TIERONE CORP
Form 10-Q
November 14, 2002

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 September 30, 2002

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 of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| 1235 "N" Street<br>Lincoln, Nebraska | 68508 |
| (Address of Principal Executive Offices) | (Zip Code) |

(402) 475-0521

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No X

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 November 8, 2002, 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 Bank and Subsidiaries
Consolidated Statements of Financial Condition
September 30, 2002 (Unaudited) and December 31, 2001
(dollars in thousands)

| | September 30, 2002 (unaudited) | December 31, 2001 (audited) |
|---|---|---|
| Assets | | |
| Cash and due from banks | $ 29,043 | $ 24,141 |
| Federal funds sold | 42,000 | 10,300 |
| Total cash and cash equivalents | 71,043 | 34,441 |
| Investment securities: | | |

| | | |
|---|---|---|
| Held-to-maturity | 160 | 221 |
| Available-for-sale | 68,346 | 90,811 |
| Loans receivable, net | 1,592,809 | 1,379,066 |
| Loans held for sale | 37,064 | 14,373 |
| Accrued interest receivable | 8,019 | 7,834 |
| Federal Home Loan Bank stock | 19,630 | 14,836 |
| Premises and equipment | 24,932 | 18,201 |
| Other assets | 15,460 | 10,230 |
| Total assets | $ 1,837,463 | $ 1,570,013 |
| Liabilities and Retained Earnings | | |
| Liabilities: | | |
| Deposits | $ 1,168,810 | $ 1,096,242 |
| Advances from Federal Home Loan Bank and other borrowings | 276,999 | 303,315 |
| Advances from borrowers for taxes and insurance | 16,633 | 15,535 |
| Accrued interest payable | 5,493 | 8,734 |
| Stock subscription proceeds | 213,333 | -- |
| Accrued expenses and other liabilities | 21,823 | 24,432 |
| Total liabilities | 1,703,091 | 1,448,258 |
| Retained earnings: | | |
| Retained earnings, subject to certain restrictions | 134,626 | 121,678 |
| Cumulative other comprehensive income (loss), net | (254) | 77 |
| Total retained earnings | 134,372 | 121,755 |
| Commitments and contingent liabilities | | |
| Total liabilities and retained earnings | $ 1,837,463 | $ 1,570,013 |

See accompanying notes to consolidated financial statements.



TierOne Bank and Subsidiaries
Consolidated Statements of Income
(dollars in thousands)

| | For the Three Months Ended September 30, | | For the Nine Months End September 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (unaudited) | | | |
| Interest income: | | | | |
| Loans receivable | $25,329 | $23,653 | $72,480 | $70,6 |
| Investment securities | 1,095 | 1,993 | 3,778 | 7,0 |

| | | | | |
|---|---|---|---|---|
| Other interest-earning assets | 118 | 435 | 325 | 1,1 |
| Total interest income | 26,542 | 26,081 | 76,583 | 78,8 |
| Interest expense: | | | | |
| Deposits | 7,941 | 11,114 | 23,963 | 37,9 |
| Advances from Federal Home Loan Bank and other borrowings | 3,323 | 2,567 | 9,347 | 6,9 |
| Total interest expense | 11,264 | 13,681 | 33,310 | 44,9 |
| Net interest income | 15,278 | 12,400 | 43,273 | 33,9 |
| Provision for loan losses | 1,262 | 953 | 2,469 | 1,8 |
| Net interest income after provision for loan losses | 14,016 | 11,447 | 40,804 | 32,0 |
| Other income: | | | | |
| Fees and service charges | 2,279 | 2,007 | 6,218 | 5,1 |
| Mortgage servicing rights impairment | (1,160) | (50) | (1,620) | ( |
| Income from real estate operations, net | 224 | 137 | 583 | 4 |
| Other operating income | 761 | 398 | 1,893 | 1,5 |
| Net gain (loss) on sales of: | | | | |
| Investments | -- | 5 | -- | |
| Loans held for sale | 806 | 511 | 2,120 | 1,2 |
| Real estate owned | 4 | (1) | 3 | |
| Total other income | 2,914 | 3,007 | 9,197 | 8,2 |
| Other expense: | | | | |
| Salaries and employee benefits | 5,640 | 5,121 | 16,127 | 14,5 |
| Occupancy, net | 1,393 | 1,629 | 4,297 | 4,2 |
| Data processing | 358 | 344 | 1,070 | 1,0 |
| Advertising | 848 | 486 | 2,737 | 1,3 |
| Legal services | 107 | 149 | 259 | 5 |
| Other operating expense | 1,687 | 1,418 | 5,253 | 4,2 |
| Total other expense | 10,033 | 9,147 | 29,743 | 25,9 |
| Income before income taxes | 6,897 | 5,307 | 20,258 | 14,3 |
| Income tax expense | 2,487 | 1,899 | 7,310 | 5,1 |
| Net income | $ 4,410 | $ 3,408 | $12,948 | $ 9,2 |

See accompanying notes to consolidated financial statements.



TierOne Bank and Subsidiaries
Consolidated Statements of Changes in Retained Earnings and Comprehensive Income
Nine Months Ended September 30, 2002 (Unaudited) and
Year Ended December 31, 2001
(dollars in thousands)

| | Retained earnings | Cumulative other comprehensive income (loss) | Total retained earnings |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Balance at December 31, 2000 | $108,636 | $ (764) | $ 107,872 |
| Comprehensive income: | | | |
| Net income | 13,042 | -- | 13,042 |
| Change in unrealized loss on available-for-sale securities, net | -- | 841 | 841 |
| Total comprehensive income | 13,042 | 841 | 13,883 |
| Balance at December 31, 2001 | 121,678 | 77 | 121,755 |
| Comprehensive income: | | | |
| Net income | 12,948 | -- | 12,948 |
| Change in unrealized gain on available-for-sale securities, net | -- | (331) | (331) |
| Total comprehensive income (loss) | 12,948 | (331) | 12,617 |
| Balance at September 30, 2002 | $134,626 | $ (254) | $ 134,372 |

See accompanying notes to consolidated financial statements.



TierOne Bank and Subsidiaries
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2002 and 2001
(dollars in thousands)

| | September 30, | |
|---|---|---|
| | 2002 | 2001 |
| | (unaudited) | |
| Cash flows from operating activities: | | |
| Reconciliation of net income to cash provided by (used in) operating activities: | | |
| Net income | $12,948 | $9,248 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Amortization of investment and mortgage-backed securities, net | 236 | 23 |
| Depreciation and amortization | 1,678 | 1,595 |
| Amortization on loans receivable, net | 229 | 43 |

| | | |
|---|---|---|
| Deferred income tax benefit | (654) | (511) |
| Provision for loan losses | 2,469 | 1,893 |
| Proceeds from sales of loans held for sale | 277,491 | 214,120 |
| Originations and purchases of loans held for sale | (298,062) | (223,311) |
| Net (gain) loss on sales of: | | |
| Loans receivable held for sale | (2,120) | (1,247) |
| Real estate owned and held for investment | (8) | (8) |
| Premises and equipment | (206) | 36 |
| Changes in certain assets and liabilities: | | |
| Accrued interest receivable | (185) | (849) |
| Other assets | (4,331) | (2,303) |
| Accrued interest payable | (3,241) | (4,179) |
| Accrued expenses and other liabilities | (2,609) | 6,248 |
| Total adjustments | (29,313) | (8,450) |
| Net cash provided by (used in) operating activities | (16,365) | 798 |
| Cash flows from investing activities: | | |
| Purchase of investment securities: | | |
| Held-to-maturity | (27) | (8) |
| Available-for-sale | (67,759) | (75,377) |
| Proceeds from maturity of investment securities, available-for-sale | 67,554 | 81,500 |

See accompanying notes to consolidated financial statements.



TierOne Bank and Subsidiaries
Consolidated Statements of Cash Flows (continued)
Nine Months Ended September 30, 2002 and 2001
(dollars in thousands)

| | September 30, | |
|---|---|---|
| | 2002 | 2001 |
| | (unaudited) | |
| Proceeds from principal repayments of investment and mortgage-backed securities | 22,013 | 23,055 |
| Increase in loans receivable | (217,401) | (154,836) |
| Proceeds from sale of real estate owned and held for investment | 886 | 1,232 |
| Additions to premises and equipment | (8,596) | (1,914) |
| Proceeds from sale of premises and equipment | 408 | -- |
| Sale of Federal Home Loan Bank stock | 3,102 | 5,138 |
| Purchase of Federal Home Loan Bank stock | (7,896) | (2,214) |
| Net cash used in investing activities | (207,716) | (123,424) |
| Cash flows from financing activities: | | |

| | | |
|---|---|---|
| Net increase in deposits | 72,568 | 38,502 |
| Net increase (decrease) in advances from borrowers for taxes and insurance | 1,098 | (760) |
| Proceeds from Federal Home Loan Bank long-term advances | 50,000 | 80,000 |
| Repayment of Federal Home Loan Bank long-term advances | (16) | (16) |
| Net paydowns on Federal Home Loan Bank line of credit and Federal Home Loan Bank short-term advances | (76,300) | (7,700) |
| Proceeds from stock subscription | 213,333 | -- |
| Net cash provided by financing activities | 260,683 | 110,026 |
| Net increase (decrease) in cash and cash equivalents | 36,602 | (12,600) |
| Cash and cash equivalents at beginning of period | 34,441 | 30,779 |
| Cash and cash equivalents at end of period | $71,043 | $18,179 |
| Supplemental disclosure of cash flow information - cash paid during the period for: | | |
| Interest | $36,551 | $49,104 |
| Income taxes, net of refunds | $ 7,734 | $ 3,242 |
| Supplemental schedules of noncash investing activities transfers from loans to real estate owned and other assets through foreclosure | $ 949 | $ 711 |

See accompanying notes to consolidated financial statements.



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

1. Basis of Presentation

On April 3, 2002, TierOne Bank (the "Bank") (formerly known as First Federal Lincoln Bank) incorporated TierOne Corporation, a Wisconsin corporation (the "Company" or "registrant") to facilitate the conversion of the Bank from a federally chartered mutual savings bank to a federally chartered stock savings bank (the "Conversion"). The Conversion was completed on October 1, 2002, at which time the Company became the holding company for the Bank and issued 22,575,075 shares of its common stock to members of the general public, the Company's employee stock ownership plan and to certain directors, officers and employees of the Company and the Bank. Included in such amount were 500,000 shares contributed to the TierOne Charitable Foundation. The Company owns all the outstanding common stock of the Bank. As of September 30, 2002, the registrant was in organization and had engaged in no operations at that date; accordingly, no financial statements of the Company have been included herein.

References in this document to "we," "our" or "us" refer to the Company together with the Bank, unless the context requires otherwise.

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. In April 2000, TMS created a new subsidiary, TierOne Reinsurance Company, which reinsures credit life and accident and health insurance policies.

The accompanying unaudited consolidated financial statements as of September 30, 2002 and for the three and nine month periods ended September 30, 2002 and 2001 have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and notes necessary for complete financial statements in conformity with accounting principles generally accepted in the United States of America. 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 results of operations for interim periods are not necessarily indicative of the results to be expected for the entire year. These interim financial statements should be read in conjunction with the Company's consolidated audited financial statements and the notes thereto contained in the Company's prospectus dated August 12, 2002.

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

3. Investment Securities

Investment securities at September 30, 2002 and December 31, 2001 are summarized below:

| | | Gross Unrealized | | |
|---|---|---|---|---|
| September 30, 2002 | Amortized Cost | Gain | Loss | Fair Va |
| | | (dollars in thousands) (unaudited) | | |
| Held to Maturity: | | | | |
| Municipal obligations | $ 160 | $ -- | $ -- | $ |
| Available for Sale: | | | | |
| Mortgage-backed securities | 43,541 | 645 | 39 | 44 |
| U.S. government agency obligations | 7,983 | 26 | -- | 8 |
| Corporate securities | 11,213 | -- | 1,023 | 10 |
| Mutual fund | 6,000 | -- | -- | 6 |
| | $68,897 | $671 | $1,062 | $68 |

| December 31, 2001 | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Va |
|---|---|---|---|---|
| | | (dollars in thousands) (audited) | | |
| Held to Maturity: | | | | |
| Municipal obligations | $ 221 | $ -- | $ -- | $ |
| Available for Sale: | | | | |
| Mortgage-backed securities | 45,788 | 528 | 29 | 46 |
| U.S. government agency obligations | 26,691 | -- | -- | 26 |
| Corporate securities | 12,214 | -- | 381 | 11 |
| Mutual fund | 6,000 | -- | -- | 6 |
| | $90,914 | $528 | $ 410 | $91 |

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

4. Loan Portfolio Composition

Loans receivable at September 30, 2002 and December 31, 2001 are summarized below.

| | September 30, 2002 Amount | September 30, 2002 % | December 31, 2001 Amount | December 31, 2001 % |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| | (unaudited) | | (audited) | |
| Real estate loans: | | | | |
| One- to four-family residential(1) | $ 544,813 | 30.94% | $ 502,502 | 33 |
| Multi-family residential | 68,008 | 3.86 | 74,209 | 4 |
| Commercial real estate and land | 341,335 | 19.38 | 258,277 | 17 |
| Residential construction | 144,851 | 8.23 | 113,300 | 7 |
| Commercial construction | 129,084 | 7.33 | 95,614 | 6 |
| Total real estate loans | 1,228,091 | 69.74 | 1,043,902 | 68 |

| | | | | |
|---|---|---|---|---|
| Commercial business | 21,375 | 1.21 | 12,193 | 0 |
| Warehouse mortgage lines of credit | 225,236 | 12.79 | 224,067 | 14 |
| Consumer loans: | | | | |
| Home equity | 41,092 | 2.33 | 45,398 | 2 |
| Home equity line of credit | 90,648 | 5.15 | 61,839 | 4 |
| Home improvement | 82,841 | 4.70 | 76,555 | 5 |
| Automobile | 59,331 | 3.37 | 42,547 | 2 |
| Other | 12,511 | 0.71 | 10,486 | 0 |
| Total consumer loans | 286,423 | 16.26 | 236,825 | 15 |
| Total loans | 1,761,125 | 100.00% | 1,516,987 | 100 |
| Less: | | | | |
| Unearned premiums and discounts | 2,253 | | 558 | |
| Discounts on loans acquired through merger | (196) | | (270) | |
| Undisbursed portion of construction and land loans in process | (117,615) | | (109,852) | |
| Deferred loan fees | (540) | | (520) | |
| Allowance for loan losses | (15,154) | | (13,464) | |
| Net loans (1) | $1,629,873 | | $1,393,439 | |

(1) Includes loans held for sale of $37.1 million and $14.4 million at September 30, 2002 and December 31, 2001, respectively.

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

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

| | At or For the Nine Months Ended September 30, 2002 | 2001 |
|---|---|---|
| | (dollars in thousands) | |
| Allowance for loan losses, beginning of period | $13,464 | $ 9,947 |
| Provision for loan losses | 2,469 | 1,893 |
| Charge-offs | (839) | (361) |
| Recoveries on loans previously charged off | 60 | 10 |
| Allowance for loan losses, end of period | $15,154 | $11,489 |
| Allowance for loan losses as a percent of total loans receivable (1) | 0.92% | 0.88% |

(1) Total loans receivable consists of loans receivable, including loans held for sale, less undisbursed loan funds, deferred loan fees and unamortized premiums and discounts.



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

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

| | September 30, 2002 | December 31, 2001 |
|---|---|---|
| | (dollars in thousands) | |
| | (unaudited) | (audited) |
| Non-accruing loans: | | |
| One- to four-family residential | $2,625 | $ 898 |
| Multi-family residential | -- | -- |
| Commercial real estate and land | -- | -- |
| Residential construction | 131 | -- |
| Commercial construction | -- | -- |
| Commercial business | -- | -- |
| Warehouse mortgage lines of credit | -- | -- |
| Consumer | 552 | 767 |
| Total non-accruing loans | 3,308 | 1,665 |
| Real estate owned, net (1) | 248 | 168 |
| Total non-performing assets | 3,556 | 1,833 |
| Troubled debt restructurings | 210 | 345 |
| Total non-performing assets and troubled debt restructurings | $3,766 | $2,178 |
| Allowance for loan losses as a percent of non-performing loans | 458.10% | 808.65% |
| Non-performing loans as percent of total loans receivable (2) | 0.20% | 0.12% |
| Non-performing assets as a percent of total assets | 0.19% | 0.12% |

| | | |
|---|---|---|
| Allowance for loan losses as a percent of total loans receivable (2) | 0.92% | 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.

(2) Total loans receivable consists of loans receivable, including loans held for sale, less undisbursed loan funds, deferred loan fees and unamortized premiums and discounts.



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

5. Mortgage Servicing Rights

Mortgage servicing rights are included in the Consolidated Statements of Financial Condition under the caption "Other Assets." The activity of mortgage servicing rights is summarized as follows for the following periods:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (dollars in thousands) | | | |
| Beginning balance | $5,664 | $2,424 | $4,577 | $1,101 |
| Mortgage servicing rights capitalized | 1,333 | 1,312 | 3,480 | 3,047 |
| Amortization expense | (607) | (216) | (1,207) | (628) |
| | 6,390 | 3,520 | 6,850 | 3,520 |
| Valuation adjustment | (1,160) | (50) | (1,620) | (50) |
| Ending balance | $5,230 | $3,470 | $5,230 | $3,470 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (dollars in thousands) | | | |
| Beginning balance | $ 810 | $ -- | $ 350 | $ -- |
| Amounts charged to operations | 1,160 | 50 | 1,620 | 50 |

| | | | | |
|---|---|---|---|---|
| Ending balance | $1,970 | $ 50 | $1,970 | $ 50 |
| | ====== | ====== | ====== | ====== |

The estimated fair value of the Bank's mortgage servicing rights at September 30, 2002 totaled approximately $5.2 million on a balance of $592.9 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:

| | September 30, 2002 | December 31, 2001 |
|---|---|---|
| | (dollars in thousands) | |
| Fair value | $5,230 | $5,069 |
| Prepayment speed | 11.1% - 46.1% | 8.7% - 37.8% |
| Weighted average prepayment speed | 29.7% | 14.0% |
| Discount rate | 9.0% - 15.0% | 10.5% - 15.0% |





6. Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." However, the Statement retains the fundamental provisions of Statement 121 for (a) recognition and measurement of the impairment of long-lived assets to be held and used and (b) measurement of long-lived assets to be disposed of by sale. This Statement supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. However, this Statement retains the requirement of Opinion 30 to report discontinued operations separately from continuing operations and extends that reporting to a component of an entity that either has been disposed of (by sale, by abandonment, or in distribution to owners) or is classified as held for sale. This Statement also amends APB No. 51, "Consolidated Financial Statements," to eliminate the exception to consolidation for a temporarily controlled subsidiary. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. The provisions of this Statement generally are to be applied prospectively. The adoption of Statement No. 144 did not have an impact on our earnings, financial condition or equity.

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." This Statement rescinds FASB Statement No. 4, "Reporting Gains and Losses from Extinguishment of Debt," and an amendment of that Statement, FASB Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." This Statement also rescinds FASB Statement No. 44, "Accounting for Intangible Assets of Motor Carriers." This Statement amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. This Statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meanings, or describe their applicability under changed conditions. The adoption of Statement No. 145 is not expected to have a material effect on our financial position or results of operation.

In October 2002, the FASB issued Statement No. 147, "Acquisition of Certain Financial Institutions," which amends SFAS No. 72, "Accounting for Certain Acquisitions of Banking or Thrift Institutions," SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," and FASB Interpretation No. 9. Except for transactions between two or more mutual enterprises, this Statement removes acquisitions of financial institutions from the scope of both Statement No. 72 and Interpretation 9 and requires that those transactions be accounted for in accordance with FASB Statements No. 141, "Business Combinations," and No. 142, "Goodwill and Other Intangible Assets." Thus, the requirement in paragraph 5 of Statement No. 72 to recognize





any excess of the fair value of liabilities assumed over the fair value of tangible and identifiable intangible assets acquired as an unidentifiable intangible asset no longer applies to acquisitions within the scope of this Statement. In addition, this Statement amends Statement No. 144 to include within its scope long-term customer-relationship intangible assets of financial institutions such as depositor- and borrower-relationship intangible assets and credit cardholder intangible assets. Consequently, those intangible assets are subject to the same undiscounted cash flow recoverability test and impairment loss recognition and measurement provisions that Statement No. 144 requires for other long-lived assets that are held and used. The adoption of Statement No. 147 is not expected to have a material effect on our financial position or results of operations.

TierOne Bank 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, which is a wholly owned subsidiary of the Company as a result of the completion of the Bank's conversion to stock form, is a $1.8 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 offices in Nebraska, Iowa and Kansas. Leading products offered include residential and commercial real estate financing, consumer, construction and business loans and lines of credit, consumer and business checking and savings plans, investment and insurance services, and telephone and Internet banking access.

The Company was formed by the Bank in connection with the Bank's conversion and as of September 30, 2002, had not yet commenced operations. The Company's results of operations initially will be primarily dependent on the results of the Bank, which became a wholly owned subsidiary of the Company upon completion of the conversion on October 1, 2002. The Bank'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

This Form 10-Q contains forward-looking statements, which can be identified by the use of such words as "estimate, "project, "believe," "intend," "anticipate," "plan," "seek," "expect" and similar expressions. These forward-looking statements include: statements of our goals, intentions and expectations; statements regarding our prospects and business strategy; statements regarding our asset quality and market risk; and estimates of future costs, benefits and results. These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events: changes in demand for loans, deposits and other financial services in our market area; changes in interest rates; changes in general economic conditions; changes in the monetary and fiscal policies of the U.S. Government; legislative or regulatory changes that adversely affect our business; changes in our asset quality; changes in accounting policies and practices, as may be adopted by the bank regulatory agencies and the FASB; and changes in our organization, compensation and benefit plans. Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements. We have no obligation to update or revise any forward-looking statements to reflect any changed assumptions, any unanticipated events or any changes in the future.

## 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 the quantitative analysis as well as consideration of the qualitative factors. Our evaluation process includes, among other things, an analysis of delinquency trends, non-performing 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 September 30, 2002 and December 31, 2001

Our total assets were $1.8 billion at September 30, 2002, a $267.5 million, or 17.0%, increase from December 31, 2001. A decrease in investment securities available for sale was substantially offset by increases in cash and cash equivalents and net loans receivable (including loans held for sale). Our available-for-sale investment securities amounted to $68.3 million at September 30, 2002, a $22.5 million decrease from December 31, 2001 primarily due to a $18.7 million or 70.0% decline in U.S. government agency obligations to $8.0 million. During the nine months ended September 30, 2002, we purchased $67.8 million in investment securities which were partially offset by the maturing of an aggregate of $67.6 million of securities. Cash and cash equivalents totaled $71.0 million at September 30, 2002, a $36.6 million increase from December 31, 2001 and our net loan portfolio, including loans held for sale, totaled $1.6 billion at September 30, 2002, a $236.4 million increase compared to December 31, 2001. The composition of the loan portfolio continued to change reflecting our emphasis on originating or purchasing commercial real estate, construction and consumer loans. As a result, commercial real estate and land, construction (both commercial and residential) and consumer loans increased by $83.1 million, $65.0 million and $49.6 million, respectively, at September 30, 2002 as compared to December 31, 2001. During the nine months ended September 30, 2002, we purchased for portfolio retention a total of $378.0 million of loans, including $160.5 million of adjustable-rate single-family residential loans, $67.0 million of commercial real estate and land loans, $82.5 million of construction loans and $68.0 million of consumer loans. A substantial portion of the commercial real estate and land loans purchased during this period consisted of our purchase of 75% to 95% participation interests in loans originated by two financial institutions headquartered in the State of Washington with the underlying collateral located in several states.

Our total deposits increased by $72.6 million to $1.2 billion during the nine months ended September 30, 2002 as we continued our efforts to increase the level of our core deposits, especially checking accounts. At September 30, 2002, our interest-bearing and non-interest-bearing checking accounts amounted to $323.3 million in the aggregate, a $71.4 million, or 28.3%, increase from the aggregate amount at December 31, 2001. In addition, during the nine-month period ended September 30, 2002, our total certificates of deposit declined to $534.6 million at September 30, 2002 compared to $535.3 million at December 31, 2001. Our FHLB advances and other borrowings amounted to $277.0 million at September 30, 2002 compared to $303.3 million at December 31, 2001.

Our total retained earnings increased by $12.6 million to $134.4 million at September 30, 2002 compared to $121.8 million at December 31, 2001 primarily reflecting $12.9 million in net income earned for the nine months ended September 30, 2002.




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Comparison of Operating Results for the Three and Nine Months Ended September 30, 2002 and 2001

General. Our net income increased by $1.0 million, or 29.4%, to $4.4 million for the three months ended September 30, 2002 compared to $3.4 million for the three months ended September 30, 2001. For the nine months ended September 30, 2002, our net income increased by $3.7 million, or 40.0%, to $12.9 million compared to $9.2 million for the same period in 2001. Our net income increased during 2002 due primarily to greater declines in our cost of funds than the yield on our interest-earning assets which resulted in an improved net interest income. Our average interest rate spread increased to 3.34% for the quarter ended September 30, 2002 compared to 3.19% for the three months ended September 30, 2001. For the nine months ended September 30, 2002, our average interest rate spread was 3.36% as compared to 2.85% for the same period in 2001. Our net interest margin improved to 3.76% and 3.75% for the three and nine months ended September 30, 2002, respectively, compared to 3.56% and 3.30% for the three and nine months ended September 30, 2001, respectively. Our ratio of average interest-earning assets to average interest-bearing liabilities increased to 115.31% and 113.55% for the three and nine month periods ended September 30, 2002, respectively, compared to 109.46% and 110.11% for the same periods in 2001. The improvement in the average interest rate spread and net interest margin during 2002 reflected both the effects of the decline in our cost of funds as a result of the low-interest rate environment which exceeded the decline in the yields earned on our interest-earning assets as well as the continued growth of the loan portfolio.

As previously disclosed, the Company formed the TierOne Charitable Foundation in connection with the Conversion. The Company contributed 500,000 shares of common stock on October 1, 2002. As a consequence, the Company will record a charge of $5.0 million ($3.2 million net of taxes) which will substantially reduce our net income for the fourth quarter of fiscal 2002.

Interest Income. Our total interest income for the three months ended September 30, 2002 was $26.5 million compared to $26.1 million for the three months ended September 30, 2001 while for the nine month periods ended September 30, 2002 and 2001, our total interest income amounted to $76.6 million and $78.9 million, respectively. Total interest income during the three months ended September 30, 2002 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 September 30, 2002 and 2001 was $1.5 billion and $1.2 billion, respectively. The primary reason for the decrease in total interest income during the nine months ended September 30, 2002 was the decline in market rates of interest throughout 2001 partially offset by the growth in the loan portfolio. The average yield earned on net loans receivable was 6.73% for the three months ended September 30, 2002 compared to 7.78% for the three months ended September 30, 2001 and was 6.85% for the nine months ended September 30, 2002 as compared to 7.90% for the same period in 2001. Average yields also were lower on our investment securities and mortgage-backed securities during the three months and the nine months ended September 30, 2002 compared to the same periods in 2001.





Interest Expense. Our total interest expense for the three and nine months ended September 30, 2002 was $11.3 million and $33.3 million, respectively, compared to $13.7 million and $44.9 million for the three months and nine months ended September 30, 2001, respectively. The primary reason for the decrease in our interest expense during 2002 was a reduction in the average rate on deposits to 2.86% and 2.93% during the three and nine months ended September 30, 2002, respectively, compared to 4.14% and 4.74% during the same periods in 2001 combined with the continued emphasis on increasing the amount of core deposits. The average rate on our certificates of deposit was 3.99% and 4.01% for the three months and the nine months ended September 30, 2002, respectively, compared to 5.25% and 5.84% for the same periods in 2001. The average rates on our interest-bearing checking accounts, money market accounts and savings accounts also declined during the 2002 periods compared to the same periods in 2001. Interest expense on FHLB advances and other borrowings increased by $756,000 and $2.4 million during the three and nine months ended September 30, 2002 compared to the same periods in 2001 as a result of a higher average balance of borrowings in 2002 which more than offset a reduction in the average rate paid. The average balance of borrowings increased in 2002 as the Bank continued to fund loan growth in part through borrowings in connection with the implementation of its business plan.





Average Balances, Net Interest Income, and Yields Earned and Rates Paid. The following tables show 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 month end balances. Management does not believe that the monthly averages differ significantly from what the daily averages would be.

| | Three Months Ended September | | | |
|---|---|---|---|---|
| | 2002 | | | |
| | Average Balance | Interest | Average Yield/Rate | Average Balance |
| | (dollars in thousands) | | | |

| | | | | |
|---|---|---|---|---|
| Interest-earning assets: | | | | |
| Federal funds sold | $ 26,430 | $ 113 | 1.71% | $ 46,113 |
| Investment securities | 57,612 | 628 | 4.36 | 65,594 |
| Mortgage-backed securities | 35,258 | 472 | 5.35 | 64,084 |
| Loans receivable | 1,504,440 | 25,329 | 6.73 | 1,216,714 |
| Total interest-earning assets | 1,623,740 | 26,542 | 6.54% | 1,392,505 |
| Non-interest-earning assets | 56,261 | | | 52,469 |
| Total assets | $1,680,001 | | | $1,444,974 |
| Interest-bearing liabilities: | | | | |
| Interest-bearing checking accounts | $ 283,773 | $ 1,223 | 1.72% | $ 187,408 |
| Regular savings accounts | 15,626 | 50 | 1.28 | 11,844 |
| Money market accounts | 286,073 | 1,418 | 1.98 | 304,751 |
| Certificate accounts | 525,944 | 5,250 | 3.99 | 570,463 |
| Total interest-bearing deposits | 1,111,416 | 7,941 | 2.86 | 1,074,466 |
| FHLB advances and other borrowings | 296,786 | 3,323 | 4.48 | 197,657 |
| Total interest-bearing liabilities | 1,408,202 | 11,264 | 3.20 | 1,272,123 |
| Non-interest-bearing accounts | 31,293 | | | 24,796 |
| Other liabilities | 107,998 | | | 31,609 |
| Total liabilities | 1,547,493 | | | 1,328,528 |
| Retained earnings | 132,508 | | | 116,446 |
| Total liabilities and retained earnings | $1,680,001 | | | $1,444,974 |
| Net interest-earning assets | $ 215,538 | | | $ 120,382 |
| Net interest income; average interest rate spread | | $15,278 | 3.34% | |
| Net interest margin | | | 3.76% | |
| Average interest-earning assets to average interest-bearing liabilities | | | 115.31% | |

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| Nine Months Ended September 3 | | | |
|---|---|---|---|
| 2002 | | | |
| Average Balance | Interest | Average Yield/Rate | Average Balance |

(dollars in thousands)

| | | | | |
|---|---|---|---|---|
| Interest-earning assets: | | | | |
| Federal funds sold | $ 24,006 | $ 310 | 1.72% | $ 36,982 |
| Investment securities | 67,639 | 2,254 | 4.44 | 78,889 |
| Mortgage-backed securities | 36,728 | 1,539 | 5.59 | 64,865 |
| Loans receivable | 1,410,569 | 72,480 | 6.85 | 1,193,255 |
| Total interest-earning assets | 1,538,942 | 76,583 | 6.64% | 1,373,991 |
| Non-interest-earning assets | 52,137 | | | 42,709 |
| Total assets | $1,591,079 | | | $1,416,700 |
| Interest-bearing liabilities: | | | | |
| Interest-bearing checking accounts | $264,046 | $3,627 | 1.83% | $166,924 |
| Regular savings accounts | 14,580 | 140 | 1.28 | 10,948 |
| Money market accounts | 287,419 | 4,391 | 2.04 | 308,096 |
| Certificate accounts | 525,283 | 15,805 | 4.01 | 580,357 |
| Total interest-bearing deposits | 1,091,328 | 23,963 | 2.93 | 1,066,325 |
| FHLB advances and other borrowings | 263,964 | 9,347 | 4.72 | 181,458 |
| Total interest-bearing liabilities | 1,355,292 | 33,310 | 3.28 | 1,247,783 |
| Non-interest-bearing accounts | 28,608 | | | 21,777 |
| Other liabilities | 79,090 | | | 34,054 |
| Total liabilities | 1,462,990 | | | 1,303,614 |
| Retained earnings | 128,089 | | | 113,086 |
| Total liabilities and retained earnings | $1,591,079 | | | $1,416,700 |
| Net interest earning assets | $ 183,650 | | | $ 126,208 |
| Net interest income; average interest rate spread | | $43,273 | 3.36% | |
| Net interest margin | | | 3.75% | |
| Average interest-earning assets to average interest-bearing liabilities | | | 113.55% | |

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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 September 30, 2002 vs. Three Months Ended September 30, 2001 | | | Nine Mont… Nine Mo… |
|---|---|---|---|---|
| | Increase (Decrease) Due to | | | Increase… Du… |
| | Rate | Volume | Total Increase (Decrease) | Rate |
| | | | (dollars in thousands) | |
| Interest income: | | | | |
| Federal funds sold | $ (177) | $ (140) | $ (317) | $ (520) |
| Investment securities | (335) | (120) | (455) | (1,290) |
| Mortgage-backed securities | (54) | (389) | (443) | (267) |
| Loans receivable, net | (2,190) | 3,866 | 1,676 | (4,822) |
| Total interest-earning assets | (2,756) | 3,217 | 461 | (6,899) |
| Interest expense: | | | | |
| Interest-bearing checking accounts | (58) | 93 | 35 | 65 |
| Savings accounts | (5) | 9 | 4 | (14) |
| Money market accounts | (834) | (139) | (973) | (3,794) |
| Certificate accounts | (1,689) | (550) | (2,239) | (7,368) |
| Total deposits | (2,586) | (587) | (3,173) | (11,111) |
| FHLB advances and other borrowings | (287) | 1,043 | 756 | (508) |
| Total interest-bearing liabilities | (2,873) | 456 | (2,417) | (11,619) |
| Increase in net interest income | $ 117 | $2,761 | $2,878 | $4,720 |

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Provision for Loan Losses. We made a provision for loan losses of $1.3 million for the three months ended September 30, 2002 compared to $953,000 for the three months ended September 30, 2001. For the nine months ended September 30, 2002, our provision for loan losses was $2.5 million as compared to $1.9 million for the same period in 2001. Our portfolios of commercial real estate and land loans, construction loans (both residential and commercial), commercial business loans and consumer loans, which generally are deemed to have higher inherent levels of known and inherent losses than single-family residential mortgage loans, due to, among other things, the nature of the collateral, the areas in which the security property is located and the dependency on economic conditions for successful completion or operation of the project, have continued to grow, both in terms of total dollar amounts and as a percentage of our total loan portfolio. Such loans totaled $923.1 million or 52.4% of the total loan portfolio as compared to $716.2 million or 47.2% at December 31, 2001. At September 30, 2002, our total non-performing assets amounted to $3.6 million compared to $1.8 million at December 31, 2001. The increase in non-performing assets was due primarily to a $1.7 million increase in non-accrual single-family residential mortgage loans substantially all of which related to loans we took possession of from a broker participating in our mortgage warehouse line of credit program. During the three and nine months ended September 30, 2002, we charged off an aggregate of $461,000 and $839,000, respectively, of loans, primarily related to consumer loans, and had $34,000 and $60,000, respectively, in recoveries of previous charge-offs.

Other Income. Our other income decreased by $93,000, or 3.1%, to $2.9 million for the three months ended September 30, 2002 compared to $3.0 million for the three months ended September 30, 2001. For the nine months ended September 30, 2002, such income amounted to $9.2 million as compared to $8.3 million for the same period in 2001, an 11.1% increase. The primary reason for the decrease in other income for the three months ended September 30, 2002 was a $1.1 million increase to the valuation allowance on our mortgage servicing rights. We increased our mortgage servicing rights valuation allowance due to increased prepayments in our loan servicing portfolio due to the current low interest rate environment and the likelihood of its continuation. For the nine months ended September 30, 2002, the $919,000 increase in other income over the same period in 2001 reflected a $1.1 million increase in fee and service charges due primarily to the increase in transaction accounts as well as an $873,000 increase in gains on sale of loans, substantially all of which consist of long-term fixed-rate single-family mortgages sold with servicing retained, offset in part by a $1.6 million increase in the valuation allowance on our mortgage servicing rights.

Other Expense. Our other expense increased by $886,000, or 9.7%, to $10.0 million for the three months ended September 30, 2002 compared to $9.1 million for the three months ended September 30, 2001. The primary reasons for the increase in other expense for the three months ended September 30, 2002 were a $362,000 increase in advertising expense, a $269,000 increase in





other operating expense and a $519,000 increase in salaries and employee benefits due to an increase in the number of staff, increased health insurance costs and normal salary increases. During the nine months ended September 30, 2002, our other expense increased $3.8 million, or 14.5%, to $29.7 million compared to $26.0 million for the same period in 2001 in large part due to expenses incurred in connection with our name change to TierOne Bank in early 2002, the promotion of our "High Performance" checking product line and increased employee salary and benefit expense as previously discussed.

Income Tax Expense. Our income tax expense increased by $588,000 to $2.5 million and by $2.2 million to $7.3 million for the three and nine months ended September 30, 2002, respectively, compared to the same periods in 2001. The increases in income tax expense in the three-and nine-month periods ended September 30, 2002 over the comparable periods in the prior year primarily reflect the increases in net income.

Liquidity and Commitments

Our primary sources of funds are from deposits, amortization of loans, loan and investment security prepayments and the maturity of loans, mortgage-backed securities and other investments, 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. We also maintain excess funds in short-term, interest-bearing assets that provide additional liquidity. TierOne Bank also utilizes 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 September 30, 2002, we had certificates of deposit maturing within the next 12 months amounting to $372.6 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 securities 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 in recent years as a cost efficient addition to deposits as a source of funds. The average balance of our borrowings was $296.8 million and $264.0 million for the three and nine months ended September 30, 2002, respectively, compared to $197.7 million and $181.5 million for the same periods in 2001. To date, substantially all of our borrowings have consisted of advances from the FHLBank Topeka, of which we are a member.





Under terms of the collateral agreement with the FHLBank Topeka, we pledge residential mortgage loans and mortgage-backed securities as well as our stock in the FHLBank Topeka as collateral for such advances.

We have not used, and have no present intention to use, any significant off-balance sheet financing arrangements for liquidity purposes. Our primary financial instruments with off-balance sheet risk are limited to loan servicing for others, our obligations to fund loans to customers pursuant to existing commitments and commitments to purchase and sell mortgage loans. In addition, we have certain risks due to limited recourse arrangements on loans serviced for others. At September 30, 2002, the maximum total amount of such recourse was approximately $4.9 million. Based on historical experience, at September 30, 2002, we had established a reserve of $332,000 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.



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Selected Operating Ratios

Set forth below are selected operating ratios of the Bank for the three and nine months ended September 30, 2002.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Average yield on interest-earning assets | 6.54% | 7.49% | 6.64% | 7.65% |
| Average rate on interest-bearing liabilities | 3.20 | 4.30 | 3.28 | 4.80 |
| Average interest rate spread | 3.34 | 3.19 | 3.36 | 2.85 |
| Net interest margin | 3.76 | 3.56 | 3.75 | 3.30 |
| Average interest-earning assets to average interest-bearing liabilities | 115.31 | 109.46 | 113.55 | 110.11 |
| Net interest income after provision for loan losses to noninterest expense | 139.70 | 125.14 | 137.19 | 123.42 |
| Total noninterest expense to average assets | 2.39 | 2.53 | 2.49 | 2.45 |
| Efficiency ratio | 55.15 | 59.37 | 56.69 | 61.51 |
| Return on average assets | 1.05 | 0.94 | 1.09 | 0.87 |
| Return on average equity | 13.31 | 11.71 | 13.48 | 10.90 |
| Average equity to average assets | 7.89 | 8.06 | 8.05 | 7.98 |



Item 3 - Quantitative and Qualitative Disclosures About Market Risk.

For a discussion of the Bank's asset and liability management policies as well as the methods used to manage its 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 Prospectus dated August 12, 2002. There has been no material change in the Bank's asset and liability position or the market value of the Bank's equity since March 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 Prospectus dated August 12, 2002. There is no change in the status of the litigation.

Item 2 - Changes in Securities and Use of Proceeds.

(a), (b) and (c) Not applicable.



(d) Use of Proceeds
- (1) The effective date of the Company's Form S-1 was August 12, 2002; and the Commission file number was 333-85838.
- (2) The offering commenced on August 22, 2002.
- (3) Not applicable.
- (4) (i) The offering subscription period ended on September 12, 2002;
  - (ii) The name of the managing underwriter: Sandler O'Neill & Partners, L.P.;
  - (iii) Common stock, par value $.01 per share was registered;
  - (iv) Amount registered - 22,575,075 shares;
    - Aggregate price of offering amount registered - $225,750,750;
    - Amount sold - 22,075,075 shares; and
    - Aggregate offering price of stock sold - $220,750,750;

(v) Expenses of the offering which were direct or indirect payments to others:
Estimated expenses paid to or for the underwriter - $2,226,023;
Estimated other expenses - $2,187,767; and
Estimated total expenses - $4,413,790;
(vi) Estimated net offering proceeds - $216,336,960; and
(vii) Direct or indirect payments to others - None.

Item 3 - Defaults Upon Senior Securities.

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

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

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

Item 5 - Other Information.

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

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

(a) List of exhibits: (filed herewith unless otherwise noted)

2.1 Plan of Conversion, as amended*
3.1 Articles of Incorporation of TierOne Corporation*
3.2 Bylaws of TierOne Corporation*
4.0 Form of Stock Certificate of TierOne Corporation*

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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 Proposed Employment Agreement between TierOne Corporation and Gilbert G. Lundstrom*
10.4 Form of Proposed Employment Agreement between TierOne Corporation and James A. Laphen*
10.5 Supplemental Retirement Plan*
10.6 Form of Proposed Change in Control Agreement between TierOne Bank and certain executive officers*
10.7 Form of Proposed Change in Control Agreement between TierOne Bank and certain executive officers*
10.8 Form of Proposed TierOne Bank Employee Severance Plan*
10.9 Form of Proposed Employee Stock Ownership Plan Supplemental Executive Retirement Plan*
10.10 Form of Proposed 401(k) Plan Supplemental Executive Retirement Plan*
10.11 Directors' Deferred Compensation Program*
10.12 Amended and Restated Consultation Plan for Directors*
10.13 Management Incentive Compensation Plan*
99.1 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.2 Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Incorporated by reference from the Company'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).

(b) Reports on Form 8-K:

No reports on Form 8-K were filed by the Registrant during the quarter ended September 30, 2002.



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: November 14, 2002

By: /s/ Gilbert G. Lundstrom

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

Date: November 14, 2002

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: November 14, 2002

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

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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

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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: November 14, 2002

/s/ Eugene B. Witkowicz
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Eugene B. Witkowicz
Executive Vice President
and Chief Financial Officer

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