TIERONE CORP
Form 10-Q
May 14, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 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 |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 May 9, 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.

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

	March 31, 2003	December
Assets		
Cash and due from banks	$ 26,720	$
Federal funds sold	--	
Total cash and cash equivalents	26,720	
Investment securities:		
Held to maturity	153	
Available for sale	34,668	
Mortgage-backed securities, available for sale	110,547	
Loans held for sale	10,874	
Loans receivable, net	1,875,191	1,7
Federal Home Loan Bank stock	29,069	
Premises and equipment, net	28,139	
Accrued interest receivable	9,480	
Other assets	20,062	
Total assets	$ 2,144,903	$ 1,9

Liabilities and Shareholders' Equity

Liabilities:		
Deposits	$ 1,155,049	$ 1,1
Advances from Federal Home Loan Bank and other borrowings	582,115	4
Advance payments from borrowers for taxes, insurance and other escrow funds	30,267	
Accrued interest payable	6,433	
Accrued expenses and other liabilities	24,875	
Total liabilities	1,798,739	1,6
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	355,948	3
Retained earnings, substantially restricted	7,713	
Unallocated common stock held by Employee Stock Ownership Plan	(17,308)	(
Accumulated other comprehensive loss	(415)	
Total shareholders' equity	346,164	3
Commitments and contingent liabilities		
Total liabilities and shareholders' equity	$ 2,144,903	$ 1,9

See accompanying notes to consolidated financial statements.

3

TierOne Corporation and Subsidiaries
Consolidated Statements of Income
Three Months Ended March 31, 2003 and 2002 (Unaudited)
(dollars in thousands, except per share data)

	March 31,	
	2003	2002
Interest income:		
Loans receivable	$ 26,793	$23,143
Investment securities	1,032	1,244
Other interest-earning assets	99	198
Total interest income	27,924	24,585
Interest expense:		
Deposits	6,223	8,159
Advances from Federal Home Loan Bank and other borrowings	4,064	2,920
Total interest expense	10,287	11,079

Net interest income	17,637	13,506
Provision for loan losses	1,172	564
Net interest income after provision for loan losses	16,465	12,942
Other income:		
Fees and service charges	967	1,816
Income (loss) from real estate operations, net	(18)	149
Net gain on sales of:		
Loans held for sale	1,955	705
Real estate owned	14	--
Other operating income	711	570
Total other income	3,629	3,240
Other expense:		
Salaries and employee benefits	6,319	5,146
Occupancy, net	1,431	1,438
Data processing	411	364
Advertising	724	947
Other operating expense	2,208	1,816
Total other expense	11,093	9,711
Income before income taxes	9,001	6,471
Income tax expense	3,306	2,336
Net income	$ 5,695	$ 4,135
Net income per common share, basic and diluted*	$ 0.27	
Average common shares outstanding (000's)*	20,826	

* Information applicable to post stock conversion period only. The Company completed its initial public offering on October 1, 2002.

See accompanying notes to consolidated financial statements.

4

TierOne Corporation and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
and Comprehensive Income
Three Months Ended March 31, 2003 (Unaudited)
(dollars in thousands)

	Common stock	Additional paid-in capital	Retained earnings, substantially restricted	Unallocated common stock held by the Employee Stock Ownership Plan
Balance at December 31, 2002	$226	$355,741	$2,018	$(17,684)

Common stock allocated to participants in Employee Stock Ownership Plan	--	207	--	376
Comprehensive income:				
Net income	--	--	5,695	--
Change in unrealized loss on available for sale securities, net of tax and reclassification adjustment	--	--	--	--
Total comprehensive income	--	--	5,695	--
Balance at March 31, 2003	$226	$355,948	$7,713	$(17,308)

See accompanying notes to consolidated financial statements.

5

TierOne Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2003 and 2002 (Unaudited)
(dollars in thousands)

	Ma
	2003
Reconciliation of net income to net cash provided by (used in) operating activities:	
Net income	$ 5,695
Adjustments to reconcile net income to net cash provided by (used in) operating activities:	
Net amortization (accretion) of investment and mortgage-backed securities	5
Depreciation and amortization	670
Employee Stock Ownership Plan expense	583
Amortization on loans receivable, net	1,115
Deferred income tax expense (benefit)	(97
Provision for loan losses	1,172
Proceeds from sales of loans held for sale	140,590
Originations and purchases of loans held for sale	(141,005
Net gain on sales of:	
Loans receivable held for sale	(1,955
Real estate owned	(14
Premises and equipment	--
Changes in certain assets and liabilities:	
Accrued interest receivable	(396
Other assets	(43
Accrued interest payable	(379
Accrued expenses and other liabilities	2,710
Net cash provided by (used in) operating activities	8,651

Cash flows from investing activities:	
Purchase of investment and mortgage-backed securities, available for sale	(90,000
Proceeds from maturities of investment securities, available for sale	2,000
Proceeds from principal repayments of investment and mortgage-backed securities	3,684
Decrease (increase) in loans receivable	(112,409
Sale of Federal Home Loan Bank stock	--
Purchase of Federal Home Loan Bank stock	(7,610
Additions to premises and equipment	(1,999
Proceeds from sale of premises and equipment	--
Proceeds from sale of real estate owned	597
Net cash provided by (used in) investing activities	(205,737

See accompanying notes to consolidated financial statements.

TierOne Corporation and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Three Months Ended March 31, 2003 and 2002 (Unaudited)
(dollars in thousands)

	March 31,	
	2003	2002
Cash flows from financing activities:		
Net increase in deposits	26,169	25,82
Net increase (decrease) in advance payments from borrowers for taxes, insurance and other escrow funds	814	(4,36
Proceeds from Federal Home Loan Bank advances	145,000	-
Repayments of Federal Home Loan Bank advances	(20,000)	-
Net advances (repayments) on Federal Home Loan Bank line of credit and other borrowings	38,786	(43,10
Net cash provided by (used in) financing activities	190,769	(21,63
Net decrease in cash and cash equivalents	(6,317)	(12,16
Cash and cash equivalents at beginning of period	33,037	34,44
Cash and cash equivalents at end of period	$ 26,720	$ 22,28
Supplemental disclosures of cash flow information:		
Cash paid during period for:		
Interest	$ 10,666	$ 8,72
Income taxes, net of refunds	$ 436	$ 54

Noncash investing activities:		
Transfers from loans to real estate owned and other assets through foreclosure	$ 675	$ 25

See accompanying notes to consolidated financial statements.

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

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 public stock conversion of TierOne Bank which was completed in October 2002. TierOne Bank operates from 58 banking offices located in Nebraska, southwest Iowa and northern Kansas and two loan production offices in Colorado.

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 March 31, 2003 and for the three month periods ended March 31, 2003 and 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 months ended March 31, 2003, are not necessarily indicative of the results which may be expected for the entire calendar year 2003.

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

3. Investment Securities

Investment securities at March 31, 2003 and December 31, 2002 are summarized below:

March 31, 2003	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Held to Maturity:				
Municipal obligations	$ 153	$ --	$ --	$ 153
Available for Sale:				
Mortgage-backed securities	110,142	675	270	110,547
U.S. government agency obligations	--	--	--	--
Corporate securities	29,471	59	867	28,663
Asset Management Fund - ARM Fund	6,000	5	--	6,005
	$145,766	$ 739	$ 1,137	$145,368

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

9

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

4. Loan Portfolio Composition

Loans receivable at March 31, 2003 and December 31, 2002 are summarized below.

	March 31, 2003 Amount	March 31, 2003 %	December 31, Amount
		(dollars in thousands)	
Real estate loans:			

One-to-four family residential (1)	$ 680,287	33.66%	$ 573,209
Multi-family residential	86,273	4.27%	79,953
Commercial real estate and land	395,208	19.56%	398,076
Residential construction	170,841	8.45%	156,322
Commercial construction	142,757	7.06%	143,020
Total real estate loans	1,475,366	73.00%	1,350,580
Commercial business	51,099	2.53%	33,375
Warehouse mortgage lines of credit	198,001	9.80%	236,492
Consumer loans:			
Home equity	35,720	1.77%	37,522
Home equity line of credit	101,865	5.04%	94,801
Home improvement	77,729	3.85%	82,081
Automobile	63,983	3.17%	60,707
Other	17,019	0.84%	15,131
Total consumer loans	296,316	14.67%	290,242
Total loans	2,020,782	100.00%	1,910,689
Less:			
Unearned premiums and discounts	8,164		4,688
Discounts on loans acquired through merger	(162)		(174)
Undisbursed portion of construction and land loans in process	(124,142)		(123,331)
Deferred loan fees	(593)		(516)
Allowance for loan losses	(17,984)		(17,108)
Net loans	$ 1,886,065		$ 1,774,248
(1) Includes loans held for sale	$ 10,874		$ 8,504

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

	At or for the Three Months Ended March 31, 2003	2002
	(dollars in thousands)	
Allowance for loan losses, beginning of period	$ 17,108	$ 13,464
Provision for loan losses	1,172	564

Charge-offs	(345)	(204)
Recoveries on loans previously charged off	49	19
Allowance for loan losses, end of period	$ 17,984	$ 13,843
Allowance for loan losses as a percent of net loans, exclusive of allowance for loan losses	0.94%	1.00%

11

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

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.

	March 31, 2003	December 31, 2002
	(dollars in thousands)	
Non-accruing loans:		
One-to-four family residential	$ 675	$1,161
Multi-family residential	--	--
Commercial real estate and land	3,795	3,795
Residential construction	290	106
Commercial construction	--	--
Commercial business loans	--	--
Warehouse mortgage lines of credit	--	--
Consumer	357	427
Total non-accruing loans	5,117	5,489
Real estate owned, net (1)	2,059	1,967
Total nonperforming assets	7,176	7,456
Troubled debt restructurings	206	209
Total nonperforming assets and troubled debt restructurings	$7,382	$7,665
Allowance for loan losses as a percent of nonperforming loans	351.46%	311.68%
Total nonperforming loans as a percent of net loans, exclusive of allowance for loan losses	0.27%	0.31%
Total nonperforming assets as a percent of total assets	0.33%	0.38%
Allowance for loan losses as a percent of net loans, exclusive of allowance for loan losses	0.94%	0.96%

(1) Real estate owned balances are shown net of related loss allowances. Includes both real property and other repossessed collateral consisting primarily of automobiles.

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

5. 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 March 31,		Year Ended December 31,	
	2003	2002	2002	2001
	(dollars in thousands)			
Balance at beginning of period	$ 6,290	$ 4,577	$ 4,577	$ 1,101
Mortgage servicing rights capitalized	1,719	1,115	6,302	4,830
Amortization expense	(1,246)	(294)	(2,619)	(1,004)
Valuation adjustment	(590)	--	(1,970)	(350)
Balance at end of period	$ 6,173	$ 5,398	$ 6,290	$ 4,577

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

	Three Months Ended March 31,		Year Ended December 31,	
	2003	2002	2002	2001
	(dollars in thousands)			
Balance at beginning of period	$ 2,320	$ 350	$ 350	$ --
Amounts charged to operations	590	--	1,970	350
Ending balance	$ 2,910	$ 350	$ 2,320	$ 350

The estimated fair value of mortgage servicing rights at March 31, 2003 totaled approximately $6.2 million on a balance of $776.8 million of serviced loans at such date. The following table compares the key assumptions used in measuring the fair values of mortgage servicing rights for the periods presented:

	March 31, 2003	December 31, 2002
	(dollars in thousands)	
Fair value	$6,173	$6,290

Prepayment speed	9.7% - 98.6%	9.2% - 74.0%
Weighted average prepayment speed	38.0%	29.9%
Fair value with 10% adverse change	$5,662	$5,894
Fair value with 20% adverse change	$5,318	$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	$5,930	$6,143
Fair value with 20% adverse change	$5,814	$6,004

13

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 58 banking offices in Nebraska, Iowa and Kansas and two loan production offices in Colorado. Leading products offered 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 portfolios and the cost of funds, consisting of the interest paid on deposits and borrowings. Results of operations are also affected by provisions for loan losses, loan sale activities and loan servicing. 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.

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.

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.

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. 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 for 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 March 31, 2003 and December 31, 2002

Our total assets were $2.1 billion at March 31, 2003, a $199.4 million, or 10.2%, increase from December 31, 2002. Our available for sale investment securities amounted to $34.7 million at March 31, 2003, a $4.1 million, or 13.5%, increase from December 31, 2002 primarily due to security purchases of $6.0 million partially offset by $2.0 million of maturities during the three months ended March 31, 2003. Our mortgage-backed securities portfolio amounted to $110.5 million at March 31, 2003, a $80.2 million, or 264.0%, 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 securities portfolio while further diversifying our asset base. Net loans receivable, including loans held for sale, totaled $1.9 billion at March 31, 2003, a $111.8 million, or 6.3%, increase from December 31, 2002. At March 31, 2003 our one-to-four family residential loans were $680.3 million, a $107.1 million, or 18.7%, increase compared to December 31, 2002. During the three months ended March 31, 2003 we purchased for our portfolio $142.3 million of adjustable-rate and $48.8 million of fixed-rate one-to-four family residential loans in geographically diverse markets throughout the United States.

Our total deposits increased by $26.2 million to $1.2 billion at March 31, 2003 as compared to December 31, 2002 as we continued our efforts to increase the level of our core deposits, especially checking accounts. At March 31, 2003, our interest-bearing and non-interest-bearing checking accounts amounted to $346.4 million in the aggregate, a $20.4 million, or 6.3%, increase from the aggregate amount at December 31, 2002. Our money market accounts totaled $283.3 million, a $13.0 million, or 4.8%, increase compared to December 31, 2002. In addition, our certificates of deposit declined $9.3 million, or 1.8%, to $507.4 million at March 31, 2003 as compared to $516.7 million at December 31, 2002. Our FHLB advances and other borrowings amounted to $582.1 million at March 31, 2003, a $163.8 million, or 39.2%, increase from December 31, 2002. We have utilized FHLB advances as the primary funding source for growing our loans receivable and investment securities portfolios.

Our shareholders' equity increased by $6.3 million to $346.2 million at March 31, 2003 compared to $339.9 million at December 31, 2002 primarily reflecting $5.7 million in net income earned for the three months ended March 31, 2003.

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

Comparison of Operating Results for the Three Months Ended March 31, 2003 and 2002

General. Our net income increased by $1.6 million, or 37.7%, to $5.7 million for the three months ended March 31, 2003 compared to $4.1 million for the three months ended March 31, 2002. Our net income increased during 2003 due primarily to increased loans receivable interest income and reductions in the average rates paid on deposits and borrowings. Our average interest rate spread declined to 3.17% for the three months ended March 31, 2003 compared to 3.20% for the three months ended March 31, 2002. Our net interest margin improved to 3.70% for the three months ended March 31, 2003 as compared to 3.62% for the three months ended March 31, 2002 due in part to the investment of stock conversion proceeds. Likewise, our ratio of average interest-earning assets to average interest-bearing liabilities increased to 124.74% for the three months ended March 31, 2003 as compared to 114.07% for the three months ended March 31, 2002.

Interest Income. Our total interest income for the three months ended March 31, 2003 was $27.9 million compared to $24.6 million for the three months ended March 31, 2002. Total interest income during the three months ended March 31, 2003 increased due to the increase in the average balance of interest-earning assets, primarily loans, partially offset by a decline in the average yield. The average balance of loans during the three months ended March 31, 2003 and 2002 was $1.8 billion and $1.3 billion, respectively. The average yield earned on net loans receivable was 6.04% for the three months ended March 31, 2003 compared to 6.92% for the three months ended March 31, 2002 which was indicative of the lower interest rate environment which continued to fuel a high level of refinance activity during 2002 and the three months ended March 31, 2003. Average yields also were lower on our investment and mortgage-backed securities during the three months ended March 31, 2003 as compared to the three months ended March 31, 2002.

Interest Expense. Our total interest expense for the three months ended March 31, 2003 was $10.3 million as compared to $11.1 million for the same period in 2002. The primary reason for the decrease in our interest expense during the three months ended March 31, 2003 was a reduction in the average rate on deposits to 2.27% from 3.03% for the same period in 2002. The average rate on our certificates of deposit was 3.44% for the three months ended March 31, 2003 as compared to 4.14% for the same period in 2002. The average rates on our interest-bearing checking accounts, money market accounts and savings accounts also declined during the three months ended March 31, 2003 as compared with the same period in 2002. Interest expense on FHLB advances and other borrowings increased by $1.1 million, or 39.2%, for the three months ended March 31, 2003 as compared with the same period in 2002 due to a higher average balance of borrowings at March 31, 2003 as compared to March 31, 2002 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 rate paid on borrowings from 5.06% for the three months ended March 31, 2002 to 3.79% for the three months ended March 31, 2003.

and Results of Operations

Average Balances, Net Interest Income, and Yields Earned and Rates Paid. The following table details 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.

	Three Months Ended March			
	2003			
	Average Balance	Interest	Average Yield/Rate	Average Balance
			(dollars in thousands	
Interest-earning assets:				
Fed funds sold	$ 32,759	$ 99	1.21%	$ 45,36
Investment securities (1)	57,797	544	3.76%	65,31
Mortgage-backed securities (1)	39,156	488	4.99%	43,20
Loans receivable (2)	1,775,506	26,793	6.04%	1,337,32
Total interest-earning assets	1,905,218	27,924	5.86%	1,491,20
Non-interest-earning assets	84,491			42,46
Total assets	$1,989,709			$1,533,67
Interest-bearing liabilities:				
Interest-bearing checking accounts	$ 298,053	$ 834	1.12%	$ 241,21
Regular savings accounts	16,854	30	0.71%	13,50
Money market accounts	272,610	967	1.42%	292,38
Certificate accounts	510,729	4,392	3.44%	529,23
Total interest-bearing deposits	1,098,246	6,223	2.27%	1,076,34
FHLB advances and other borrowings	429,102	4,064	3.79%	230,93
Total interest-bearing liabilities	1,527,348	10,287	2.69%	1,307,28
Non-interest-bearing accounts	40,401			25,93
Other liabilities	79,128			76,69
Total liabilities	1,646,877			1,409,91
Shareholders' equity	342,832			123,75
Total liabilities and shareholders' equity	$1,989,709			$1,533,67
Net interest-earnings assets	$ 377,870			$ 183,92
Net interest income; average interest rate spread		$17,637	3.17%	
Net interest margin (3)			3.70%	
Average interest-earning assets to average interest-bearing liabilities			124.74%	

(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.

19

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

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 March 31, 2003 vs. Three Months Ended March 31, 2002		
	Increase (Decrease) Due To		Total Increase (Decrease)
	Rate	Volume	
	(dollars in thousands)		
Interest income:			
Federal funds sold	$ (48)	$ (46)	$ (94)
Investment securities	(61)	(74)	(135)
Mortgage-backed securities	(31)	(51)	(82)
Loans receivable, net	(2,340)	5,990	3,650
Total interest income	(2,480)	5,819	3,339
Interest expense:			
Interest-bearing checking accounts	(717)	416	(301)
Savings accounts	(31)	18	(13)
Money market accounts	(441)	(96)	(537)
Certificate accounts	(899)	(186)	(1,085)
Total deposits	(2,088)	152	(1,936)
FHLB advances and other borrowings	(473)	1,617	1,144
Total interest expense	(2,561)	1,769	(792)
Net change in net interest income	$ 81	$ 4,050	$ 4,131

20

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

Provision for Loan Losses. We made a provision for loan losses of $1.2 million for the three months ended March 31, 2003 as compared to $564,000 for the three months ended March 31, 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 March 31, 2003, an increase of $228.7 million, or 27.6%, as compared to March 31, 2002. These loans are deemed to have higher levels of known and inherent losses than one-to-four family residential loans. As such, we have made provisions that are considered appropriate to cover probable losses. At March 31, 2003, our total nonperforming assets amounted to $7.2 million, or 0.33% of total assets, as compared to $7.5 million, or 0.38% of total assets, at December 31, 2002. During the three months ended March 31, 2003 and 2002 we charged off an aggregate of $345,000 and $204,000, respectively, of loans, primarily related to consumer loans, and had $49,000 and $19,000, respectively, in recoveries of previous charge-offs.

Other Income. Our other income increased by $389,000, or 12.0%, to $3.6 million for the three months ended March 31, 2003 as compared to $3.2 million for the three months ended March 31, 2002. This increase was primarily the result of a $1.3 million increase in gains on loans held for sale, a $344,000 increase in checking account fees and a $239,000 increase in loan fees offset in large part by a $952,000 increase in the amortization of mortgage servicing rights and a $590,000 mortgage servicing rights impairment charge. The increase in our mortgage servicing rights valuation allowance was deemed necessary due to the continued 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 35.0% to $1.3 million for the three months ended March 31, 2003 as compared to $983,000 for the three months ended March 31, 2002.

Other Expense. Our other expense increased by $1.4 million, or 14.2%, to $11.1 million for the three months ended March 31, 2003 as compared to $9.7 million for the three months ended March 31, 2002. This increase resulted primarily from a $583,000 expense associated with the Company's Employee Stock Ownership Plan which was implemented in October 2002 as part of the Bank's mutual to stock conversion and a $543,000 increase in compensation expense related to salary increases and continued additions of business line personnel.

Income Tax Expense. Our income tax expense increased by $970,000, or 41.5%, to $3.3 million for the three months ended March 31, 2003 as compared to $2.3 million for the three months ended March 31, 2002. The effective income tax rate for the three months ended March 31, 2003 was 36.7% as compared to 36.1% for the three months ended March 31, 2002. The increase in income tax expense for the three months ended March 31, 2003 as compared to the three months ended March 31, 2002 primarily reflects the increase in net income.

21

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

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 March 31, 2003, we had certificates of deposit maturing within the next 12 months amounting to $307.2 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 security payments and prepayments as well as from sales of available for sale securities, we have significant 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 $429.1 million and $230.9 million for three months ended March 31, 2003 and 2002, respectively. To date, substantially all of our borrowings have consisted of advances from the FHLBank Topeka. Pursuant to blanket collateral agreements with FHLBank Topeka, the Company's qualifying first mortgage, multi-family, commercial real estate, second mortgage and construction loans secure 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 March 31, 2003, the maximum total amount of such recourse was approximately $6.8 million. Based on historical experience, at March 31, 2003, we had established a reserve of $424,000 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 March 31, 2003 the Bank's regulatory capital exceeded regulatory limits set by the Office of Thrift Supervision. The current requirements and the Bank's actual levels at March 31, 2003 are set forth below:

	Required Capital		Actual Capital		Excess Capital	
	Amount	Percent	Amount	Percent	Amount	Percent
			(dollars in thousands)			
Tangible capital	$ 32,141	1.50%	$243,450	11.36%	$211,309	9.86%
Core capital	85,710	4.00%	243,450	11.36%	157,740	7.36%
Risk-based capital	137,679	8.00%	261,434	15.19%	123,755	7.19%

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) for the three months ended March 31, 2003 and 2002.

	Three Months Ended March 31,	
	2003	2002
Selected Operating Ratios:		
Average yield on interest-earning assets	5.86%	6.59%
Average rate on interest-bearing liabilities	2.69%	3.39%
Average interest rate spread	3.17%	3.20%
Net interest margin	3.70%	3.62%
Average interest-earning assets to average interest-bearing liabilities	124.74%	114.07%
Net interest income after provision for loan losses to non-interest expense	148.43%	133.28%
Total non-interest expense to average assets	2.23%	2.55%
Efficiency ratio	52.16%	57.99%
Return on average assets	1.14%	1.09%
Return on average equity	6.64%	13.36%
Average equity to average assets	17.23%	8.13%

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 chief executive officer and chief financial officer directly supervised and participated in evaluating the effectiveness of the design and operation of our disclosure controls and procedures (which evaluation was conducted within 90 days of the filing date of this quarterly report) and concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that 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 (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings.

There are no matters required to be reported under this item. Reference is made to the Bank's ongoing litigation regarding its goodwill claims against the U.S. Government as described in "Business of TierOne Bank - Legal Proceedings" in the Company's Annual Report on Form 10-K for the year ended December 31, 2002. There is no change in the status of the litigation.

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).

		FOR	AGAINST	ABSTAIN	BROKER NON-VOTE
2.	To adopt the 2003 Stock Option Plan	12,556,644	1,240,970	37,654	5,492,519
3.	To adopt the 2003 Recognition and Retention Plan and Trust Agreement	12,330,761	1,463,051	41,456	5,492,519
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	N/A

26

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 officers
10.7	Form of Change in Control Agreement between TierOne Bank and certain executive officers
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	2003 TierOne Corporation Stock Option Plan
10.16	2003 TierOne Corporation Recognition and Retention Plan and Trust Agreement
99.1	Certification of Chairman of the Board and Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2	Certification of Chairman of the Board and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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
January 30, 2003	Item 9. On January 29, 2003, the Company issued a press release reporting its earnings for the three months and year ended December 31, 2002.
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 Recognition and Retention Plan and Trust Agreement.

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: May 9, 2003

By: /s/ Gilbert G. Lundstrom

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

Date: May 9, 2003

By: /s/ Eugene B. Witkowicz

Eugene B. Witkowicz
Executive Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO RULE 13a-14
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gilbert G. Lundstrom, the Chairman of the Board and Chief Executive Officer of TierOne Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TierOne Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including

any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 9, 2003

/s/ Gilbert G. Lundstrom

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

30

CERTIFICATION PURSUANT TO RULE 13a-14
OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Eugene B. Witkowicz, the Executive Vice President and Chief Financial Officer of TierOne Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TierOne Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 9, 2003

/s/ Eugene B. Witkowicz

Eugene B. Witkowicz
Executive Vice President
and Chief Financial Officer