on loans receivable, net	4,582	4,582

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Deferred income tax benefit	(640)
Provision for loan losses	2,793
Proceeds from sales of loans held for sale	564,200
Originations and purchases of loans held for sale	(564,294)
Net (gain) loss on sales of:	
Loans held for sale	(7,226)
Real estate owned	80
Premises and equipment	7
Changes in certain assets and liabilities:	
Accrued interest receivable	164
Other assets	(180)
Accrued interest payable	(2,167)
Accrued expenses and other liabilities	(489)

Net cash provided by (used in) operating activities	22,379

Cash flows from investing activities:

Purchase of investment and mortgage-backed securities, available for sale	(108,486)
Proceeds from maturities of investment securities, available for sale	22,000
Proceeds from principal repayments of investment and mortgage-backed securities	38,917
Proceeds from sale of mortgage-back securities, available for sale	53,775
Increase in loans receivable	(96,185)
Sale of Federal Home Loan Bank stock	--
Purchase of Federal Home Loan Bank stock	(15,359)
Additions to premises and equipment	(4,001)
Proceeds from sale of premises and equipment	3
Proceeds from sale of real estate owned	6,747

Net cash used in investing activities	(102,589)

See accompanying notes to consolidated financial statements.

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TierOne Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Nine Months Ended September 30, 2003 and 2002 (Unaudited)
(dollars in thousands)

	September 30,	
	2003	2002
	-----	-----
Cash flows from financing activities:		
Net increase in deposits	\$ 57,945	\$ 7,945
Net increase (decrease) in advance payments from borrowers for taxes, insurance and other escrow funds	(7,529)	(7,529)
Proceeds from Federal Home Loan Bank advances	195,000	195,000

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Repayments of Federal Home Loan Bank advances	(30,017)	
Net repayments on Federal Home Loan Bank line of credit and other borrowings	(61,579)	(7)
Proceeds from stock subscription	--	21
Purchase of common stock for Management Recognition and Retention Plan	(20,044)	
	-----	-----
Net cash provided by financing activities	133,776	26
	-----	-----
Net increase in cash and cash equivalents	53,566	3
Cash and cash equivalents at beginning of period	33,037	3
	-----	-----
Cash and cash equivalents at end of period	\$ 86,603	\$ 7
	=====	=====
Supplemental disclosures of cash flow information:		
Cash paid during period for:		
Interest	\$ 32,968	\$ 3
	=====	=====
Income taxes, net of refunds	\$ 10,618	\$
	=====	=====
Noncash investing activities:		
Transfers from loans to real estate owned and other assets through foreclosure	\$ 5,383	\$
	=====	=====

See accompanying notes to consolidated financial statements.

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TierOne Corporation and Subsidiaries Notes to Consolidated Financial Statements (unaudited)

Note 1 - Basis of Presentation

TierOne Corporation (the "Company") is a Wisconsin corporation headquartered in Lincoln, Nebraska. TierOne Corporation became the holding company for TierOne Bank (the "Bank") in connection with the mutual to stock conversion of TierOne Bank which was completed in October 2002. At September 30, 2003, TierOne Bank operated from 57 banking offices located in Nebraska, southwest Iowa and northern Kansas, two loan production offices located in Colorado and one loan production office located in Minnesota.

Note 2 - Basis of Consolidation

The consolidated financial statements include the accounts of the Bank and its wholly owned subsidiary, TMS Corporation of the Americas ("TMS"). TMS is the holding company of TierOne Investments and Insurance, Inc., a wholly owned subsidiary that administers the sale of insurance and securities products, and TierOne Reinsurance Company, which reinsures credit life and disability

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insurance policies.

The accompanying interim consolidated financial statements as of September 30, 2003 and for the three and nine months ended September 30, 2003 and September 30, 2002 have not been audited by independent auditors. All significant intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in the Company's Annual Report to Shareholders for the year ended December 31, 2002. The results of operations for the three and nine-months ended September 30, 2003 are not necessarily indicative of the results which may be expected for the entire calendar year 2003.

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TierOne Corporation and Subsidiaries Notes to Consolidated Financial Statements (unaudited)

Note 3 - Earnings Per Share

Basic and diluted earnings per share data are based on the weighted average number of common shares outstanding during each period. Employee Stock Ownership Plan ("ESOP") and Management Recognition and Retention Plan ("MRRP") shares not committed to be released are not considered to be outstanding for purposes of earnings per share calculations. The basic earnings per share calculation excludes the dilutive effect of all common stock equivalents. Diluted earnings per share are further adjusted for potential common shares that were dilutive and outstanding during the periods. The Company's potentially dilutive common shares at September 30, 2003 represent shares issuable under its stock option and MRRP plans computed using the treasury stock method. All stock options are assumed to be 100% vested for purposes of the earnings per share computations. Earnings per share are presented only for the three and nine-months ended September 30, 2003 since no shares were outstanding for the comparable periods in 2002.

	Three Months Ended September 30, 2003		Nine Months Ended September 30, 2003	
	Basic	Diluted	Basic	Diluted
	(dollars in thousands)			
Net income	\$ 6,288	\$ 6,288	\$ 18,118	\$ 18,118
Weighted average number of common shares outstanding used in basic earnings per share calculation	20,497,000	20,497,000	20,693,000	20,693,000
Common share equivalents - stock option and MRRP shares		309,000		
Weighted average number of common shares outstanding used in				

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diluted earnings per share
calculation

		20,806,000		20,
		=====		=====
Earnings per share	\$ 0.31	\$ 0.30	\$ 0.88	\$
	=====	=====	=====	=====

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TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 4 - Investment and Mortgage-Backed Securities

Investment and mortgage-backed securities at September 30, 2003 and December 31, 2002 are summarized below.

September 30, 2003	Amortized Cost	Gross Unrealized		Fair
		Gains	Losses	

(dollars in thousands)				
Held to Maturity:				
Municipal obligations	\$ 146	\$ --	\$ --	\$
Available for Sale:				
Mortgage-backed securities	18,897	254	--	1
U.S. Government agency obligations	3,900	24	--	2
Corporate securities	24,073	421	527	2
Asset Management Fund - ARM Fund	6,000	--	31	---
	-----	-----	-----	-----
	\$ 53,016	\$ 699	\$ 558	\$ 5
	=====	=====	=====	=====

December 31, 2002	Amortized Cost	Gross Unrealized		Fair
		Gains	Losses	

(dollars in thousands)				
Held to Maturity:				
Municipal obligations	\$ 157	\$ --	\$ --	\$
Available for Sale:				
Mortgage-backed securities	29,881	488	--	3
U.S. Government agency obligations	2,000	--	--	---
Corporate securities	23,418	16	888	2
Asset Management Fund - ARM Fund	6,000	--	--	---
	-----	-----	-----	-----
	\$ 61,456	\$ 504	\$ 888	\$ 6
	=====	=====	=====	=====

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TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 5 - Loan Portfolio Composition

The following table shows the composition of our loan portfolio by type of loan at the dates indicated.

	September 30, 2003		December 31, 2002	
	Amount	%	Amount	%
	(dollars in thousands)			
Real estate loans:				
One-to-four family residential (1)	\$ 666,971	32.45%	\$ 573,209	30.00%
Multi-family residential	73,629	3.58%	79,953	4.18%
Commercial real estate and land	424,536	20.66%	398,076	20.83%
Residential construction	214,659	10.44%	156,322	8.18%
Commercial construction	177,462	8.64%	143,020	7.49%
Total real estate loans	1,557,257	75.77%	1,350,580	70.68%
Commercial business loans	68,986	3.36%	33,375	1.75%
Warehouse mortgage lines of credit	117,857	5.73%	236,492	12.38%
Consumer loans:				
Home equity	33,591	1.64%	37,522	1.96%
Home equity line of credit	113,848	5.54%	94,801	4.96%
Home improvement	77,919	3.79%	82,081	4.30%
Automobile	67,201	3.27%	60,707	3.18%
Other	18,496	0.90%	15,131	0.79%
Total consumer loans	311,055	15.14%	290,242	15.19%
Total loans	2,055,155	100.00%	1,910,689	100.00%
Less:				
Unamortized premiums and discounts	11,158		4,688	
Discounts on loans acquired through merger	(95)		(174)	
Undisbursed portion of construction and land loans in process	(181,652)		(123,331)	
Deferred loan fees	(785)		(516)	
Allowance for loan losses	(18,786)		(17,108)	
Net loans	\$ 1,864,995		\$ 1,774,248	

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(1) Includes loans held for sale	\$ 15,824	\$ 8,504
	=====	=====

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TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 6 - Allowance for Loan Losses

The following table sets forth the activity in the allowance for loan losses during the periods indicated.

	At or for the Three Months Ended September 30,		At or for Nine Months E September
	2003	2002	2003
	----- (dollars in thousands)		----- (dollars in th
Allowance for loan losses, beginning of period	\$ 18,326	\$ 14,319	\$ 17,108
Provision for loan losses	1,106	1,262	2,793
Charge-offs	(678)	(462)	(1,232)
Recoveries on loans previously charged off	32	35	117
	-----	-----	-----
Allowance for loan losses, end of period	\$ 18,786	\$ 15,154	\$ 18,786
	=====	=====	=====
Allowance for loan losses as a percent of loans (1)	1.00%	0.92%	1.00%

(1) Loans for the purposes of the calculation are comprised of net loans from the loan composition table plus the allowance for loan losses.

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TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements
(unaudited)

Note 7 - Nonperforming Assets

The following table sets forth information with respect to nonperforming assets and troubled debt restructurings at the dates indicated. It is our policy to cease accruing interest on loans 90 days or more past due and to charge off accrued interest.

September 30, 2003	December 31
-----	-----
(dollars in thousands)	

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Balance at beginning of period	\$ 5,253	\$ 5,664	\$ 6,290	\$ 4,577
Mortgage servicing rights capitalized	2,747	1,333	6,575	3,480
Amortization expense	(2,068)	(607)	(4,977)	(1,207)
Valuation adjustment	1,000	(1,160)	(956)	(1,620)
	-----	-----	-----	-----
Balance at end of period	\$ 6,932	\$ 5,230	\$ 6,932	\$ 5,230
	=====	=====	=====	=====

The activity of the valuation allowance on mortgage servicing rights is summarized as follows for the following periods:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002

	(dollars in thousands)			

Balance at beginning of period	\$ 4,276	\$ 810	\$ 2,320	\$ 350
Changes in mortgage servicing valuation reserve	(1,000)	1,160	956	1,620
	-----	-----	-----	-----
Ending balance	\$ 3,276	\$ 1,970	\$ 3,276	\$ 1,970
	=====	=====	=====	=====

The following table compares the key assumptions used in measuring the fair values of mortgage servicing rights at September 30, 2003 and December 31, 2002:

	September 30, 2003	December 31, 2002
	-----	-----
	(dollars in thousands)	

Serviced loan portfolio balance	\$916,286	\$726,431
Fair value of mortgage servicing rights	\$6,932	\$6,290
Prepayment speed	10.9% - 99.0%	9.2% - 74.0%
Weighted average prepayment speed	41.6%	29.9%
Fair value with 10% adverse change	\$6,443	\$5,894
Fair value with 20% adverse change	\$6,000	\$5,545
Discount rate	9.0% - 15.0%	9.0% - 15.0%
Weighted average discount rate	10.0%	9.9%
Fair value with 10% adverse change	\$6,674	\$6,143
Fair value with 20% adverse change	\$6,437	\$6,004

Note 9 - Stock Based Benefit Plans

The Company has established the 2003 MRRP which is a stock-based incentive plan that was approved by the shareholders at the Company's Annual Meeting of

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Shareholders held April 23, 2003.

As of September 30, 2003, the following table summarizes shares of the Company's common stock which were subject to award and were granted in April 2003 pursuant to the MRRP:

	September 30, 2003
Common shares authorized to be awarded by MRRP	903,003
Common shares awarded by MRRP	(764,850)
Common shares forfeited	--

Shares available for award at September 30, 2003	138,153
	=====

The shares awarded by the MRRP vest to the participants at the rate of 20% per year. As a result, expense for this plan is being recorded over a 60-month period and is based on the market value of the Company's stock as of the date the awards were made. The remaining unamortized cost of the MRRP shares acquired to date is reflected as a reduction in shareholders' equity. Expense under this plan for the three and nine-months ended September 30, 2003 was \$682,000 and \$1.2 million, respectively. During the quarter ended September 30, 2003, the Company completed the purchase of 903,003 shares of the Company's common stock to fund the MRRP.

The Company also established the 2003 Stock Option Plan under which 2,257,508 shares of Company common stock are reserved for the grant of stock options to directors, officers and employees. The Compensation Committee of the Board of Directors determines the date the options are first exercisable and expire. Stock options awarded under the Stock Option Plan vest to participants at the rate of 20% per year. The exercise price of the options is equal to the fair market value of the common stock on the grant date. The following is an analysis of the stock option activity for the period ended September 30, 2003:

	Number of Shares	Exercise Price Per
Outstanding at December 31, 2002	--	--
Common stock options granted	1,852,750	\$ 17.83
Common stock options exercised	--	--
Common stock options forfeited	--	--
	-----	-----
Common stock options outstanding at September 30, 2003	1,852,750	\$ 17.83
	=====	=====

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At September 30, 2003, no outstanding options were exercisable, the weighted-average remaining contractual life of outstanding options was 9.57 years, and there were 404,758 shares available for future grants. At September 30, 2003, the average exercise price on outstanding options was \$17.83.

The Company accounts for its stock options in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25). Under the provisions of APB No. 25, since the exercise price of the Company's employees' stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. Compensation expense for shares granted under the MRRP is ratably recognized over the period of service, usually the vesting period, based on the fair value of the stock on the date of grant.

Pursuant to Financial Accounting Standards Board (FASB) Statement No. 123, Accounting for Stock-Based Compensation (FAS No. 123), pro forma net income and pro forma earnings per share are presented in the following table as if the fair value method of accounting for stock-based compensation plans had been utilized:

	Three Months Ended September 30, 2003	Nine Sept
	-----	-----
	(dollars in thousands, except	
Net income (as reported)	\$ 6,288	
Add: stock-based employee compensation expense included in reported net income, net of related tax effects	443	
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(715)	

Pro forma net income	\$ 6,016	
	=====	
Basic earnings per share (as reported)	0.31	
Pro forma basic earnings per share	0.29	
Diluted earnings per share (as reported)	0.30	
Pro forma diluted earnings per share	0.29	

The pro forma results above may not be representative of the effect on net income in future periods.

The fair value of the option grants was estimated using the Black Scholes option value model, with the following assumptions: dividend yield of 1.00%, expected volatility of 13.2%, risk-free interest rate of 3.5% and an original expected life of ten years for all options granted.

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TierOne Corporation and Subsidiaries Notes to Consolidated Financial Statements (unaudited)

Note 10 - Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities. Interpretation No. 46 clarifies the application of Accounting Research Bulletin No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties ("variable interest entities"). Variable interest entities ("VIE") are required to be consolidated by their primary beneficiaries if they do not effectively disperse risks among parties involved. The primary beneficiary of a VIE is the party that absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests. Interpretation No. 46 also requires new disclosures about VIEs. The implementation date has been deferred until December 31, 2003 for calendar year companies. On October 31, 2003, FASB issued an exposure draft of a proposed interpretation modifying Interpretation No. 46. The proposed clarifications and modifications would apply to periods ending after December 31, 2003. Management does not anticipate a material impact on the Company's consolidated financial statements from the adoption of this interpretation.

In April 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities ("SFAS No. 149") which is effective for hedging relationships entered into or modified after June 30, 2003. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. The Company adopted SFAS No. 149 on July 1, 2003. The adoption did not have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity ("SFAS No. 150"). SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity in its balance sheet. The Company adopted SFAS No. 150 on July 1, 2003. The adoption did not have a material impact on the Company's consolidated financial statements.

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TierOne Corporation and Subsidiaries Management's Discussion and Analysis of Financial Condition and Results of Operations

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

General

The Bank, a subsidiary of the Company, is a \$2.1 billion federally chartered savings bank headquartered in Lincoln, Nebraska. Established in 1907, the Bank offers a wide variety of full-service consumer and commercial banking products and services to customers through a geographically diverse network of 57 banking

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offices located in Nebraska, Iowa and Kansas, two loan production offices located in Colorado and one loan production office located in Minnesota. Effective July 11, 2003, the Bank reduced the total number of banking offices to 57 following the closing of its West Point, Nebraska office. Product offerings include residential and commercial real estate loans; consumer, construction and business loans; lines of credit; consumer and business checking and savings plans; investment and insurance services; and telephone and internet banking.

The Company's results of operations depend, to a large extent, on net interest income, which is the difference between the income earned on its loan and investment securities portfolios and the cost of funds, consisting of the interest paid on deposits and borrowings. Provisions for loan losses, loan sale activities and loan servicing also affect results of operations. Non-interest expense consists of compensation and employee benefit expense, office occupancy and equipment expense, data processing, advertising expense and other operating expense. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in interest rates, government policies and actions of regulatory authorities. Future changes in applicable law, regulations or government policies may materially impact our financial condition and results of operations.

As used in this report, unless the context otherwise requires, the terms "we," "us," or "our" refer to the Company and its wholly owned subsidiary, the Bank.

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Forward-Looking Statements

In the normal course of business, in an effort to help keep our shareholders and the public informed about the Company's operations, we may from time to time issue or make certain statements, either in writing or orally, that are or contain forward-looking statements, as that term is defined in the federal securities laws. Generally, these statements relate to business plans or strategies, projected or anticipated benefits from potential acquisitions, projections involving anticipated revenues, earnings, profitability or other aspects of our operating results or other future developments in our affairs or the industry in which we may conduct business. These forward-looking statements, which are based on various assumptions (some of which are beyond our control), may be identified by reference to a future period or periods or by the use of forward-looking terminology such as "anticipate," "believe," "commitment," "consider," "continue," "could," "encourage," "estimate," "expect," "intend," "in the event of," "may," "plan," "present," "propose," "prospect," "update," "whether," "will," "would," future or conditional verb tenses, similar terms, variations on such terms or negatives of such terms. Although we believe that the anticipated results or other expectations reflected in such forward-looking statements are based on reasonable assumptions, we can give no assurance that those results or expectations will be attained. Actual results could differ materially from those indicated in such statements due to risks, uncertainties and changes with respect to a variety of factors, including, but not limited to, the following: competitive pressure among depository and other financial institutions may increase significantly; changes in the interest rate environment may reduce interest margins and net interest income as well as adversely affect loan origination and sales activities and the value of certain assets, such as investment securities and mortgage servicing rights; general economic or business conditions, either nationally or in regions in which we do business, may be less favorable than expected, resulting in, among other things,

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a deterioration in credit quality or a reduced demand for credit; legislation or changes in regulatory requirements, including without limitation, capital requirements, or accounting standards may adversely affect us and the business in which we are engaged; adverse changes may occur in the securities markets; our competitors may have greater financial resources and develop products and technology that enable those competitors to compete more successfully than us; and the growth and profitability of our non-interest income may be less than expected.

We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-Q.

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Critical Accounting Policies

We have identified the evaluation of the allowance for loan losses as a critical accounting policy where amounts are sensitive to material variation. This policy is significantly affected by our judgment and uncertainties and there is a likelihood that materially different amounts would be reported under different, but reasonably plausible, conditions or assumptions. The allowance for loan losses is considered a critical accounting estimate because there is a large degree of judgment in (i) assigning individual loans to specific risk levels (pass, special mention, substandard, doubtful and loss), (ii) valuing the underlying collateral securing the loans, (iii) determining the appropriate reserve factor to be applied to specific risk levels for special mention loans and those adversely classified (substandard, doubtful and loss) and (iv) determining reserve factors to be applied to pass loans based upon loan type. We establish provisions for loan losses, which are charges to our operating results, in order to maintain a level of total allowance for loan losses that management believes covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Management performs reviews no less than quarterly in order to identify these inherent losses and to assess the overall collection probability for the loan portfolio. Our reviews consist of a quantitative analysis by loan category, using historical loss experience, and consideration of a series of qualitative loss factors. For each primary type of loan, we establish a loss factor reflecting our estimate of the known and inherent losses in each loan type using both quantitative analysis as well as qualitative factors. Our evaluation process includes, among other things, an analysis of delinquency trends, nonperforming loan trends, the levels of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size, terms and geographic concentration of loans held by us, the value of collateral securing loans, the number of loans requiring heightened management oversight, general economic conditions and loan loss information from other institutions. The amount of the allowance for loan losses is only an estimate and actual losses may vary from these estimates.

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

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Our total assets were \$2.1 billion at September 30, 2003, a \$152.9 million, or 7.9%, increase from December 31, 2002, due primarily to increases in net loans receivable, cash and cash equivalents. Our available for sale investment securities amounted to \$33.9 million at September 30, 2003, a \$3.3 million, or 10.8%, increase from December 31, 2002 primarily due to security purchases totaling \$24.5 million partially offset by \$22.0 million of maturities during the nine months ended September 30, 2003. Our mortgage-backed securities portfolio, all of which is available for sale, amounted to \$19.2 million at September 30, 2003, a \$11.2 million, or 36.9%, decrease from December 31, 2002. During the three months ended March 31, 2003, we purchased two Fannie Mae ("FNMA") fixed-rate mortgage-backed security pools in an effort to grow our investment and mortgage-backed securities portfolios while further diversifying our asset base. Due to higher than projected prepayment speeds which resulted in negative yields, these two FNMA mortgage-backed security pools were sold during the quarter ended September 30, 2003. Our federal funds sold of \$56.0 million at September 30, 2003 is primarily a result of the sale of the two FNMA mortgage-backed security pools.

Net loans receivable, including loans held for sale, totaled \$1.9 billion at September 30, 2003, a \$90.7 million, or 5.1%, increase from December 31, 2002. At September 30, 2003 our one-to-four family residential loans, including loans held for sale, were \$667.0 million, a \$93.8 million, or 16.4%, increase compared to December 31, 2002. During the nine months ended September 30, 2003, we purchased for our portfolio \$182.0 million of hybrid adjustable-rate first mortgage and \$201.8 million of fixed-rate second mortgage loans secured by one-to-four family residential properties in geographically diverse markets across the United States in an effort to reinvest proceeds from loan prepayments. Commercial real estate and land loans were \$424.5 million, a \$26.5 million, or 6.6%, increase as compared to \$398.1 million at December 31, 2002. Our residential construction loans totaled \$214.7 million, a \$58.3 million, or 37.3%, increase as compared to \$156.3 million at December 31, 2002. Warehouse mortgage lines of credit amounted to \$117.9 million, a \$118.6 million, or 50.2%, decrease at September 30, 2003 as compared to \$236.5 million at December 31, 2002. The decrease in the warehouse mortgage lines of credit portfolio is primarily the result of decreased refinancing activity.

Our total deposits increased by \$57.9 million to \$1.2 billion at September 30, 2003 as compared to December 31, 2002 as we continued our efforts to increase the level of our core deposits. Our non-interest-bearing checking accounts amounted to \$43.4 million, a \$7.6 million, or 21.2%, increase as compared to \$35.8 million at December 31, 2002. Our money market accounts totaled \$278.2 million, a \$7.9 million, or 2.9%, increase compared to December 31, 2002. Our certificates of deposit increased \$40.0 million, or 7.7%, to \$556.7 million at September 30, 2003 as compared to \$516.7 million at December 31, 2002. During the quarter ended September 30, 2003 we acquired \$42.0 million of brokered deposits as an alternative source of funds. Our Federal Home Loan Bank ("FHLB") advances and other borrowings amounted to \$521.7 million at September 30, 2003, a

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\$103.4 million, or 24.7%, increase from December 31, 2002.

At September 30, 2003, shareholders' equity totaled \$341.6 million, an increase of \$1.7 million from December 31, 2002. The year-to-date increase in

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shareholders' equity reflects 2003 earnings offset by shares purchased by the Company to fund the MRRP and net of amortization related to our stock-based compensation plans. On October 13, 2003, the Company announced that its Board of Directors authorized the repurchase of up to ten percent, or 2,257,508 shares, of the Company's outstanding common stock as part of a stock repurchase program. The repurchased shares are to be held as treasury stock and will be available for general corporate purposes. As of November 5, 2003, the Company had repurchased 302,300 shares at a weighted average cost of \$23.07 per share.

Comparison of Operating Results for the Three and Nine Months Ended September 30, 2003 and September 30, 2002

General. Net income increased by \$1.9 million, or 42.6%, to \$6.3 million for the three months ended September 30, 2003 compared to \$4.4 million for the three months ended September 30, 2002. For the nine months ended September 30, 2003, our net income increased \$5.2 million, or 39.9%, to \$18.1 million compared to \$12.9 million for the same period in 2002. Net income increased during 2003 due primarily to increased interest income on loans combined with reductions in the average rates paid on deposits and borrowings. The average interest rate spread declined to 2.84% and 3.07% for the three and nine months ended September 30, 2003, respectively, compared to 3.34% and 3.36% for the three and nine months ended September 30, 2002, respectively. Net interest margin declined to 3.25% and 3.52% for the three and nine months ended September 30, 2003, respectively, compared to 3.76% and 3.75% for the three and nine months ended September 30, 2002, respectively. The decline in the average interest rate spread and net interest margin for the three and nine months ended September 30, 2003 was primarily attributable to the low interest rate environment existing during such periods and the resulting prepayment and refinancing of higher yielding assets at lower current rates. The ratio of average interest-earning assets to average interest-bearing liabilities increased to 120.89% and 121.91% for the three and nine months ended September 30, 2003, respectively, compared to 115.31% and 113.55% for the three and nine months ended September 30, 2002, respectively.

Interest Income. Our total interest income for the three months ended September 30, 2003 was \$27.2 million, a \$639,000 or 2.4%, increase compared to \$26.5 million for the three months ended September 30, 2002. For the nine months ended September 30, 2003 our total interest income was \$83.6 million, a \$7.0 million, or 9.2%, increase compared to \$76.6 million for the nine months ended September 30, 2002. The increase in total interest income during 2003 was the result of an increase in the average balance of interest-earning assets partially offset by declining yields on investment securities, mortgage-backed securities and loans receivable. The average balance of loans receivable during the three months ended September 30, 2003 and September 30, 2002 was \$1.9 billion and

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\$1.5 billion, respectively. The average balance of loans receivable during the nine months ended September 30, 2003 and September 30, 2002 was \$1.9 billion and \$1.4 billion, respectively. The weighted average yield earned on the loan portfolio was 5.49% and 6.73% for the three months ended September 30, 2003 and September 30, 2002, respectively. The weighted average yield on the loan portfolio for the nine month periods ended September 30, 2003 and September 30, 2002 was 5.82% and 6.85%, respectively. The declines in the yields on loans receivable during the quarter and nine months ended September 30, 2003 compared to the same periods in 2002 reflected the lower interest rate environment.

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Interest Expense. Our total interest expense for the three and nine months ended September 30, 2003 was \$10.1 million and \$30.8 million, respectively, compared to \$11.3 million and \$33.3 million for the three and nine months ended September 30, 2002, respectively. The primary reason for the decrease in our interest expense during the 2003 periods was a reduction in the average cost of deposits to 1.90% and 2.10% during the three and nine month periods ended September 30, 2003, respectively, compared to 2.86% and 2.93% during the same respective periods in 2002. The average rates on our interest-bearing checking accounts, money market accounts, savings accounts and certificates of deposit declined during the three and nine months ended September 30, 2003 as compared with the same periods in 2002. Interest expense on FHLB advances and other borrowings increased \$1.5 million and \$4.0 million during the three and nine months ended September 30, 2003, respectively, as compared with the same periods in 2002 due to a higher average balance of borrowings as the Bank continued to fund the loan portfolio growth. The increased cost of borrowings was partially offset by a decline in the average cost of borrowings from 4.48% and 4.72% for the three and nine months ended September 30, 2002, respectively, to 3.10% and 3.34% for the three and nine months ended September 30, 2003, respectively.

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Average Balances, Net Interest Income, and Yields Earned and Cost of Funds. The following tables detail for the periods indicated the total dollar amount of interest from average interest-earning assets and the resulting yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, interest rate spread and net interest margin. All average balances are based on monthly balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

	Three Months Ended September 30			
	2003			
	Average Balance	Interest	Average Yield/Rate	Average Balance
	(dollars in thousands)			
Interest-earning assets:				
Fed funds sold	\$ 13,075	\$ 33	1.01%	\$ 26,430
Investment securities (1)	74,019	716	3.87%	57,612
Mortgage-backed securities (1)	75,541	(176)	-0.93%	35,258
Loans receivable (2)	1,939,650	26,608	5.49%	1,504,440
	2,102,285	27,181	5.17%	1,623,740
Total interest-earning assets				
Non-interest-earning assets	87,649			56,261
Total assets	\$2,189,934			\$1,680,001
	=====			=====
Interest-bearing liabilities:				
Interest-bearing checking accounts	\$ 290,481	\$ 561	0.77%	\$ 283,773
Regular savings accounts	19,239	17	0.35%	15,626
Money market accounts	278,869	712	1.02%	286,073

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Certificate accounts	531,701	4,026	3.03%	525,944
	-----	-----		-----
Total interest-bearing deposits	1,120,290	5,316	1.90%	1,111,416
FHLB advances and other borrowings	618,699	4,802	3.10%	296,786
	-----	-----		-----
Total interest-bearing liabilities	1,738,989	10,118	2.33%	1,408,202
	-----	-----		-----
Non-interest-bearing accounts	46,527			31,293
Other liabilities	57,004			107,998
	-----			-----
Total liabilities	1,842,520			1,547,493
Shareholders' equity	347,414			132,508
	-----			-----
Total liabilities and shareholders' equity	\$2,189,934			\$1,680,001
	=====			=====
Net interest-earning assets	\$ 363,296			\$ 215,538
	=====			=====
Net interest income; average interest rate spread		\$ 17,063	2.84%	
		=====	=====	
Net interest margin (3)			3.25%	
			=====	
Average interest-earning assets to average interest-bearing liabilities			120.89%	
			=====	

- (1) Includes securities available for sale and held to maturity. Investment securities also include FHLB stock.
- (2) Includes non-accrual loans during the respective periods. Calculated net of deferred fees and discounts, loans in process and allowance for loan losses. This category also includes loans held for sale.
- (3) Equals net interest income (annualized) divided by average interest-earning assets.

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	Nine Months Ended September 30			

	2003			
	Average		Average	Average
	Balance	Interest	Yield/Rate	Balance
	-----	-----	-----	-----
	(dollars in thousands)			
Interest-earning assets:				
Fed funds sold	\$ 15,206	\$ 132	1.16%	\$ 24,006
Investment securities (1)	67,585	1,934	3.82%	67,639
Mortgage-backed securities (1)	66,607	753	1.51%	36,728
Loans receivable (2)	1,851,738	80,774	5.82%	1,410,569

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Total interest-earning assets	2,001,136	83,593	5.57%	1,538,942
Non-interest-earning assets	85,202			52,137
Total assets	\$2,086,338			\$1,591,079
Interest-bearing liabilities:				
Interest-bearing checking accounts	\$ 294,494	\$ 2,049	0.93%	\$ 264,046
Regular savings accounts	18,166	74	0.54%	14,580
Money market accounts	275,013	2,606	1.26%	287,419
Certificate accounts	519,101	12,676	3.26%	525,283
Total interest-bearing deposits	1,106,774	17,405	2.10%	1,091,328
FHLB advances and other borrowings	534,700	13,396	3.34%	263,964
Total interest-bearing liabilities	1,641,474	30,801	2.50%	1,355,292
Non-interest-bearing accounts	43,507			28,608
Other liabilities	55,604			79,090
Total liabilities	1,740,585			1,462,990
Shareholders' equity	345,753			128,089
Total liabilities and shareholders' equity	\$2,086,338			\$1,591,079
Net interest-earning assets	\$ 359,662			\$ 183,650
Net interest income; average interest rate spread		\$ 52,792	3.07%	
Net interest margin (3)			3.52%	
Average interest-earning assets to average interest-bearing liabilities			121.91%	

(1) Includes securities available for sale and held to maturity. Investment securities also includes FHLB stock.

(2) Includes non-accrual loans during the respective periods. Calculated net of deferred fees and discounts, loans in process and allowance for loan losses. This category also includes loans held for sale.

(3) Equals net interest income (annualized) divided by average interest-earning assets.

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Rate/Volume Analysis. The following table shows the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities affected our interest income and expense during the periods indicated. For each category of interest-earning asset and interest-bearing liability, information is provided on changes attributable to (1) changes in rate (change in rate multiplied by prior year volume) and (2)

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changes in volume (change in volume multiplied by prior year rate). The combined effect of changes in both rate and volume has been allocated proportionately.

	Three Months Ended September 30, 2003			Nine Months Ended	
	Compared to				
	Three Months Ended September 30, 2002			Nine Months Ended	
	Increase (Decrease) Due To		Total	Increase (Decrease) Due To	
	Rate	Volume	Increase (Decrease)	Rate	Volume
	(dollars in thousands)				
Interest income:					
Federal funds sold	\$ (36)	\$ (44)	\$ (80)	\$ (84)	\$
Investment securities	(77)	165	88	(318)	
Mortgage-backed securities	(875)	227	(648)	(2,478)	
Loans receivable	(5,201)	6,480	1,279	(23,472)	
	(6,189)	6,828	639	(26,352)	
Interest expense:					
Interest-bearing checking accounts	(690)	28	(662)	(2,482)	
Savings accounts	(43)	10	(33)	(132)	
Money market accounts	(671)	(35)	(706)	(1,604)	
Certificate accounts	(1,280)	56	(1,224)	(2,929)	
	(2,684)	59	(2,625)	(7,147)	
FHLB advances and other borrowings	(1,268)	2,747	1,479	(6,661)	
	(3,952)	2,806	(1,146)	(13,808)	
Net change in net interest income	\$ (2,237)	\$ 4,022	\$ 1,785	\$ (12,544)	\$

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Provision for Loan Losses. We made a provision for loan losses of \$1.1 million for the three months ended September 30, 2003 as compared to \$1.3 million for the three months ended September 30, 2002. For the nine months ended September 30, 2003, our provision for loan losses was \$2.8 million as compared to \$2.5 million for the same period in 2002. Our portfolio of commercial real estate and land loans, construction loans (residential and commercial), commercial business loans and consumer loans totaled \$1.2 billion at September 30, 2003, an increase of \$273.6 million, or 29.6%, as compared to September 30, 2002. These loans are deemed to have higher levels of known and inherent losses than one-to-four family residential loans due to, among other things, the nature of the collateral and the dependency on economic conditions for successful completion

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or operation of the project. As such, we have made provisions in order to maintain the allowance for loan losses at a level we believe, to the best of our knowledge, covers all known and inherent losses in the portfolio that are both probable and reasonable to estimate at the relevant date. At September 30, 2003, our total nonperforming assets amounted to \$3.0 million, or 0.14% of total assets, as compared to \$7.5 million, or 0.38% of total assets, at December 31, 2002. The decline in nonperforming assets at September 30, 2003 is primarily attributable to the disposition of a commercial real estate property acquired through foreclosure during the period. During the three and nine months ended September 30, 2003, we charged-off, net of recoveries, \$646,000 and \$1.1 million, respectively, of loans, primarily related to consumer loans. At September 30, 2003, our allowance for loan losses amounted to 1.00% of loans. Loans for purposes of the calculation are comprised of net loans from the loan composition table plus the allowance for loan losses.

Other Income. Our other income increased by \$3.6 million or 123.4%, to \$6.5 million for the three months ended September 30, 2003 as compared to \$2.9 million for the three months ended September 30, 2002. For the nine months ended September 30, 2003, other income amounted to \$14.0 million, a \$4.8 million, or 52.6%, increase compared to \$9.2 million for the same period in 2002. The increase during the three month period ended September 30, 2003 as compared to the same period in 2002 was primarily the result of a \$1.8 million increase in gain on sales of loans, a \$800,000 increase in loan fees and a \$358,000 increase in deposit account fees and charges offset by \$2.1 million in amortization of mortgage servicing rights. Additionally, we recaptured \$1.0 million of mortgage servicing right impairments during the three month period ended September 30, 2003 due to an increase in the valuation of our mortgage servicing rights portfolio as compared to the quarter ended September 30, 2002 in which we recorded \$1.2 million of mortgage servicing rights impairment charges. Amortization expense, impairment charges and impairment recapture related to mortgage servicing rights are recorded as adjustments to fee and service charge income. For the nine months ended September 30, 2003, the increase in other income was attributable to a \$5.1 million increase in gains on loans held for sale, a \$1.9 million increase in loan fees and a \$1.2 million increase in deposit account fees and charges. Growth in other income was partially offset by a \$3.1 million increase in amortization of mortgage servicing rights net of impairment. Total deposit account fees and charges, driven by continued growth in new core deposit relationships, rose 23.1% and 31.5%, to \$1.9 million and \$4.9 million, respectively, for the three and nine months ended

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September 30, 2003 as compared to \$1.6 million and \$3.8 million, respectively, for the same periods in 2002.

Other Expense. Our other expense increased by \$2.4 million, or 23.5%, to \$12.4 million for the three months ended September 30, 2003 as compared to \$10.0 million for the three months ended September 30, 2002. For the nine months ended September 30, 2003, other expense totaled \$35.2 million, a \$5.5 million, or 18.4%, increase compared to \$29.7 million during the same period in 2002. The increase during the nine month period ended September 30, 2003 resulted primarily from a \$2.1 million expense associated with the Company's ESOP which was implemented in October 2002 as part of the Bank's mutual to stock conversion, a \$1.4 million increase in compensation expense related to salary increases and continued additions of business line personnel and a \$1.2 million expense related to the MRRP.

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Income Tax Expense. Our income tax expense increased by \$1.3 million to \$3.8 million and by \$3.4 million to \$10.7 million for the three and nine months ended September 30, 2003, respectively. The effective income tax rate for the three and nine months ended September 30, 2003 was 37.6% and 37.1%, respectively, as compared to 36.1% for both the three and nine months ended September 30, 2002. The increase in the 2003 effective tax rate was primarily attributable to the partial non-deductible nature of certain expenses related to the Company's ESOP.

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Liquidity and Commitments

Our primary sources of funds are from deposits; borrowings from the FHLB; loan, investment and mortgage-backed security payments, prepayments and maturities; and other funds provided from operations. During the quarter ended September 30, 2003, we acquired brokered deposits as an additional source of funds. While scheduled payments from loans and mortgage-backed securities and maturing investment securities are relatively predictable sources of funds, deposit flows and loan prepayments can be greatly influenced by general interest rates, economic conditions and competition. Excess funds are maintained in short-term, interest-bearing assets that provide additional liquidity.

We use our liquidity to fund existing and future loan commitments, to fund maturing certificates of deposit and demand deposit withdrawals, to invest in other interest-earning assets and to meet operating expenses. At September 30, 2003, we had certificates of deposit maturing within the next 12 months amounting to \$300.1 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates will remain on deposit.

In addition to cash flow from loan and investment and mortgage-backed securities payments and prepayments, as well as from sales of available for sale securities and loans held for sale, we have additional borrowing capacity available to fund our liquidity needs. We have increased our utilization of borrowings as a cost efficient addition to deposits as a source of funds. The average balance of our borrowings was \$618.7 million and \$296.8 million for the three months ended September 30, 2003 and September 30, 2002, respectively. The average balance of our borrowings was \$534.7 million and \$264.0 million for the nine months ended September 30, 2003 and September 30, 2002, respectively. To date, substantially all of our borrowings have consisted of advances from the FHLB. Pursuant to blanket collateral agreements with the FHLB, the Bank has pledged qualifying one-to-four family residential, multi-family, commercial real estate, second mortgage and construction loans as collateral for such advances.

We have not used, and have no present intention to use, any significant off-balance sheet financing arrangements for liquidity purposes. Our primary financial instruments with off-balance sheet risk are limited to loan servicing for others, our obligations to fund loans to customers pursuant to existing commitments and commitments to purchase and sell mortgage loans. In addition, we have certain risks due to limited recourse arrangements on loans serviced for others. At September 30, 2003, the maximum total amount of such recourse was approximately \$10.1 million. Based on historical experience, at September 30, 2003, we had established a reserve of \$627,000 with respect to this recourse obligation. In addition, we have not had, and have no intention to have, any significant transactions, arrangements or other relationships with any unconsolidated, limited purpose entities that could materially affect our

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liquidity or capital resources. We have not traded, and do not intend to trade, in commodity contracts.

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TierOne Corporation and Subsidiaries Management's Discussion and Analysis of Financial Condition and Results of Operations

We anticipate that we will continue to have sufficient funds and alternative funding sources to meet our current commitments.

Regulatory Capital

At September 30, 2003, the Bank's regulatory capital exceeded regulatory limits set by the Office of Thrift Supervision. The current regulatory requirements and the Bank's actual levels at September 30, 2003 are set forth below:

	Required Capital		Actual Capital		Excess Capital	
	Amount	Percent	Amount	Percent	Amount	Percent
	(dollars in thousands)					
Tangible capital	\$ 31,371	1.50%	\$ 258,059	12.34%	\$ 226,688	10.84%
Core capital	83,657	4.00%	258,059	12.34%	174,402	8.34%
Risk-based capital	142,888	8.00%	276,845	15.50%	133,957	7.50%

In meeting governmental guidelines, the Bank remains classified as a "well capitalized" financial institution.

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TierOne Corporation and Subsidiaries Management's Discussion and Analysis of Financial Condition and Results of Operations

Selected Operating Ratios

Set forth below are selected operating ratios (annualized where appropriate) as of or for the three and nine months ended September 30, 2003 and September 30, 2002.

As Of Or For The Three Months Ended September 30,		As Of Or For The Nine Months Ended September 30,	
2003	2002	2003	2002

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Selected Operating Ratios:

Average yield on interest-earning assets	5.17%	6.54%	5.57%	6.6%
Average rate on interest-bearing liabilities	2.33%	3.20%	2.50%	3.2%
Average interest rate spread	2.84%	3.34%	3.07%	3.3%
Net interest margin	3.25%	3.76%	3.52%	3.7%
Average interest-earning assets to average interest-bearing liabilities	120.89%	115.31%	121.91%	113.5%
Net interest income after provision for loan losses to non-interest expense	128.81%	139.70%	141.95%	137.1%
Total non-interest expense to average assets	2.26%	2.39%	2.25%	2.4%
Efficiency ratio (1)	52.55%	55.15%	52.71%	56.6%
Return on average assets	1.15%	1.05%	1.16%	1.0%
Return on average equity	7.24%	13.31%	6.99%	13.4%
Average equity to average assets	15.86%	7.89%	16.57%	8.0%

Other Ratios:

Nonperforming loans as a percent of loans (2)	0.13%	0.20%	0.13%	0.2%
Nonperforming assets to total assets	0.14%	0.19%	0.14%	0.1%
Allowance for loan losses to total nonperforming loans	761.18%	458.10%	761.18%	458.1%
Allowance for loan losses as a percent of loans (2)	1.00%	0.92%	1.00%	0.9%

(1) Efficiency ratio is calculated as total other expense divided by the sum of net interest income and total other income.

(2) Loans for purposes of the calculation are comprised of net loans from the loan composition table plus the allowance for loan losses.

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Item 3 - Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of our asset and liability management policies as well as the methods used to manage our exposure to the risk of loss from adverse changes in market prices and rates market, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - How We Manage Our Risks" and - "Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report to Shareholders for the year ended December 31, 2002. There has been no material change in our asset and liability position or the market value of our equity since December 31, 2002.

Item 4 - Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations and are operating in an effective manner.

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) or 15(d)-15(f) under the Securities Exchange Act of 1934) occurred

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during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1 - Legal Proceedings.

With respect to the Bank's ongoing litigation regarding its goodwill claims against the U.S. Government, reference is made to "Business of TierOne Bank - Legal Proceedings" in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. On May 19, 2003, a four-day trial related solely to issues of liability was held. On November 6, 2003 the Court rendered a decision finding the U.S. Government liable to the Bank for breach of contract with regard to one of three claims and the Court dismissed the breach of contract complaint on the remaining two claims. At this time, the issue of damages and the amount thereof, if any, remains to be determined in subsequent judicial proceedings.

Item 2 - Changes in Securities and Use of Proceeds.

There are no matters required to be reported under this item.

Item 3 - Defaults Upon Senior Securities.

There are no matters required to be reported under this item.

Item 4 - Submission of Matters to a Vote of Security Holders.

There are no matters required to be reported under this item.

Item 5 - Other Information.

There are no matters required to be reported under this item.

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Item 6 - Exhibits and Reports on Form 8-K.

- (a) The following exhibits are filed as part of this Form 10-Q and this list includes the Exhibit Index.

No.	Exhibits
3.1	Articles of Incorporation of TierOne Corporation
3.2	Bylaws of TierOne Corporation
4.0	Form of Stock Certificate of TierOne Corporation
10.1	Employment Agreement between TierOne Bank and Gilbert G. Lundstrom
10.2	Employment Agreement between TierOne Bank and James A. Laphen
10.3	Form of Employment Agreement between TierOne Corporation and Gilbert G. Lundstrom
10.4	Form of Employment Agreement between TierOne Corporation and James A. Laphen
10.5	Supplemental Retirement Plan
10.6	Form of Change in Control Agreement between TierOne Bank and certain executive off

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10.7	Form of Change in Control Agreement between TierOne Bank and certain executive off
10.8	Form of TierOne Bank Employee Severance Plan
10.9	Form of Employee Stock Ownership Plan Supplemental Executive Retirement Plan
10.10	Form of 401(k) Plan Supplemental Executive Retirement Plan
10.11	Director's Deferred Compensation Plan
10.12	Amended and Restated Consultation Plan for Directors
10.13	TierOne Bank Management Incentive Compensation Plan
10.14	TierOne Bank Deferred Compensation Plan
10.15	TierOne Corporation 2003 Stock Option Plan
10.16	TierOne Corporation 2003 Management Recognition and Retention Plan and Trust Agree
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Securi Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxle
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Securi Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxle
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-O
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-O

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- (1) Incorporated by reference from TierOne Corporation's Registration Statement on Form S-1, filed on April 3, 2002, as amended and declared effective on August 12, 2002 (File No. 333-85838).
- (2) Incorporated by reference from TierOne Corporation's Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 28, 2003.
- (3) Incorporated by reference from TierOne Corporation's Definitive Proxy Statement for the Annual Meeting of Shareholders filed on March 11, 2003.

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- (b) The following reports on Form 8-K were filed by the Registrant during the three months ended September 30, 2003 and through the date hereof:

Date	Item and Description
-----	-----
July 21, 2003	Item 9. On July 18, 2003 the Company issued a press release reporting its earnings for the three and six months ending June 30, 2003. Filed under Item 9 pursuant to SEC directions in effect at the time of filing.
October 15, 2003	Item 9. On October 13, 2003 the Company issued a press release announcing that the Company's Board of Directors has authorized the repurchase of up to ten percent, or 2,257,508 shares, of the Company's outstanding common stock.
October 22, 2003	Item 12. On October 20, 2003 the Company issued a press release reporting its earnings for the three and nine months ending September 30, 2003.

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SIGNATURES

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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.

TIERONE CORPORATION

Date: November 7, 2003

By: /s/ Gilbert G. Lundstrom

Gilbert G. Lundstrom
Chairman of the Board and Chief Executive
Officer

Date: November 7, 2003

By: /s/ Eugene B. Witkowicz

Eugene B. Witkowicz
Executive Vice President and
Chief Financial Officer