TIERONE CORP
Form 10-Q
August 13, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 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 (State or Other Jurisdiction of Incorporation or Organization)	04-3638672 (I.R.S. Employer Identification No.)
1235 "N" Street Lincoln, Nebraska (Address of Principal Executive Offices)	68508 (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 |X| No |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |X| 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: As of August 12, 2003, a total of 22,575,075 shares of the Registrant's common stock were issued and outstanding.

PART I - FINANCIAL INFORMATION

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
June 30, 2003 (Unaudited) and December 31, 2002
(dollars in thousands, except per share data)

	June 30, 2003	December 31, 2002
Assets		
Cash and due from banks	$ 28,020	$ 33,037
Federal funds sold	--	--
Total cash and cash equivalents	28,020	33,037
Investment securities:		
Held to maturity	150	157
Available for sale	47,126	30,546
Mortgage-backed securities, available for sale	91,648	30,369
Loans held for sale	17,220	8,504
Loans receivable, net	2,007,444	1,765,744
Federal Home Loan Bank stock	35,468	21,459
Premises and equipment, net	26,589	26,810
Accrued interest receivable	9,325	9,084
Other assets	19,288	19,825

Total assets	$ 2,282,278	$ 1,945,535
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits	$ 1,147,609	$ 1,128,880
Advances from Federal Home Loan Bank and other borrowings	712,718	418,329
Advance payments from borrowers for taxes, insurance and other escrow funds	32,725	29,453
Accrued interest payable	5,898	6,812
Accrued expenses and other liabilities	31,226	22,165
Total liabilities	1,930,176	1,605,639
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	226
Additional paid-in capital	356,201	355,741
Retained earnings, substantially restricted	13,848	2,018
Unearned common stock held by Employee Stock Ownership Plan	(16,931)	(17,684)
Unearned common stock held by Management Recognition and Retention Plan	(857)	--
Accumulated other comprehensive loss, net	(385)	(405)
Total shareholders' equity	352,102	339,896
Commitments and contingent liabilities		
Total liabilities and shareholders' equity	$ 2,282,278	$ 1,945,535

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six June
	2003	2002	2003
Interest income:			

Loans receivable	$ 27,373	$ 24,008	$ 54,166
Investment securities	1,115	1,439	2,147
Other interest-earning assets	--	9	99
Total interest income	28,488	25,456	56,412
Interest expense:			
Deposits	5,866	7,862	12,089
Advances from Federal Home Loan Bank and other borrowings	4,530	3,105	8,594
Total interest expense	10,396	10,967	20,683
Net interest income	18,092	14,489	35,729
Provision for loan losses	515	643	1,687
Net interest income after provision for loan losses	17,577	13,846	34,042
Other income:			
Fees and service charges	612	1,663	1,579
Income from real estate operations, net	26	210	8
Net gain (loss) on sales of:			
Loans held for sale	2,653	609	4,608
Real estate owned	(93)	(1)	(79)
Other operating income	695	562	1,406
Total other income	3,893	3,043	7,522
Other expense:			
Salaries and employee benefits	7,096	5,342	13,415
Occupancy, net	1,328	1,467	2,759
Data processing	407	348	818
Advertising	904	942	1,628
Other operating expense	2,007	1,900	4,215
Total other expense	11,742	9,999	22,835
Income before income taxes	9,728	6,890	18,729
Income tax expense	3,593	2,487	6,899
Net income	$ 6,135	$ 4,403	$ 11,830
Net income per common share, basic*	$ 0.29	--	$ 0.57
Net income per common share, diluted*	$ 0.29	--	$ 0.57
Average common shares outstanding, basic (000's)*	20,828	--	20,824
Average common shares outstanding, diluted (000's)*	21,012	--	20,929

* 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.

TierOne Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
and Comprehensive Income
Six Months Ended June 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 Plan	Unearn commo stock held by Managem Recognit and Retenti Plan
Balance at December 31, 2002	$ 226	$ 355,741	$ 2,018	$ (17,684)	$
Common stock earned by employees in Employee Stock Ownership Plan	--	557	--	753	
Common stock purchased by the Management Recognition and Retention Plan	--	(97)	--	--	(1,3
Amortization of awards under the Management Recognition and Retention Plan	--	--	--	--	5
Comprehensive income:					
Net income	--	--	11,830	--	
Change in unrealized loss on available for sale securities, net of tax	--	--	--	--	
Total comprehensive income	--	--	11,830	--	
Balance at June 30, 2003	$ 226	$ 356,201	$ 13,848	$ (16,931)	$ (8

See accompanying notes to consolidated financial statements.

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

	June 30,	
	2003	
Reconciliation of net income to net cash provided by (used in) operating activities:		
Net income	$ 11,830	$
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Net amortization of investment and mortgage-backed securities	993	
Depreciation and amortization	1,263	
Employee Stock Ownership Plan expense	1,310	
Management Recognition and Retention Plan expense	500	
Amortization of premiums on loans receivable, net	2,286	
Deferred income tax expense (benefit)	12	
Provision for loan losses	1,687	
Proceeds from sales of loans held for sale	311,123	1
Originations and purchases of loans held for sale	(315,231)	(1
Net (gain) loss on sales of:		
Loans held for sale	(4,608)	
Real estate owned	79	
Premises and equipment	--	
Changes in certain assets and liabilities:		
Accrued interest receivable	(241)	
Other assets	202	
Accrued interest payable	(914)	
Accrued expenses and other liabilities	9,061	
Net cash provided by operating activities	19,352	
Cash flows from investing activities:		
Purchase of investment and mortgage-backed securities, available for sale	(101,841)	(
Proceeds from maturities of investment securities, available for sale	2,000	
Proceeds from principal repayments of investment and mortgage-backed securities	21,027	
Increase in loans receivable	(246,575)	(
Sale of Federal Home Loan Bank stock	--	
Purchase of Federal Home Loan Bank stock	(14,009)	
Additions to premises and equipment	(2,649)	
Proceeds from sale of premises and equipment	--	
Proceeds from sale of real estate owned	2,742	
Net cash used in investing activities	(339,305)	(

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Six Months Ended June 30, 2003 and 2002 (Unaudited)

(dollars in thousands)

	June 30,	
	2003	2002
Cash flows from financing activities:		
Net increase in deposits	$ 18,729	$ 20,2
Net increase (decrease) in advance payments from borrowers for taxes, insurance and other escrow funds	3,272	(3,7
Proceeds from Federal Home Loan Bank advances	195,000	
Repayments of Federal Home Loan Bank advances	(20,017)	(
Net advances (repayments) on Federal Home Loan Bank line of credit and other borrowings	119,406	(9,9
Purchase of common stock for Management Recognition and Retention Plan	(1,454)	
Net cash provided by financing activities	314,936	6,5
Net decrease in cash and cash equivalents	(5,017)	(9,1
Cash and cash equivalents at beginning of period	33,037	34,4
Cash and cash equivalents at end of period	$ 28,020	$ 25,3
Supplemental disclosures of cash flow information:		
Cash paid during period for:		
Interest	$ 21,597	$ 24,0
Income taxes, net of refunds	$ 7,491	$ 4,9
Noncash investing activities:		
Transfers from loans to real estate owned and other assets through foreclosure	$ 946	$ 2

See accompanying notes to consolidated financial statements.

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 bank 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 June 30, 2003, TierOne Bank operated from 58 banking offices located in Nebraska, southwest Iowa and northern Kansas, two loan production offices in Colorado and a loan production office 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 insurance policies.

The accompanying interim consolidated financial statements as of June 30, 2003 and for the three and six-months ended June 30, 2003 and June 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 six-months ended June 30, 2003, are not necessarily indicative of the results which may be expected for the entire calendar year 2003.

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. 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 June 30, 2003 represent shares issuable under its stock option and MRRP plans. The dilutive effect of potential common shares is 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 six-months ended June 30, 2003, since no shares were outstanding for the comparable periods in 2002.

	Three Months Ended June 30, 2003		S
	Basic	Diluted	
		(dollars in thou	
Net income	$ 6,135	$ 6,135	

Weighted average number of common shares outstanding used in basic earnings per share calculation	20,828,000	20,828,000
Common share equivalents - stock option and Management Recognition and Retention Plan shares		183,642
Weighted average number of common shares outstanding used in diluted earnings per share calculation		21,012,000
Earnings per share	$ 0.29	$ 0.29

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

Note 4 - Investment and Mortgage-Backed Securities

Investment securities at June 30, 2003 and December 31, 2002 are summarized below.

June 30, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Held to Maturity:				
Municipal obligations	$ 150	$ --	$ --	$ 150
Available for Sale:				
Mortgage-backed securities	91,786	354	492	91,648
Corporate securities	41,341	285	505	41,121
Asset Management Fund - ARM Fund	6,000	5	--	6,005
	$139,277	$ 644	$ 997	$138,924

December 31, 2002	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Held to Maturity:				
Municipal obligations	$ 157	$ --	$ --	$ 157
Available for Sale:				
Mortgage-backed securities	29,881	488	--	30,369
U.S. Government agency obligations	2,000	--	--	2,000
Corporate securities	23,418	16	888	22,546

Asset Management Fund - ARM Fund	6,000	--	--	6,000
	$61,456	$ 504	$ 888	$61,072

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.

	June 30, 2003		
	Amount	%	Am
		(dollars in thousand	
Real estate loans:			
One-to-four family residential (1)	$ 706,500	32.45%	$
Multi-family residential	70,939	3.26%	
Commercial real estate and land	410,715	18.86%	
Residential construction	193,660	8.90%	
Commercial construction	132,941	6.11%	
Total real estate loans	1,514,755	69.58%	1,
Commercial business	52,976	2.43%	
Warehouse mortgage lines of credit	307,865	14.14%	
Consumer loans:			
Home equity	33,446	1.53%	
Home equity line of credit	108,627	4.99%	
Home improvement	77,639	3.57%	
Automobile	65,780	3.02%	
Other	16,066	0.74%	
Total consumer loans	301,558	13.85%	
Total loans	2,177,154	100.00%	1,
Less:			
Unamortized premiums and discounts	10,238		
Discounts on loans acquired through merger	(108)		
Undisbursed portion of construction and land loans in process	(143,809)		(
Deferred loan fees	(485)		
Allowance for loan losses	(18,326)		
Net loans	$ 2,024,664		$ 1,

(1) Includes loans held for sale	$ 17,220	$

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 June 30,		At or f Six Mont June
	2003	2002	2003
	(dollars in thousands)		(dollars in
Allowance for loan losses, beginning of period	$ 17,984	$ 13,843	$ 17,108
Provision for loan losses	515	643	1,687
Charge-offs	(209)	(174)	(554)
Recoveries on loans previously charged off	36	7	85
Allowance for loan losses, end of period	$ 18,326	$ 14,319	$ 18,326
Allowance for loan losses as a percent of net loans, exclusive of allowance for loan losses	0.90%	1.01%	0.90%

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 all accrued interest.

	June 30, 2003	December 31, 2002
	(dollars in thousands)	

Non-accruing loans:		
One-to-four family residential	$1,719	$1,161
Multi-family residential	--	--
Commercial real estate and land	4,009	3,795
Residential construction	290	106
Commercial construction	--	--
Commercial business loans	--	--
Warehouse mortgage lines of credit	--	--
Consumer	370	427
Total non-accruing loans	6,388	5,489
Real estate owned, net (1)	48	1,967
Total nonperforming assets	6,436	7,456
Troubled debt restructurings	240	209
Total nonperforming assets and troubled debt restructurings	$6,676	$7,665
Allowance for loan losses as a percent of nonperforming loans	286.88%	311.68%
Total nonperforming loans as a percent of net loans, exclusive of allowance for loan losses	0.31%	0.31%
Total nonperforming assets as a percent of total assets	0.28%	0.38%
Allowance for loan losses as a percent of net loans, exclusive of allowance for loan losses	0.90%	0.96%

(1) Balances at June 30, 2003 also include the disposition of a previously reported $1.4 million real estate owned property. Real estate owned balances are shown net of related loss allowances. Includes both real property and other repossessed collateral consisting primarily of automobiles.

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

Note 8 - Mortgage Servicing Rights

Mortgage servicing rights are included in the consolidated balance sheets under the caption "other assets." The activity of mortgage servicing rights is summarized as follows for the following periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(dollars in thousands)			
Balance at beginning of period	$ 6,173	$ 5,398	$ 6,290	$ 4,577
Mortgage servicing rights capitalized	2,109	1,033	3,828	2,148
Amortization expense	(1,663)	(307)	(2,909)	(601)
Valuation adjustment	(1,366)	(460)	(1,956)	(460)

Balance at end of period	$ 5,253	$ 5,664	$ 5,253	$ 5,664

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
	(dollars in thousands)			
Balance at beginning of period	$ 2,910	$ 350	$ 2,320	$ 350
Amounts charged to operations	1,366	460	1,956	460
Ending balance	$ 4,276	$ 810	$ 4,276	$ 810

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

	June 30, 2003	December 31, 2002
	(dollars in thousands)	
Serviced loan portfolio balance	$830,364	$726,431
Fair value of mortgage servicing rights	$5,253	$6,290
Prepayment speed	13.9% - 100.0%	9.2% - 74.0%
Weighted average prepayment speed	51.6%	29.9%
Fair value with 10% adverse change	$4,816	$5,894
Fair value with 20% adverse change	$4,487	$5,545
Discount rate	9.0% - 15.0%	9.0% - 15.0%
Weighted average discount rate	10.1%	9.9%
Fair value with 10% adverse change	$5,109	$6,143
Fair value with 20% adverse change	$5,032	$6,004

Note 9 - Stock Based Benefit Plans

The Company has established the 2003 Management Recognition and Retention Plan and Trust Agreement ("MRRP"), which is a stock-based incentive plan. The MRRP was approved by the shareholders at the Company's Annual Meeting of Shareholders held April 23, 2003.

The following table summarizes shares of the Company's common stock awarded by the MRRP at June 30, 2003, all of which were granted in April 2003:

	June 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 June 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 of the award. 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 a six-months ended June 30, 2003 was $500,000. Through June 30, 2003 the Company had purchased 76,087 shares.

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 June 30, 2003.

	Number of Shares	Exercise P Per Shar
Outstanding at December 31, 2002	--	
Common stock options granted	1,852,750	$ 17.
Common stock options exercised	--	
Common stock options forfeited	--	
Common stock options outstanding at June 30, 2003	1,852,750	$ 17.

TierOne Corporation and Subsidiaries
Notes to Consolidated Financial Statements

(unaudited)

At June 30, 2003, no outstanding options were exercisable, the weighted-average remaining contractual life of outstanding options was 9.83 years, and there were 404,758 shares available for future grants. At June 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 APB No. 25, as 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 June 30, 2003	Six Month June 30
	(dollars in thousands, except per	
Net income (as reported)	$ 6,135	$ 11,8
Deduct: stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(199)	(1
Pro forma net income	$ 5,936	$ 11,6
Basic earnings per share (as reported)	0.29	0.
Pro forma basic earnings per share	0.28	0.
Diluted earnings per share (as reported)	0.29	0.
Pro forma diluted earnings per share	0.28	0.

The pro forma results above may not be representative of the effect reported in net income for 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.

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 Company does not believe that Interpretation No. 46 will have a material effect on its financial statements.

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 $2.3 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 58 banking offices in Nebraska, Iowa and Kansas, two loan production offices in Colorado and a loan production office 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 financing; consumer, construction and business loans; lines of credit; consumer and business checking and savings plans; investment and insurance services; and telephone and internet banking access.

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 principally consists of compensation and employee benefits, office occupancy and equipment expense, data processing, advertising and business promotion and other 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 TierOne Corporation and our wholly owned subsidiary TierOne Bank, a federally chartered stock savings bank.

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

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 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, 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.

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 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.

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

Our total assets were $2.3 billion at June 30, 2003, a $336.7 million, or 17.3%, increase from December 31, 2002. Our available for sale investment securities amounted to $47.1 million at June 30, 2003, a $16.6 million, or 54.3%, increase from December 31, 2002 primarily due to security purchases of $17.9 million partially offset by $2.0 million of maturities during the six months ended June 30, 2003. Our mortgage-backed securities portfolio, all of which is available for sale, amounted to $91.6 million at June 30, 2003, a $61.3 million, or 201.8%, increase from December 31, 2002. During the three months ended March 31, 2003, we purchased two Federal National Mortgage Association ("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. Net loans receivable, including loans held for sale, totaled $2.0 billion at June 30, 2003, a $250.4 million, or 14.1%, increase from December 31, 2002. At June 30, 2003 our one-to-four family residential loans, including loans held for sale, were $706.5 million, a $133.3 million, or 23.3%, increase compared to December 31, 2002. During the six months ended June 30, 2003, we purchased for our portfolio $182.0 million of hybrid adjustable-rate first mortgage and $112.7 million of fixed-rate second mortgage loans secured by one-to-four family residential properties in geographically diverse markets across the United States. Our residential construction loans totaled $193.7 million, a $37.3 million, or 23.9%, increase as compared to $156.3 million at December 31, 2002. Warehouse mortgage lines of credit amounted to $307.9 million, a $71.4 million, or 30.2%, increase at June 30, 2003 as compared to $236.5 million at December 31, 2002. The warehouse mortgage lines of credit lending area continues to experience increased volume due in large part to refinancing activity resulting from the existing low interest rate environment.

Our total deposits increased by $18.7 million to $1.1 billion at June 30, 2003 as compared to December 31, 2002 as we continued our efforts to increase the level of our core deposits. At June 30, 2003, our interest-bearing checking accounts totaled $290.7 million compared to $290.2 million at December 31, 2002. Our non-interest-bearing checking accounts amounted to $46.1 million, a $10.3 million, or 28.7%, increase as compared to $35.8 million at December 31, 2002. Our money market accounts totaled $277.6 million, a $7.3 million, or 2.7%, increase compared to December 31, 2002. Our certificates of deposit declined $2.4 million, or 0.5%, to $514.3 million at June 30, 2003 as compared to $516.7 million at December 31, 2002. Our Federal Home Loan Bank (FHLB) advances and other borrowings amounted to $712.7 million at June 30, 2003, a $294.4 million, or 70.4%, increase from December 31, 2002. We have utilized FHLB advances as the primary funding source for growing our loan portfolio and investment and mortgage-backed securities portfolios.

Our shareholders' equity increased by $12.2 million to $352.1 million at June 30, 2003 compared to $339.9 million at December 31, 2002 primarily reflecting $11.8 million in net income earned for the six months ended June 30, 2003.

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Comparison of Operating Results for the Three and Six Months Ended June 30, 2003 and June 30, 2002

General. Net income increased by $1.7 million, or 39.3%, to $6.1 million for the three months ended June 30, 2003 compared to $4.4 million for the three months ended June 30, 2002. For the six months ended June 30, 2003, our net income increased $3.3 million, or 38.6%, to $11.8 million compared to $8.5 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. Average interest rate spread declined to 3.11% and 3.16% for the three and six months ended June 30, 2003, respectively, compared to 3.58% and 3.44% for the three and six months ended June 30, 2002, respectively. Net interest margin declined to 3.57% and 3.65% for the three and six months ended June 30, 2003, respectively, compared to 3.88% and 3.76% for the three and six months ended June 30, 2002, respectively. The decline in the average interest rate spread and net interest margin for the three and six months ended June 30, 2003 is primarily attributable to the continued low interest rate environment which has fueled a high level of refinancing activity. The ratio of average interest-earning assets to average interest-bearing liabilities increased to 122.41% and 123.12% for the three and six months ended June 30, 2003, respectively, compared to 110.04% and 110.92% for the three and six months ended June 30, 2002, respectively.

Interest Income. Our total interest income for the three months ended June 30, 2003 was $28.5 million, a $3.0 million, or 11.9%, increase compared to $25.5 million for the three months ended June 30, 2002. For the six months ended June 30, 2003 our total interest income was $56.4 million, a $6.4 million, or 12.7%, increase compared to $50.0 million for the six months ended June 30, 2002. The increase in total interest income during the first half of 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 (including loans held for sale) during the three months ended June 30, 2003 and June 30, 2002 was

$1.9 billion and $1.4 billion, respectively. The average balance of loans receivable (including loans held for sale) during the six months ended June 30, 2003 and June 30, 2002 was $1.8 billion and $1.4 billion, respectively. The weighted average yield earned on the loan portfolio was 5.90% and 6.97% for the three months ended June 30, 2003 and June 30, 2002, respectively. The weighted average yield on the loan portfolio for the six month periods ended June 30, 2003 and June 30, 2002 was 6.00% and 6.95%, respectively. The declines in the yields on loans receivable during the first half of 2003 reflected the lower interest rate environment which continued to fuel a high level of refinance activity.

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Interest Expense. Our total interest expense for the three and six months ended June 30, 2003 was $10.4 million and $20.7 million, respectively, compared to $11.0 million and $22.0 million for the three and six months ended June 30, 2002, respectively. The primary reason for the decrease in our interest expense during the 2003 periods was a reduction in the average interest cost of deposits to 2.13% and 2.20% during the three and six month period ended June 30, 2003, respectively, compared to 2.90% and 2.97% during the same periods in 2002. The average interest cost of our certificates of deposit was 3.33% and 3.38% for the three and six months ended June 30, 2003, respectively, as compared to 3.92% and 4.03% for the same periods in 2002. The average rates on our interest-bearing checking accounts, money market accounts and savings accounts also declined during the three and six months ended June 30, 2003 as compared with the same periods in 2002. Interest expense on FHLB advances and other borrowings increased $1.4 million and $2.6 million during the three and six months ended June 30, 2003 as compared with the same periods in 2002 due to a higher average balance of borrowings as the Bank continued to fund loan and investment securities portfolio growth primarily through additional borrowings. The increased cost of borrowings was partially offset by a decline in the average cost of borrowings from 4.59% and 4.56% for the three and six months ended June 30, 2002, respectively, to 3.27% and 3.50% for the three and six months ended June 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, and the net interest margin. Tax-exempt income and yields have not been adjusted to a tax-equivalent basis. 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 Ju

	2003			
	Average Balance	Interest	Average Yield/Rate	Avera Balan
			(dollars in tho	
Interest-earning assets:				
Fed funds sold	$ --	$ --	--	$
Investment securities (1)	73,807	674	3.65%	80,
Mortgage-backed securities (1)	97,572	441	1.81%	32,
Loans receivable (2)	1,854,530	27,373	5.90%	1,377,
Total interest-earning assets	2,025,909	28,488	5.62%	1,492,
Non-interest-earning assets	83,701			63,
Total assets	$ 2,109,610			$ 1,555,
Interest-bearing liabilities:				
Interest-bearing checking accounts	$ 295,709	$ 654	0.88%	$ 270,
Regular savings accounts	18,523	27	0.58%	14,
Money market accounts	276,280	927	1.34%	281,
Certificate accounts	510,749	4,258	3.33%	518,
Total interest-bearing deposits	1,101,261	5,866	2.13%	1,085,
FHLB advances and other borrowings	553,722	4,530	3.27%	270,
Total interest-bearing liabilities	1,654,983	10,396	2.51%	1,355,
Non-interest-bearing accounts	44,643			28,
Other liabilities	61,283			43,
Total liabilities	1,760,909			1,427,
Shareholders' equity	348,701			127,
Total liabilities and shareholders' equity	$ 2,109,610			$ 1,555,
Net interest-earning assets	$ 370,926			$ 136,
Net interest income; average interest rate spread		$ 18,092	3.11%	
Net interest margin (3)			3.57%	
Average interest-earning assets to average interest-bearing liabilities			122.41%	

(1) Includes securities available for sale and held to maturity. Investment securities also include Federal Home Loan Bank 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.

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

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	Six Months Ended Jun			
	2003			
	Average Balance	Interest	Average Yield/Rate	Avera Balan
	(dollars in thousa			
Interest-earning assets:				
Fed funds sold	$ 16,289	$ 99	1.21%	$ 23
Investment securities (1)	66,075	1,218	3.69%	74
Mortgage-backed securities (1)	68,179	929	2.73%	36
Loans receivable (2)	1,807,014	54,166	6.00%	1,356
Total interest-earning assets	1,957,557	56,412	5.76%	1,489
Non-interest-earning assets	84,152			48
Total assets	$2,041,709			$1,538
Interest-bearing liabilities:				
Interest-bearing checking accounts	$ 296,247	$ 1,488	1.00%	$ 254
Regular savings accounts	17,659	57	0.65%	14
Money market accounts	273,178	1,894	1.39%	286
Certificate accounts	511,217	8,650	3.38%	523
Total interest-bearing deposits	1,098,301	12,089	2.20%	1,079
FHLB advances and other borrowings	491,615	8,594	3.50%	263
Total interest-bearing liabilities	1,589,916	20,683	2.60%	1,343
Non-interest-bearing accounts	42,150			27
Other liabilities	63,933			42
Total liabilities	1,695,999			1,412
Shareholders' equity	345,710			125
Total liabilities and shareholders' equity	$2,041,709			$1,538

Net interest-earning assets	$ 367,641			$ 146
Net interest income; average interest rate spread		$ 35,729	3.16%	
Net interest margin (3)			3.65%	
Average interest-earning assets to average interest-bearing liabilities			123.12%	

(1) Includes securities available for sale and held to maturity. Investment securities also includes Federal Home Loan Bank stock.

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

(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 volume of interest-related assets and liabilities affected our interest income and expense during the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in rate (change in rate multiplied by prior year volume) and (2) 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 to the change due to rate and the change due to volume.

	Three Months Ended June 30, 2003 Compared to Three Months Ended June 30, 2002			Six Months En Com Six Months En	
	Increase (Decrease) Due To		Total Increase (Decrease)	Increase (Decr Due To	
	Rate	Volume		Rate	Vo
			(dollars in thousands)		
Interest income:					
Federal funds sold	$ (2)	$ (2)	$ (4)	$ (49)	$
Investment securities	(195)	(78)	(273)	(245)	
Mortgage-backed securities	(529)	473	(56)	(753)	
Loans receivable	(4,069)	7,434	3,365	(7,134)	1
Total interest income	(4,795)	7,827	3,032	(8,181)	1

Interest expense:					
Interest-bearing checking accounts	(720)	107	(613)	(1,258)	
Savings accounts	(32)	11	(21)	(53)	
Money market accounts	(515)	(27)	(542)	(943)	
Certificate accounts	(748)	(72)	(820)	(1,663)	
Total deposits	(2,015)	19	(1,996)	(3,917)	
FHLB advances and other borrowings	(1,091)	2,516	1,425	(1,669)	
Total interest expense	(3,106)	2,535	(571)	(5,586)	
Net change in net interest income	$(1,689)	$ 5,292	$ 3,603	$(2,595)	$ 1

Provision for Loan Losses. We made a provision for loan losses of $515,000 for the three months ended June 30, 2003 as compared to $643,000 for the three months ended June 30, 2002. For the six months ended June 30, 2003, our provision for loan losses was $1.7 million as compared to $1.2 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 $1.1 billion at June 30, 2003, an increase of $205.4 million, or 23.2%, as compared to June 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 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 June 30, 2003, our total nonperforming assets amounted to $6.4 million, or 0.28% of total assets, as compared to $7.5 million, or 0.38% of total assets, at December 31, 2002. During the three and six months ended June 30, 2003, we charged-off, net of recoveries, $173,000 and $469,000, respectively, of loans, primarily related to consumer loans. At June 30, 2003, our allowance for loan losses amounted to 286.88% of nonperforming loans and 0.90% of net loans exclusive of the allowance for loan losses.

Other Income. Our other income increased by $850,000 or 27.9%, to $3.9 million for the three months ended June 30, 2003 as compared to $3.0 million for the three months ended June 30, 2002. For the six months ended June 30, 2003, other income amounted to $7.5 million, a $1.2 million, or 19.7%, increase compared to $6.3 million for the same period in 2002. The increase during the three month period ended June 30, 2003 was primarily the result of a $2.0 million increase in gains on loans held for sale, a $616,000 increase in loan fees and a $482,000 increase in checking account fees offset in large part by a $1.4 million increase in the amortization of mortgage servicing rights and a $906,000 increase in mortgage servicing rights impairment charges. Amortization expense and impairment charges related to mortgage servicing rights are recorded as a reduction to fee and service charge income. For the six months ended June 30, 2003, the increase in other income was attributable to a $3.3 million increase in gains on loans held for sale, a $1.1 million increase in loan fees and a $826,000 increase in checking account fees partially offset by a $2.3 million increase in amortization of mortgage servicing rights and a $1.5 million increase in mortgage servicing rights impairment charges. The increase in our mortgage servicing rights valuation allowance was deemed necessary due to the sustained low interest rate environment which has resulted in a continued high level of mortgage refinancing activity. Total deposit account fees and charges, driven by continued growth in new core deposit relationships, rose 39.4% and 37.4%, to $1.7 million and $3.0 million, respectively, for the three and six months ended June 30, 2003 as compared to the same periods in 2002.

Other Expense. Our other expense increased by $1.7 million, or 17.4%, to $11.7 million for the three months ended June 30, 2003 as compared to $10.0 million for the three months ended June 30, 2002. For the six months ended June 30, 2003, other expense totaled $22.8 million, a $3.1 million, or 15.9%, increase compared to $19.7 million during the same period in 2002. This increase during the six month period ended June 30, 2003 resulted primarily from a $1.3 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 $1.1 million increase in compensation expense related to salary increases and continued additions of business line personnel and a $500,000 expense related to the MRRP.

Income Tax Expense. Our income tax expense increased by $1.1 million to $3.6 million and by $2.1 million to $6.9 million for the three and six months ended June 30, 2003, respectively. The effective income tax rate for the three and six months ended June 30, 2003 was 36.9% and 36.8%, respectively, as compared to 36.1% for both the three and six months ended June 30, 2002.

Liquidity and Commitments

Our primary sources of funds are from deposits, amortization of loans and investment securities, loan and investment security prepayments and maturities and other funds provided from operations. While scheduled payments from the amortization of 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 also utilize outside borrowings, primarily from the FHLBank Topeka (formerly known as the Federal Home Loan Bank of Topeka), as an additional funding source.

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 June 30, 2003, we had certificates of deposit maturing within the next 12 months amounting to $291.1 million. Based upon historical experience, we anticipate that a significant portion of the maturing certificates of deposit will be redeposited with us.

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, 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 $553.7 million and $270.7 million for three months ended June 30, 2003 and June 30, 2002, respectively. The average balance of our borrowings was $491.6 million and $264.0 million for the six months ended June 30, 2003 and June 30, 2002, respectively. To date, substantially all of our borrowings have consisted of advances from the FHLBank Topeka. Pursuant to blanket collateral agreements with the FHLBank Topeka, the Company has pledged qualifying one-to-four family residential, multi-family, commercial real estate, second mortgage, construction loans and mortgage-backed securities 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 June 30, 2003, the maximum total amount of such recourse was approximately $8.3 million. Based on historical experience, at June 30, 2003, we had established a reserve of $514,000 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 liquidity or capital resources. We have not traded, and do not intend to trade, in commodity contracts.

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

Regulatory Capital

At June 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 June 30, 2003 are set forth below:

	Required Capital		Actual Capital	
	Amount	Percent	Amount	Percent
			(dollars in thousands)	
Tangible capital	$ 34,182	1.50%	$ 250,854	11.01%
Core capital	91,151	4.00%	250,854	11.01%
Risk-based capital	151,179	8.00%	269,180	14.24%

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

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Selected Operating Ratios

Set forth below are selected operating ratios (annualized where appropriate) for the three and six months ended June 30, 2003 and June 30, 2002.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Selected Operating Ratios:				
Average yield on interest-earning assets	5.62%	6.82%	5.76%	6.72%
Average rate on interest-bearing liabilities	2.51%	3.24%	2.60%	3.28%
Average interest rate spread	3.11%	3.58%	3.16%	3.44%
Net interest margin	3.57%	3.88%	3.65%	3.76%
Average interest-earning assets to average interest-bearing liabilities	122.41%	110.04%	123.12%	110.92%
Net interest income after provision for loan losses to non-interest expense	149.69%	138.47%	149.08%	135.91%
Total non-interest expense to average assets	2.23%	2.57%	2.24%	2.56%
Efficiency ratio (1)	53.41%	57.03%	52.80%	57.50%
Return on average assets	1.16%	1.13%	1.16%	1.11%
Return on average equity	7.04%	13.76%	6.84%	13.56%
Average equity to average assets	16.53%	8.23%	16.93%	8.18%
Other Ratios:				
Nonperforming loans as a percent of net loans	0.31%	0.31%	0.31%	0.31%
Nonperfoming assets to total assets	0.28%	0.29%	0.28%	0.29%
Allowance for loan losses to total nonperforming loans	286.88%	329.32%	286.88%	329.32%
Allowance for loan losses as a percent of net loans, exclusive of allowance for loan losses	0.90%	1.01%	0.90%	1.01%

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

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

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 commenced, as scheduled, and at the conclusion of the trial on May 23, 2003, the judge directed that both parties simultaneously file post-trial briefs by June 20, 2003. The court has indicated that a decision with regard to liability of the U.S. Government for damages could be issued within 90 days following submission of post-trial briefs. We are currently awaiting this decision from the court.

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.

On April 23, 2003, TierOne Corporation held its first Annual Meeting of Shareholders to obtain approval for four proxy proposals submitted on behalf of the Company's Board of Directors. Shareholders of record as of February 24, 2003 received proxy materials and were considered eligible to vote for these proposals. Following is a brief summary of each proposal and the result of the vote.

1. The following directors were elected by the requisite plurality of the votes cast to serve on the Company's Board of Directors for the term indicated: LaVern F. Roschewski (one-year), Ann Lindley Spence (one-year), James A. Laphen (two-year), Campbell R. McConnell (two-year), Gilbert G. Lundstrom (three-year) and Joyce Person Pocras (three-year). There was no solicitation in oppostion to the Board's nominees.

	FOR	AGAINST	ABSTAIN	N
2. To adopt the 2003 Stock Option Plan	12,556,644	1,240,970	37,654	5
3. To adopt the 2003 Management Recognition and Retention Plan and Trust Agreement	12,330,761	1,463,051	41,456	5
4. To ratify the appointment of KPMG LLP as the independent auditors for the year ended December 31, 2003	18,684,280	600,214	43,293	

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Item 5 - Other Information.

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

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 of
10.7	Form of Change in Control Agreement between TierOne Bank and certain executive of
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 Agre

31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14 of the Secur Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxl
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14 of the Secur Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxl
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-

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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.

(b) Reports on Form 8-K:

Date	Item and Description
April 23, 2003	Item 9. On April 22, 2003, the Company issued a press release reporting its earnings for the three months ended March 31, 2003.
April 25, 2003	Item 5. On April 23, 2003 the Company issued a press release announcing the results of the Company's first annual meeting of shareholders held on April 23, 2003. In addition, on April 25, 2003, the Company announced that it would purchase shares of common stock in open market transactions to fund the 2003 Management Recognition and Retention Plan and Trust Agreement.
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.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TIERONE CORPORATION

Date:	August 12, 2003	By:	/s/ Gilbert G. Lundstrom
			Gilbert G. Lundstrom Chairman of the Board and Chief Executive Officer
Date:	August 12, 2003	By:	/s/ Eugene B. Witkowicz
			Eugene B. Witkowicz Executive Vice President and Chief Financial Officer