TIERONE CORP
Form 10-K
March 13, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2008

OR

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the period from __________ to __________.

Commission File Number 005-78774

TierOne Corporation
(Exact name of registrant as specified in its charter)

Wisconsin	04-3638672
(State of Incorporation)	(I.R.S. Employer Identification Number)

Registrant's Address of Principal Executive Offices: 1235 N Street, Lincoln, Nebraska 68508
Registrant's Telephone Number, including area code: (402) 475-0521
Securities registered pursuant to Section 12(b) of the Act: Title of Class – Common Stock, Par Value $0.01 Per Share
Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes o No þ

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ

The aggregate market value of the voting stock held by non-affiliates of the Registrant was $82,785,855 as of June 30, 2008. As of March 11, 2009 there were 18,034,878 issued and outstanding shares of the Registrant's common stock.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the Registrant's 2009 Annual Meeting of Shareholders will be, when filed, incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

TierOne Corporation

Form 10-K Index

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

Statements contained in this Annual Report on Form 10-K which are not historical facts may be forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. Such forward looking statements are subject to risks and uncertainties which could cause actual results to differ materially from those currently anticipated due to a number of factors. In addition to the risk factors described in Item 1A. of this Annual Report on Form 10-K, factors that could result in material variations include, but are not limited to:

- General economic conditions and trends, either nationally or in some or all of the areas in which we and our customers conduct our businesses;
- Changes in interest rates or other competitive factors which could affect net interest margins and result in a decline in net interest income and noninterest income;
- Changes in deposit flows, and in the demand for deposits, loans, investment products and other financial services in the markets we serve;
- Changes in the quality or composition of our loan portfolios, or the unanticipated further deterioration of our loan portfolio;
- Changes in our underlying assumptions or any unanticipated issues that could impact management's judgment regarding our allowance and provisions for loan losses, which could cause our existing allowance for loan losses to be inadequate;
- Changes in real estate values, which could impact the quality of the assets securing the loans in our portfolios;
- Changes in the financial or operating performance of our customers' businesses;
- Issues associated with unanticipated increases in the levels of losses, customer bankruptcies, claims and assessments;
- Our timely development of new lines of business and competitive products or services within our existing lines of business in a changing environment, and the acceptance of such products or services by our customers;
- Any interruption or breach of security resulting in failures or disruptions in customer account management, general ledger, deposit operations, lending or other systems;
- Changes in fiscal, monetary, regulatory, trade and tax policies and laws;
- Increased competitive challenges and expanding product and pricing pressures among financial institutions;
- Changes in accounting policies or procedures as may be required by various regulatory agencies;
- Changes in consumer spending and saving habits;
- Unanticipated issues related to our ability to achieve expected results pursuant to our plan to address asset quality, restore long-term profitability and increase capital;
- Changes in liquidity levels in capital markets;

- Unanticipated events related to the supervisory agreement or actions by regulators, including any failure to meet enhanced regulatory capital requirements; and

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- Other factors discussed in documents we may file with the Securities and Exchange Commission from time to time.

These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. We undertake no obligation, and disclaim any obligation, to update information contained in this Annual Report on Form 10-K, including these forward-looking statements, to reflect events or circumstances that occur after the date of the filing of this Annual Report on Form 10-K.

Part I

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

Item 1. Business

General

TierOne Corporation ("Company") is a Wisconsin corporation headquartered in Lincoln, Nebraska. TierOne Corporation is the holding company for TierOne Bank ("Bank"). The Bank has two wholly owned subsidiaries, TMS Corporation of the Americas ("TMS") and United Farm & Ranch Management, Inc. ("UFARM"). TMS is the holding company of TierOne Investments and Insurance, Inc. (d/b/a TierOne Financial), a wholly owned subsidiary that administers the sale of securities and insurance products, and TierOne Reinsurance Company, a wholly owned subsidiary that reinsures credit life and disability insurance policies. UFARM provides agricultural customers with professional farm and ranch management services.

The assets of the Company, on an unconsolidated basis, primarily consist of 100% of the Bank's common stock. The Company has no significant independent source of income and therefore depends on cash distributions from the Bank to meet its funding requirements.

Our results of operations are dependent primarily on net interest income, which is the difference between the interest earned on our assets and our cost of funds. Our net income (loss) is also affected by our provision for loan losses, noninterest income, noninterest expense and income tax expense (benefit). Noninterest income includes fees and service charges, debit card fees, net income (loss) from real estate operations, net gain on sales of investment securities, loans held for sale and real estate owned and other operating income. Noninterest expense consists of salaries and employee benefits, occupancy, data processing, advertising, Federal Deposit Insurance Corporation insurance premium, legal services and other operating expense. Our earnings are significantly affected by general economic and competitive conditions; particularly changes in market interest rates and U.S. Treasury yield curves, governmental policies and actions of regulatory authorities.

Recent Developments

Sale/Purchase of Branches and Deposits. On June 2, 2006, we completed the purchase of Marine Bank's only banking office in Omaha, Nebraska. We acquired $8.1 million of deposits as a result of this transaction. On December 15, 2006, we sold our Plainville and Stockton, Kansas bank offices to Stockton National Bank of Stockton, Kansas. As a result of this sale, we transferred $21.7 million of deposits to the purchaser and recorded a gain on sale of $1.0 million.

Termination of Acquisition Agreement. On May 17, 2007, we entered into and announced an Agreement and Plan of Merger ("Merger Agreement") with CapitalSource Inc. and CapitalSource TRS Inc. On March 20, 2008, our Board of Directors terminated the Merger Agreement. Pursuant to the terms of the Merger Agreement, either party had the right to terminate the Merger Agreement if the proposed merger was not completed by February 17, 2008. No termination fee was payable by either company as a result of the termination of the Merger Agreement.

TransLand Financial Services Loan Sale. On June 25, 2008, we announced the sale of over 300 delinquent residential construction loans previously originated by TransLand Financial Services Inc. ("TransLand"), a Florida-based mortgage brokerage firm. This sale comprised $12.7 million, net of charge-offs, of our total nonperforming residential construction loans.

Loan Production Office Closings. On June 30, 2008, we announced the closing of all nine of our loan production offices in an effort to focus our lending activity in our primary market area of Nebraska, Iowa and Kansas. We completed the closure of all of our loan production offices during the three months ended September 30, 2008. The closed lending offices were located in Phoenix, Arizona; Colorado Springs, Denver and Fort Collins, Colorado; Orlando, Florida; Minneapolis, Minnesota; Las Vegas, Nevada and Charlotte and Raleigh, North Carolina. We will continue to service loans made to existing customers. At the current time, customer transition and collection support functions for existing customers continue in Charlotte, Las Vegas, Minneapolis and Orlando.

Board of Director Appointment. On September 22, 2008, we announced that Ann Lindley Spence had submitted her resignation as a director of the Company and the Bank. On that same day, to fill the vacancy created by Ms. Spence's retirement, the Company's Board of Directors appointed Samuel P. Baird as an independent director of the Company and the Bank for a term expiring at the 2010 annual meeting of stockholders. Mr. Baird, who was Director of the Nebraska Department of Banking and Finance from 1999-2004, has over 35 years of experience in banking, real estate, insurance and law. Mr. Baird was also appointed to the Audit and Compensation Committees of the Company's Board of Directors.

Regulatory Developments. On January 15, 2009, the Bank entered into a supervisory agreement with the Office of Thrift Supervision ("OTS"), the Bank's primary federal regulator, in response to regulatory concerns raised in the Bank's most recent regulatory examination by the OTS and to address the current economic environment facing the banking and financial industry. The agreement requires, among other things:

- The review, and where appropriate, revisions to or adoption of: (a) loan policies, procedures and reporting; (b) credit administration and underwriting; (c) asset classification; (d) allowance for loan and lease losses; and (e) internal asset review;
  - Enhanced management oversight including restrictions on changes in compensation arrangements; and
- Strengthening the Bank's capital position, including a requirement that the Bank maintain a minimum core capital ratio of 8.5% and a minimum total risk-based capital ratio of 11.0%.

The supervisory agreement also prohibits capital distributions by the Bank and the acceptance of brokered deposits. The Company agreed to maintain the Bank's regulatory capital (at the levels described above) as well as to not pay dividends on its common stock, make payments on its trust preferred securities or repurchase any shares of its common stock until the OTS issues a written notice of non-objection. The supervisory agreement will remain in effect until modified, suspended or terminated by the OTS. The foregoing information does not purport to be a complete summary of the supervisory agreement and is qualified in its entirety by reference to the supervisory agreement filed as Exhibit 10.24 to this Annual Report on Form 10-K.

Government Monetary Policy

We are affected by the credit policies of monetary authorities, including the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). An important objective of the Federal Reserve System is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the Federal Reserve Board are open market operations in U.S. Government securities, changes in the discount rate, reserve requirements on member bank deposits and funds availability regulations. The monetary policies of the Federal Reserve Board have in the past had a significant effect on operations of financial institutions, including the Bank, and will continue to do so in the future. Changing conditions in the national economy and in the money markets make it difficult to predict future changes in interest rates, deposit levels, loan demand or their effects on the business and earnings of the Company.

Market Area and Competition

We are a regional community bank offering a variety of financial products and services to meet the needs of the customers we serve. Our deposit gathering is concentrated in the communities surrounding our 69 banking offices located in Nebraska, seven counties in southwest Iowa and one county in northern Kansas. We compete for customers by emphasizing convenience and service, and by offering a full range of traditional and non-traditional products and services. We offer 24-hour ATM banking at 68 of our banking offices and currently offer 31 ATM banking locations at supermarkets, convenience stores and shopping malls.

We face significant competition, both in generating loans as well as in attracting deposits. Our market area is highly competitive and we face direct competition from a significant number of financial service providers, many with a regional or national presence. Many of these financial service providers are significantly larger and have greater financial resources. Our competition for loans comes principally from commercial banks, savings banks and associations, credit unions, mortgage brokers, mortgage-banking companies and insurance companies. Our most direct competition for deposits has historically come from commercial banks, savings banks and associations and credit unions. In addition, we face increasing competition for deposits from non-bank institutions such as brokerage firms and insurance companies in such instruments as short-term money market funds, corporate and government securities funds, equity securities, mutual funds and annuities.

Available Information

We are a public company and are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). We maintain a website at www.tieronebank.com and make available, free of charge, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K and any amendments to such documents as soon as reasonably practicable after the reports have been electronically filed or furnished to the SEC. In addition, we provide our Code of Conduct and Ethics, Audit Committee Charter, Compensation Committee Charter and Nominating and Corporate Governance Committee Charter on our website. We are not including the information contained on or available through our website as a part of, nor are we incorporating such information by reference into, this Annual Report on Form 10-K.

Lending Activities

General. As a regional community bank, we directly originate loans to customers located in Nebraska, Iowa and Kansas ("Primary Market Area"). We had also previously originated and purchased loans and loan participation interests from financial institutions, loan correspondents and mortgage brokers located throughout the United States. At December 31, 2008 and 2007, approximately 53.7% and 47.0%, respectively, of our total loan portfolio consisted of loans secured by properties located in Nebraska, Iowa and Kansas. Due to our revised lending strategy, most of our future loan activity will relate to loans within our Primary Market Area.

In previous years, we obtained a portion of our loans from originations made by our former loan production offices which were located in Arizona, Colorado, Florida, Minnesota, Nevada and North Carolina. On June 30, 2008, we announced the closing of all nine of our loan production offices in an effort to focus our lending activity in our Primary Market Area. We completed the closure of our loan production offices in September 2008.

Furthermore, in response to the economic environment prevalent in the United States during 2007 and 2008, we have realigned our lending strategy in an effort to reduce our exposure to higher risk loans (land development, construction and loans located outside of our Primary Market Area). We have shifted our lending focus to originations and/or purchases of one-to-four family residential, multi-family, commercial real estate, agricultural, business and consumer loans within our Primary Market Area. In addition, we also intend to continue offering warehouse mortgage lines of credit. During 2007 and 2008, we significantly reduced our originations and purchases of land development and construction (residential and commercial) loans.

Loan Approval Procedures and Authority. General lending policies and procedures are established by our Asset/Liability Committee which is composed of the following officers of the Bank: Chief Executive Officer, Chief Operating Officer, Director of Lending, Director of Administration, Director of Retail Banking, Chief Financial Officer, Controller and Senior Financial Analysis Manager. Our Board of Directors reviews and approves lending policies and procedures established by the Asset/Liability Committee. Under policies approved by the Board of Directors, various officers or combinations of officers have loan approval authority, the specific amounts and requirements being established for each loan type.

Loan Portfolio Composition. At December 31, 2008, our total loans receivable amounted to $3.0 billion. Our loan portfolio consists of a variety of one-to-four family residential, second mortgage, multi-family, commercial real estate, land development, construction, agricultural, business and consumer loans and warehouse mortgage lines of credit. Loans that we may purchase and originate are subject to federal and state laws and regulations. The interest rates we charge on loans are affected by the demand for such loans and the supply of money available for lending purposes and the rates offered by competitors. These factors are, in turn, affected by general and local economic conditions, monetary policies of the Federal Government, including the Board of Governors of the Federal Reserve System and legislative tax policies.

Residential Mortgage Lending. During 2008, we increased our investment in one-to-four family residential loans within our Primary Market Area to further realign our loan portfolio with loans perceived to have lower risk characteristics.

One-to-four family residential mortgage loan originations are generally obtained from our in-house loan representatives, from existing or past customers and from mortgage correspondents. We also originate and/or purchase from correspondent lenders second mortgage loans in amounts up to 85% of the appraised value of the collateral with maturities of up to 30 years.

We currently originate fixed-rate, one-to-four family residential mortgage loans generally with terms up to 30 years. In the past, we have sold substantially all newly originated fixed-rate, one-to-four family residential loans into the secondary market on a servicing retained basis which produces noninterest income in the form of net gains and losses on sales and loan servicing fees. We are currently retaining certain fixed-rate, one-to-four family residential loans for our portfolio. The loans we have chosen to retain primarily consist of those made to borrowers within our Primary Market Area with strong credit profiles.

We originate or purchase adjustable-rate, one-to-four family residential mortgage loans with terms up to 30 years and interest rates which generally adjust one to seven years from the outset of the loan and thereafter annually for the duration of the loan. The interest rates for such adjustable-rate loans are normally tied to indices such as the U.S. Treasury CMT or LIBOR, plus a margin. Our adjustable-rate loans generally provide for periodic caps (generally not more than 2.0%) on the increase or decrease in the interest rate at any adjustment date. The maximum amount the rate can increase or decrease from the initial rate during the life of the loan is 5.0% - 6.0% over the start rate.

The origination or purchase of adjustable-rate, one-to-four family residential mortgage loans allows us to control our exposure to interest rate risk. However, adjustable-rate loans generally pose risks not inherent in fixed-rate loans, primarily because as interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. Periodic and lifetime caps on interest rate increases help to reduce the risks associated with adjustable-rate loans but also limit the interest rate sensitivity of such loans.

Generally, we originate one-to-four family residential mortgage loans in amounts up to 80% of the lower of the appraised value or the selling price of the property and up to 100% if private mortgage insurance is obtained. Mortgage loans originated by us generally include due-on-sale provisions which provide us with the contractual right to deem the loan immediately due and payable in the event the borrower transfers ownership of the property without our consent. We require fire, casualty, title and, in certain cases, flood insurance on properties securing mortgage loans made by us.

We maintain a corporate policy of not participating in subprime residential real estate lending or negative amortizing mortgage products for loans placed into our portfolio. The OTS, our federal regulatory agency, defines subprime loans as loans to borrowers displaying one or more credit risk characteristics including lending to a borrower with a credit bureau risk score (FICO) of 660 or below. Furthermore, we have not purchased collateralized loan obligations, collateralized debt obligations, structured investment vehicles or asset-backed commercial paper.

Multi-Family Residential and Commercial Real Estate Lending. We offer multi-family residential and commercial real estate loans for permanent financing collateralized by real property. These loans are generally used for business purposes such as apartment buildings, office buildings and retail facilities. The properties securing these loans are generally located in our Primary Market Area.

Loans secured by multi-family residential and commercial real estate properties generally involve larger principal amounts and a greater degree of risk than one-to-four family residential mortgage loans. Payments on these loan types are often dependent on the successful operation or management of the properties. Repayment of such loans may be subject to adverse conditions in the real estate market or the economy and a concentration of loans in a geographic region may be subject to greater risk because of the potential for adverse economic conditions affecting that region. We seek to minimize these risks through our underwriting standards.

Construction and Land Development Lending. In past years, we have offered residential construction loans for either pre-sold houses (a purchase contract has been signed) or speculative houses (properties for which no buyer yet exists). We have significantly reduced our involvement with speculative residential construction lending in response to the current economic environment. We will continue to offer residential construction loans in our Primary Market Area for pre-sold homes.

In past years, we have also originated commercial real estate construction and land development loans as well as purchased participation interests in such loans. We have provided commercial construction loans to real estate developers for the purpose of constructing a variety of commercial projects such as retail facilities, industrial buildings and warehouses. Under our revised lending strategy, we have significantly reduced our involvement in these types of loans.

Risk of loss on construction and land development loans is dependent largely upon the accuracy of the initial estimate of the property's value when completed or developed compared to the projected cost (including interest) of construction and other assumptions, including the approximate time to build, sell or lease the properties. If the appraised collateral value proves to be inaccurate, we may be confronted with a project, when completed, having a value which is insufficient to assure full repayment.

Agricultural Loans. Agricultural loans are made predominantly to farmers and ranchers in our Primary Market Area. Agricultural operating loans are made to finance day-to-day operations, including crop and livestock production. Intermediate term loans are used to purchase breeding livestock and machinery. Real estate loans are used to purchase or refinance farm and ranchland.

Overall credit worthiness is determined by evaluation of the borrower, including management experience and skills, financial strength and the ability to service debt. Loans are generally repaid using cash flows from agricultural activities, including the sale of agricultural commodities, produced by the operation. Underwriting standards include maximum advance rates on collateral, minimum cash flow coverage and review of the historical net worth and cash flow trends of the operation.

Risk of loss is related to the effects of the external risk factors such as adverse weather conditions and poor commodity prices. The impact of external risk factors is significantly affected by the borrower’s ability to mitigate the effect of risk on the borrower’s operation. Commodity-based agricultural chattel assets are relatively easy to liquidate and there is also a stable demand for agricultural real estate. Our agricultural lenders are responsible for validating the existence, value and condition of the collateral. This monitoring may include periodic on-site inspections and the use of borrowing base reports.

Warehouse Mortgage Lines of Credit. We are actively involved in originating revolving lines of credit to mortgage brokers. These lines are drawn upon by mortgage brokers to fund the origination of one-to-four family residential mortgage loans. Prior to funding the advance, the mortgage broker must have an approved commitment for the purchase of the loan which reduces credit exposure associated with the line. The lines are repaid upon sale of the mortgage loan to a third party which usually occurs within 30 days of origination of the loan. In connection with extending the line of credit to the mortgage broker, we enter into agreements with the purchaser to which such mortgage broker intends to sell loans. Under such agreements, the loan purchaser agrees to hold the mortgage documents, excluding the original note which is held by us, issued by the mortgage brokers on our behalf and for our benefit until such time that the purchaser remits to us the purchase price for such loans. As part of the structure of the lines of credit, the mortgage brokers are required to maintain commercial deposits with us, with the amount of such deposits dependent upon the amount of the line and other factors. The lines are structured with adjustable rates indexed to the Wall Street Journal prime rate. Maximum amounts permitted to be advanced by us under existing warehouse mortgage lines of credit range in amounts from $1.5 million to $30.0 million.

Business Lending. Business loans are made predominantly to small- and mid-sized businesses located within our Primary Market Area. The business lending products we offer include lines of credit, receivable and inventory financing and equipment loans. We have established minimum underwriting standards in regard to business loans which set forth the criteria for sources of repayment, borrower’s capacity to repay, specific financial and collateral margins and financial enhancements such as guarantees. Generally, the primary source of repayment is cash flow from the business and the financial strength of the borrower.

Consumer and Other Lending. Consumer loans are generally originated directly through our network of banking offices. We offer home equity loans, home improvement loans and home equity lines of credit in amounts up to $100,000 with a term of 15 years or less and a loan-to-value ratio up to 85% of the appraised value of the collateral. A portion of our home improvement loans consist of participation interests we have purchased from a third party. Under the terms of our third party arrangement, if any loan becomes more than 120 days past due, we can require the seller to repurchase such loan at a price equal to our total investment in the loan, including any uncollected and accrued interest. We also offer automobile loans in amounts up to $50,000 with maximum 72 month and 60 month terms for new and used cars, respectively, and purchase price ratios of generally not more than 95% and 85% for new and used cars, respectively. Most of our automobile loans are obtained through a network of 89 new and used automobile dealers located primarily in Lincoln and Omaha, Nebraska. Although employees of the automobile dealership take the application, the loan is made pursuant to our underwriting standards and must be approved by one of our authorized loan officers. Our consumer loan portfolio also includes manufactured housing, recreational vehicle, boat, motorcycle and unsecured loans.

Unsecured loans and loans secured by rapidly depreciating assets, such as automobiles, entail greater risks than one-to-four family residential mortgage loans. In such cases, repossessed collateral, if any, for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance. Further, consumer loan collections on these loans are dependent on the borrower's continuing financial stability and, therefore, are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Finally, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans in the event of a default.

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

	At December 31,				
(Dollars in thousands)	2008	2007	2006	2005	2004
Real estate loans:					
One-to-four family residential (1)	$ 384,614	$ 314,623	$ 339,080	$ 384,722	$ 418,270
Second mortgage residential	76,438	95,477	120,510	160,208	255,222
Multi-family residential	199,152	106,678	148,922	166,579	142,454
Commercial real estate	356,067	370,910	396,620	402,504	444,269
Land and land development	396,477	473,346	494,887	289,916	152,845
Residential construction	229,534	513,560	780,991	943,378	601,075
Commercial construction	360,163	540,797	491,997	351,767	282,399
Agriculture	95,097	91,068	68,459	57,008	66,830
Total real estate loans	2,097,542	2,506,459	2,841,466	2,756,082	2,363,364
Business	250,619	252,712	220,669	177,592	142,675
Agriculture - operating	106,429	100,365	94,455	72,518	71,223
Warehouse mortgage lines of credit	133,474	86,081	112,645	95,174	132,928
Consumer loans:					
Home equity	55,355	72,517	71,476	61,600	56,441
Home equity lines of credit	126,393	120,465	130,071	141,021	142,725
Home improvement	36,747	46,045	55,513	69,165	73,386
Automobile	89,202	87,079	87,575	85,515	80,512
Other	65,390	71,141	68,365	49,812	25,956
Total consumer loans	373,087	397,247	413,000	407,113	379,020
Total loans	2,961,151	3,342,864	3,682,235	3,508,479	3,089,210
Unamortized premiums, discounts and deferred loan fees	9,558	9,451	5,602	4,778	7,228
Loans in process (2)	(188,489)	(376,186)	(637,677)	(668,587)	(441,452)
Net loans	2,782,220	2,976,129	3,050,160	2,844,670	2,654,986
Allowance for loan losses	(63,220)	(66,540)	(33,129)	(30,870)	(26,831)
Net loans after allowance for loan losses	$ 2,719,000	$ 2,909,589	$ 3,017,031	$ 2,813,800	$ 2,628,155
(1) Includes loans held for sale	$ 13,917	$ 9,348	$ 19,285	$ 8,666	$ 11,956

(2) Loans in process represents the undisbursed portion of construction and land development loans.

Loan Portfolio Concentration by State. The following table details the concentration of our total loan portfolio by state at the dates indicated:

	At December 31,							
(Dollars in thousands)	2008	%	2007	%	2006	%	2005	%
Within our Primary Market Area:								
Nebraska	$ 1,383,732	46.73%	$ 1,367,659	40.91%	$ 1,326,374	36.02%	$ 1,248,165	35.58%
Iowa	123,330	4.16	135,885	4.06	106,949	2.90	103,286	2.94
Kansas	82,834	2.80	69,180	2.07	75,362	2.05	60,807	1.73
Total within our Primary Market Area	1,589,896	53.69	1,572,724	47.04	1,508,685	40.97	1,412,258	40.25
Within Former Loan Production Office States:								
Nevada	192,624	6.51	247,260	7.40	252,990	6.87	32,704	0.93
Colorado	157,924	5.33	237,441	7.10	283,543	7.70	277,184	7.90
Arizona	144,359	4.88	161,339	4.83	205,912	5.59	222,397	6.34
Minnesota	132,057	4.46	157,985	4.73	172,134	4.68	151,734	4.33
North Carolina	63,768	2.15	121,594	3.64	175,666	4.77	123,221	3.51
Florida	72,912	2.46	168,765	5.05	317,454	8.62	508,792	14.50
Total within former loan production office states	763,644	25.79	1,094,384	32.75	1,407,699	38.23	1,316,032	37.51
Other States:								
South Carolina	66,786	2.26	103,153	3.09	132,508	3.60	137,640	3.92
California	68,642	2.32	78,817	2.36	95,453	2.59	114,286	3.26
Texas	76,162	2.57	74,390	2.22	83,050	2.26	72,696	2.07
Illinois	63,502	2.14	70,891	2.12	55,011	1.49	19,980	0.57
Oregon	45,078	1.52	37,266	1.11	44,168	1.20	30,360	0.87
Washington	31,052	1.05	29,736	0.89	53,698	1.46	62,081	1.77
Other States	256,389	8.66	281,503	8.42	301,963	8.20	343,146	9.78
Total other states	607,611	20.52	675,756	20.21	765,851	20.80	780,189	22.24
Total loans	$ 2,961,151	100.00%	$ 3,342,864	100.00%	$ 3,682,235	100.00%	$ 3,508,479	100.00%

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Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of our loans at December 31, 2008. Demand and overdraft loans which have no stated schedule of repayments and no stated maturity, are reported as due in 2009. The following amounts do not take into account loan prepayments.

	Principal Payments Contractually Due in Years				
(Dollars in thousands)	2009	2010 - 2013	2014 - 2018	After 2018	Total
Real estate loans:					
One-to-four family residential	$ 2,482	$ 11,759	$ 11,790	$ 358,583	$ 384,614
Second mortgage residential	72	4,290	20,506	51,570	76,438
Multi-family residential	45,483	59,935	51,774	41,960	199,152
Commercial real estate	33,447	181,808	128,632	12,180	356,067
Land and land development	263,856	128,910	3,674	37	396,477
Residential construction	215,606	3,492	910	9,526	229,534
Commercial construction	165,800	186,403	6,350	1,610	360,163
Agriculture	11,244	26,818	48,929	8,106	95,097
Total real estate loans	737,990	603,415	272,565	483,572	2,097,542
Business	89,677	139,276	19,713	1,953	250,619
Agriculture - operating	85,978	18,780	1,551	120	106,429
Warehouse mortgage lines of credit	133,474	-	-	-	133,474
Consumer	38,617	235,034	34,247	65,189	373,087
Total loans (1) (2)	$ 1,085,736	$ 996,505	$ 328,076	$ 550,834	$ 2,961,151

(1)Gross of unamortized premiums, discounts and deferred loan fees, loans in process and allowance for loan losses.
(2)Total loans due after one year from December 31, 2008 with fixed interest rates totaled $999.3 million. Total loans due after one year from December 31, 2008 with floating or adjustable interest rates totaled $876.1 million.

Originations, Purchases and Sales of Loans. Our lending activities are subject to underwriting standards and loan origination procedures established by our Asset/Liability Committee and approved by our Board of Directors. Applications for mortgages and other loans are primarily taken at our banking offices. In the past, we have relied on a network of loan correspondents and mortgage brokers to originate a substantial part of our loans. Since 2006, we have significantly reduced our utilization of third-party originators of residential construction loans. We also use loan correspondents to originate one-to-four family residential loans to supplement our origination efforts.

Although we originate both adjustable-rate and fixed-rate loans, our ability to originate and purchase fixed- or adjustable-rate loans is dependent upon customer demand for such loans, which is affected by the current and expected future level of interest rates. The loans purchased during 2008 consisted of one-to-four family residential, consumer (primarily home improvement loans and automobile financing), construction, business, agricultural and second mortgage residential loans.

Generally, we originate adjustable-rate mortgage loans for retention in our portfolio. We are currently retaining certain fixed-rate, one-to-four family residential loans for our portfolio. The loans we have chosen to retain consist of those made to borrowers within our Primary Market Area with strong credit profiles. Fixed-rate, one-to-four family residential loans that are not retained are sold to either the Federal National Mortgage Association ("Fannie Mae" or "FNMA"), the Federal Home Loan Mortgage Corporation ("FHLMC") or the FHLBank Topeka ("FHLBank") pursuant to the Mortgage Partnership Finance Program. Upon receipt of an application to make a fixed-rate loan, we typically enter into agreements to sell such loans to FNMA, FHLMC or the FHLBank pursuant to forward sale commitments, with delivery being required in approximately 90 days. We generally agree to deliver a somewhat smaller dollar amount of loans in the event that not all the loans for which applications are submitted actually close. Loans are delivered pursuant to such sale contracts upon their origination or purchase and are not aggregated for sale as loan packages. As a result, we typically do not have a significant amount of loans held for sale at any given point in time. We recognize, at the time of disposition, the gain or loss on the sale of the loans. The gain or loss is based on the difference between the net proceeds received and the carrying value of the loans sold excluding the value of servicing rights retained.

Loan Portfolio Activity. The following table shows total loans originated, purchased, sold and repaid during the years indicated:

	Year Ended December 31,		
(Dollars in thousands)	2008	2007	2006
Net loans after allowance for loan losses at beginning of year	$ 2,909,589	$ 3,017,031	$ 2,813,800
Loan originations:			
One-to-four family residential	157,257	168,077	161,672
Second mortgage residential	955	2,518	2,988
Multi-family residential	12,057	3,415	11,600
Commercial real estate	55,138	52,879	56,612
Land and land development	32,653	139,832	316,344
Residential construction	63,780	262,902	500,283
Commercial construction	74,624	111,451	249,732
Agriculture - real estate	37,755	47,179	27,376
Business	337,140	406,369	373,489
Agriculture - operating	325,470	275,042	235,845
Warehouse mortgage lines of credit (1)	2,164,117	2,706,073	2,946,983
Consumer	110,333	141,084	152,143
Total loan originations	3,371,279	4,316,821	5,035,067
Loan purchases:			
One-to-four family residential (2)	321,594	212,277	115,827
Second mortgage residential	100	872	1,649
Multi-family residential	-	-	10,000
Commercial real estate	295	-	-
Land and land development	-	10,246	7,917
Residential construction	19,823	55,387	161,461
Commercial construction	19,845	54,808	83,389
Agriculture - real estate	4,567	2,836	-
Business	11,546	15,842	15,463
Agriculture - operating	2,125	501	-
Consumer	47,274	58,647	88,429
Total loan purchases	427,169	411,416	484,135
Total loan originations and purchases	3,798,448	4,728,237	5,519,202
Sales and loan principal repayments:			
Loan sales:			
One-to-four family residential	(353,026)	(339,013)	(242,991)
Land and land development	(99)	-	-
Residential construction	(12,437)	-	-
Consumer	(210)	(5,018)	(4,421)

Loan principal reductions:			
Real estate, business, agriculture-operating and consumer	(1,697,664)	(1,992,193)	(2,166,909)
Warehouse mortgage lines of credit (1)	(2,116,723)	(2,732,637)	(2,929,512)
Total loan sales and principal repayments	(4,180,159)	(5,068,861)	(5,343,833)
Increase due to other items (3)	191,122	233,182	27,862
Net loans after allowance for loan losses at end of year	$ 2,719,000	$ 2,909,589	$ 3,017,031

(1) Reflects amounts advanced and repaid under such lines of credit during the years presented.
(2) Substantially all of these fixed-rate loans were acquired from loan correspondents and mortgage brokers and sold to Fannie Mae, Freddie Mac or the FHLBank Topeka with servicing retained.
(3) Other items consist of unamortized premiums, discounts and deferred loan fees, loans in process and changes in the allowance for loan losses.

Loan Servicing. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, holding escrow funds for the payment of real estate taxes and insurance premiums, contacting delinquent borrowers and supervising foreclosures and property dispositions in the event of unremedied defaults. The gross servicing fee income from loans sold is generally 0.25% to 0.50% of the total balance of each loan serviced. At December 31, 2008 and 2007, we were servicing $1.6 billion and $1.5 billion, respectively, of loans for others, primarily consisting of one-to-four family residential loans sold by us in the secondary market.

Loan Commitments. We generally issue written commitments to individual borrowers and loan correspondents for the purposes of originating and purchasing loans. These loan commitments establish the terms and conditions under which we will fund the loans. At December 31, 2008 and 2007, we had issued commitments totaling $679.4 million and $666.2 million, respectively, excluding loans in process, to fund and purchase loans, extend credit on commercial and consumer unused lines of credit and to extend credit under unused warehouse mortgage lines of credit. These outstanding loan commitments do not necessarily represent future cash requirements since many of the commitments may expire without being drawn.

Asset Quality

Reports listing all delinquent loans (loans 30 or more days delinquent), classified assets and other real estate owned are reviewed monthly by management and by our Board of Directors as part of its regular Board meetings. The procedures we take with respect to delinquencies vary depending on the nature of the loan, period and cause of delinquency and whether the borrower is habitually delinquent. When a borrower fails to make a required payment on a loan, we take a number of steps to have the borrower cure the delinquency and restore the loan to current status. In the event payment is not then received or the loan not otherwise satisfied, letters and telephone calls generally are made. If the loan is still not brought current or satisfied and it becomes necessary for us to take legal action, which typically occurs after a loan is 90 days or more delinquent, we will commence recovery proceedings against the property securing the loan. If a legal action is instituted and the loan is not brought current, paid in full, or refinanced before the recovery sale, the property securing the loan generally is sold and, if purchased by us, becomes other real estate owned or a repossessed asset.

During 2007 and 2008, our levels of delinquent loans, nonperforming loans (loans 90 or more days delinquent), impaired loans and other real estate owned increased significantly due to deterioration in the nation’s economic conditions. The real estate market continued to decline in 2008 placing continued financial stress on customers, particularly those engaged in residential development. The downturn in the residential housing market has greatly reduced demand and market prices for developed residential lots and vacant land as well as completed homes. Where there is reduced demand for new homes, certain residential developers may be required to hold their properties for longer periods of time or be forced to sell their properties at a significantly reduced price which may result in greater holding costs and lower or deferred cash inflows. These factors have resulted in, and may continue to result in, greater credit risks for lenders. Additionally, significantly tightened credit standards have made it more difficult for potential borrowers to obtain financing and for current borrowers to refinance existing loans.

Delinquent Loans. The following table shows loans delinquent 30 – 89 days in our loan portfolio as of the dates indicated:

	At December 31,				
(Dollars in thousands)	2008	2007	2006	2005	2004
One-to-four family residential	$ 3,764	$ 5,798	$ 1,532	$ 2,081	$ 8,203
Second mortgage residential	1,682	1,499	2,085	1,844	1,426
Multi-family residential	7,923	2,019	-	-	-
Commercial real estate	3,222	5,268	728	269	643
Land and land development	16,817	15,997	144	2,373	-
Residential construction	24,015	8,263	17,524	8,287	1,529
Commercial construction	1,658	-	-	-	-
Agriculture - real estate	445	4,723	164	586	120
Business	5,008	3,247	620	1,740	1,122
Agriculture - operating	399	93	47	180	566
Consumer	5,441	5,560	4,818	6,416	3,448
Total delinquent loans	$ 70,374	$ 52,467	$ 27,662	$ 23,776	$ 17,057
Delinquent loans as a percentage of net loans before allowance for loan losses	2.53%	1.76%	0.91%	0.84%	0.64%

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Nonperforming Loans and Other Real Estate Owned. The following table sets forth information regarding nonperforming loans (90 or more days delinquent), other real estate owned and repossessed assets. It is our policy to cease accruing interest on loans contractually delinquent 90 days or more and to charge-off all accrued interest. We did not have any accruing loans 90 days or more past due at the dates shown.

	At December 31,				
(Dollars in thousands)	2008	2007	2006	2005	2004
Nonperforming loans:					
One-to-four family residential	$ 6,367	$ 7,029	$ 1,611	$ 1,902	$ 1,914
Second mortgage residential	677	487	234	609	739
Multi-family residential	412	603	1,152	5,731	2,374
Commercial real estate	4,285	590	324	1,007	707
Land and land development	58,428	38,708	4,696	915	-
Residential construction	51,295	57,709	18,074	1,840	2,256
Commercial construction	16,741	19,184	-	-	-
Agriculture - real estate	159	159	50	113	349
Business	1,313	1,268	2,280	526	771
Agriculture - operating	110	134	139	308	1
Consumer	2,428	2,619	1,490	1,454	1,121
Total nonperforming loans	142,215	128,490	30,050	14,405	10,232
Other real estate owned and repossessed assets, net (1)	37,236	6,405	5,264	2,446	382
Total nonperforming assets	179,451	134,895	35,314	16,851	10,614
Troubled debt restructurings	35,528	19,569	8,904	5,180	3,469
Total nonperforming assets and troubled debt restructurings	$ 214,979	$ 154,464	$ 44,218	$ 22,031	$ 14,083
Total nonperforming loans as a percentage of net loans	5.11%	4.32%	0.99%	0.51%	0.39%
Total nonperforming assets as a percentage of total assets	5.41%	3.81%	1.03%	0.52%	0.35%
Total nonperforming assets and troubled debt restructurings as a percentage of total assets	6.48%	4.37%	1.29%	0.68%	0.46%

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

Nonperforming Loans. At December 31, 2008, our nonperforming loans totaled $142.2 million of which $19.0 million, or 13.4%, was secured by property located in our Primary Market Area. Former loan production office states had $106.1 million, or 74.6%, of total nonperforming loans at December 31, 2008. Other states comprised the remaining $17.1 million, or 12.0%, on nonperforming loans at December 31, 2008. Due to the continued erosion of real estate values and increased housing inventory in several markets throughout the country, we have, and may continue to experience, increased levels of nonperforming loans.

The change in our nonperforming loans is primarily attributable to the following:

Land and Land Development. Our nonperforming land development loans at December 31, 2008 totaled $58.4 million which consisted of 45 land development properties. At December 31, 2008, nonperforming land and land development loans consisted of 16 residential properties in Nevada totaling $43.9 million, six residential properties in Nebraska totaling $4.4 million, eight residential properties in Florida totaling $4.1 million, four residential properties located in Arizona totaling $3.2 million and 11 residential properties located in other states totaling $2.9 million. With the exception of a very limited number of local or existing borrowers, we have not committed to any additional land and land development loans since the end of 2006.

Residential Construction Loans. At December 31, 2008, our nonperforming residential construction loans totaled $51.3 million and consisted of 96 residential properties. At December 31, 2008, nonperforming residential construction loans consisted of 38 properties located in South Carolina totaling $13.9 million, seven properties located in Nevada totaling $12.4 million, eight properties located in Arizona totaling $7.8 million, 16 properties located in North Carolina totaling $5.5 million, seven properties located in Florida totaling $5.5 million, 16 properties located in Nebraska totaling $4.4 million and four properties located in other states totaling $1.6 million.

On June 25, 2008, we sold over 300 delinquent residential construction loans previously originated by TransLand. This sale of TransLand-related loans, net of charge-offs, represented $12.7 million of our total nonperforming residential construction loans.

Commercial Construction. Nonperforming commercial construction loans totaled $16.7 million at December 31, 2008. Our nonperforming commercial construction loans at December 31, 2008 consist of one property in Nevada totaling $15.0 million and two properties in Nebraska totaling $1.8 million. The nonperforming loans in Nevada are secured by one upscale condominium development located in the Las Vegas metro area. We have entered into a contract to complete the project with a local builder under the supervision of a court-appointed trustee.

Delinquent and Nonperforming Loans by State. The following table details our delinquent and nonperforming loans by state, on a net loan basis, as of December 31, 2008:

(Dollars in thousands)	Net Loan Balance at December 31, 2008	Loans 30 - 89 Days Delinquent	Nonperforming Loans	Total Delinquent and Nonperforming Loans
Within our Primary Market Area:				
Nebraska	$ 1,344,130	$ 14,366	$ 18,528	$ 32,894
Iowa	110,778	1,151	468	1,619
Kansas	65,993	54	23	77
Total within our Primary Market Area	1,520,901	15,571	19,019	34,590
Within Former Loan Production Office States:				
Nevada	171,527	17,312	71,284	88,596
Colorado	139,730	1,781	33	1,814
Minnesota	130,076	528	3,197	3,725
Arizona	126,940	480	10,913	11,393
Florida	69,565	232	13,658	13,890
North Carolina	55,708	14,045	7,005	21,050
Total within former loan production office states	693,546	34,378	106,090	140,468
Other States:				
South Carolina	59,597	4,709	14,387	19,096
California	68,642	121	1,032	1,153
Texas	58,122	3,350	35	3,385
Illinois	43,889	433	11	444
Oregon	44,133	-	-	-
Washington	31,052	-	-	-
Other States	262,338	11,812	1,641	13,453
Total other states	567,773	20,425	17,106	37,531
Total net loans	$ 2,782,220	$ 70,374	$ 142,215	$ 212,589

Impaired Loans. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impairment is measured by: (a) the fair value of the collateral if the loan is collateral dependent; (b) the present value of expected future cash flows; or (c) the loan's observable market price. Loans classified as impaired totaled $185.9 million and $125.9 million at December 31, 2008 and 2007, respectively. Our allowance for loan losses related to impaired loans totaled $16.4 million and $24.6 million at December 31, 2008 and 2007, respectively. Impaired loans at December 31, 2008 consisted primarily of $80.6 million of land and land development loans, $67.3 million of residential construction loans and $20.1 million of commercial construction loans.

The average balance of impaired and restructured loans for the years ended December 31, 2008 and 2007 totaled $171.5 million and $58.4 million, respectively. Interest recognized on impaired and restructured loans for the years ended December 31, 2008 and 2007 was $1.7 million and $675,000, respectively.

Other Real Estate Owned and Repossessed Assets. When we acquire real estate owned property or other assets through foreclosure, deed in lieu of foreclosure or repossession, it is initially recorded at the lower of the recorded investment in the corresponding loan or the fair value of the related assets at the date of foreclosure, less costs to sell. If there is a further deterioration in value, we record a loss provision for other real estate owned for the decline in value. We generally obtain an appraisal or broker's price opinion on all real estate subject to foreclosure proceedings prior to the time of foreclosure.

Other Real Estate Owned and Repossessed Asset Activity. The following table sets forth the activity of our other real estate owned and repossessed assets for the periods indicated:

	Year Ended December 31,			
(Dollars in thousands)	2008	2007	2006	2005
Balance at beginning of year	$ 6,405	$ 5,264	$ 2,446	$ 382
Loan foreclosures and other additions	38,365	9,292	10,495	3,485
Sales	(6,251)	(7,290)	(7,172)	(1,433)
Provisions for losses	(1,141)	(636)	(370)	(73)
Gain (loss) on disposal	(142)	(225)	(135)	85
Balance at end of year	$ 37,236	$ 6,405	$ 5,264	$ 2,446

At December 31, 2008, other real estate owned and repossessed assets consisted primarily of eight commercial properties totaling $21.7 million and 93 residential properties totaling $15.5 million.

Classified Assets. Federal regulations and our Asset Classification Policy require that we utilize an internal asset classification system as a means of reporting problem and potential problem assets. We have incorporated the OTS's internal asset classifications as a part of our credit monitoring system. All assets are subject to classification. Asset quality ratings are divided into three asset classifications: Pass (unclassified), special mention and classified (adverse classification). Additionally, there are three adverse classifications: "substandard", "doubtful" and "loss". A pass asset is considered to be of sufficient quality to preclude a special mention or an adverse rating. The special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in our credit position at a future date. Classified assets receive an adverse classification. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that we will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted. When we classify one or more assets, or portions thereof, as "substandard", "doubtful" or "loss", we establish a valuation allowance for loan losses in an amount deemed prudent by management based on the specific facts of the asset.

As part of our asset classification process, we identify loans that carry relative levels of risk which may be considered higher than normal due to possible deterioration of the borrower's financial condition or the value of the underlying collateral. Since these loans remain performing in accordance with the terms of the loan agreement, they are not included in impaired, delinquent or nonperforming loans or troubled debt restructurings; however, management is aware of circumstances which may raise concern as to the ability of the borrower to comply with present repayment terms. These potential problem loans totaled $285.6 million and $53.1 million at December 31, 2008 and 2007, respectively, with the December 31, 2008 composition of loans primarily consisting of $103.6 million of land and land development, $60.9 million of commercial construction, $39.7 million of multi-family and $33.9 million of business loans. The increase in potential problem loans from 2007 was primarily the result of continued declines in real estate values, slow real estate sales and the economy in general.

Our Asset Classification Committee reviews and classifies assets no less frequently than quarterly and our Board of Directors reviews the asset classification reports on a quarterly basis. The Asset Classification Committee is composed of the following officers of the Bank: Chief Executive Officer, Chief Operating Officer, Director of Lending, Risk Management Officer, Chief Credit Officer, Director of Real Estate Lending, Chief Financial Officer, Controller, Director of Corporate Banking, Senior Financial Analysis Manager and External Reporting Manager.

Allowance for Loan Losses. A provision for loan losses is charged to earnings when it is determined by management to be required based on our analysis. The allowance for loan losses is maintained at a level believed to cover all known and inherent losses in the loan portfolio that are both probable and reasonable to estimate at each reporting date. Management reviews the loan portfolio no less frequently than monthly in order to identify those inherent losses and to assess the overall collection probability of the portfolio. Our review includes a quantitative analysis by loan category, using historical loss experience, classifying loans pursuant to a grading system and consideration of a series of qualitative loss factors. These loss factors are developed using our historical loan loss experience for each group of loans as further adjusted for specific factors, including the following:

- Trends and levels of delinquent, nonperforming or "impaired" loans;
- Trends and levels of charge-offs and recoveries;
- Underwriting terms or guarantees for loans;
- Impact of changes in underwriting standards, risk tolerances or other changes in lending practices;
- Changes in the value of collateral securing loans;
- Total loans outstanding and the volume of loan originations;
- Type, size, terms and geographic concentration of loans held;
- Changes in qualifications or experience of the lending staff;
- Changes in local or national economic or industry conditions;
- Number of loans requiring heightened management oversight;
- Changes in credit concentration; and
- Changes in regulatory requirements.

In addition, we use information about specific borrower situations, including their financial position, work-out plans and estimated collateral values under various liquidation scenarios to estimate the risk and amount of potential loss.

Management believes that, based on information currently available to us at this time, our allowance for loan losses is maintained at a level which covers all known and inherent losses that are both probable and reasonable to estimate at each reporting date. Actual losses are dependent upon future events and, as such, further changes to the level of allowances for loan losses may become necessary.

The allowance for loan losses consists of two elements. The first element is an allocated allowance established for specific loans identified by the credit review function that are evaluated individually for impairment and are considered to be impaired. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impairment is measured by: (a) the fair value of the collateral if the loan is collateral dependent; (b) the present value of expected future cash flows; or (c) the loan's observable market price. The second element is an estimated allowance established for losses which are probable and reasonable to estimate on each category of outstanding loans. While we utilize available information to recognize probable losses on loans inherent in the portfolio, future additions to the allowance may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

Allowance for Loan Losses. The following table shows changes in our allowance for loan losses during the years presented:

	At or For the Year Ended December 31,				
(Dollars in thousands)	2008	2007	2006	2005	2004
Allowance for loan losses at beginning of year	$ 66,540	$ 33,129	$ 30,870	$ 26,831	$ 19,586
Allowance for loan losses acquired	-	-	-	-	4,221
Charge-offs:					
One-to-four family residential	(7,833)	(302)	(6)	(11)	(16)
Second mortgage residential	(348)	(328)	(389)	(402)	(520)
Multi-family residential	(118)	(40)	-	(729)	-
Commercial real estate	(49)	(1,766)	(14)	(7)	-
Land and land development	(34,244)	(2)	(532)	-	-
Residential construction	(31,250)	(26,385)	(368)	(114)	(138)
Commercial construction	(10,040)	-	-	-	-
Business	(3,333)	(1,964)	(1,021)	(608)	(57)
Agriculture - operating	(16)	-	(227)	-	(64)
Warehouse mortgage lines of credit	-	-	-	-	(20)
Consumer	(3,167)	(2,250)	(1,550)	(1,192)	(1,421)
Total charge-offs	(90,398)	(33,037)	(4,107)	(3,063)	(2,236)
Recoveries on loans previously charged-off	2,288	1,066	313	666	373
Provision for loan losses	84,790	65,382	6,053	6,436	4,887
Allowance for loan losses at end of year	$ 63,220	$ 66,540	$ 33,129	$ 30,870	$ 26,831
Allowance for loan losses as a percentage of net loans	2.27%	2.24%	1.09%	1.09%	1.01%
Allowance for loan losses as a percentage of nonperforming loans	44.45%	51.79%	110.25%	214.30%	262.23%
Ratio of net charge-offs during the year as a percentage of average loans outstanding during the year	3.20%	1.07%	0.13%	0.09%	0.08%

We generally discontinue funding of loans which become nonperforming or are deemed impaired unless additional funding is required to protect the asset. In addition, due to certain laws and regulations in some states, additional funding may be required. Our reserve for unfunded loan commitments at December 31, 2008 and 2007 was $300,000 and $2.7 million, respectively, which represents potential future losses associated with these unfunded commitments. We did not have a reserve for unfunded loan commitments at December 31, 2006, 2005 and 2004.

Allowance for Loan Losses by Loan Type. The following table shows how our allowance for loan losses is allocated by type of loan at each of the dates indicated:

(Dollars in thousands)	2008 Amount of Allowance	2008 Loan Category as a % of Total Loans	2007 Amount of Allowance	2007 Loan Category as a % of Total Loans	2006 Amount of Allowance	2006 Loan Category as a % of Total Loans
One-to-four family residential	$ 5,655	12.99%	$ 6,234	9.41%	$ 339	9.21%
Second mortgage residential	573	2.58	716	2.86	904	3.27
Multi-family residential	2,971	6.73	1,480	3.19	1,874	4.05
Commercial real estate	4,485	12.03	4,599	11.10	4,708	10.77
Land and land development(1)	19,662	13.39	11,963	14.16	4,387	13.44
Residential construction(2)	6,389	7.75	20,619	15.36	7,019	21.21
Commercial construction	9,863	12.16	7,893	16.18	3,123	13.36
Agriculture - real estate	1,034	3.21	953	2.72	702	1.86
Business	4,199	8.46	3,717	7.56	3,353	5.99
Agriculture - operating	1,410	3.59	1,257	3.00	1,185	2.56
Warehouse mortgage lines of credit	267	4.51	172	2.58	225	3.06
Consumer	6,712	12.60	6,937	11.88	5,310	11.22
Total	$ 63,220	100.00%	$ 66,540	100.00%	$ 33,129	100.00%

(1)The 2008 increase was primarily attributable to a $29.5 million increase in impaired land and land development loans.
(2)The 2008 decrease was primarily attributable to the charge-off of $14.2 million of our allowance for loan losses in conjunction with our TransLand loan sale.

(Dollars in thousands)	2005 Amount of Allowance	2005 Loan Category as a % of Total Loans	2004 Amount of Allowance	2004 Loan Category as a % of Total Loans
One-to-four family residential	$ 740	10.96%	$ 805	13.54%
Second mortgage residential	1,502	4.57	2,369	8.26
Multi-family residential	2,659	4.75	2,468	4.61
Commercial real estate	5,376	11.47	6,041	14.38

Land and land development		3,363	8.27		1,282	4.95
Residential construction		4,455	26.89		3,140	19.46
Commercial construction		2,681	10.03		2,000	9.14
Agriculture - real estate		687	1.62		873	2.16
Business		2,531	5.06		1,796	4.62
Agriculture - operating		941	2.07		990	2.31
Warehouse mortgage lines of credit		190	2.71		266	4.30
Consumer		5,745	11.60		4,801	12.27
Total	$	30,870	100.00%	$	26,831	100.00%

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Investment Activities

Federally chartered savings institutions have the authority to invest in various types of liquid assets, including United States Treasury obligations, securities of various federal agencies, time deposits of insured banks and savings institutions, bankers' acceptances, repurchase agreements and federal funds. Subject to various restrictions, federally chartered savings institutions may also invest in commercial paper, investment-grade corporate debt securities and mutual funds whose assets conform to the investments that a federally chartered savings institution is otherwise authorized to make directly. Historically, we have maintained liquid assets at a level considered to be adequate to meet our normal daily activities.

Our investment policy, as approved by our Board of Directors, requires management to maintain adequate liquidity and to generate a favorable return on investment without incurring undue interest rate and credit risk. We primarily utilize investments to collateralize deposits. Additionally, we may use investment securities for liquidity management, as a method of deploying excess funding not utilized for loan originations and purchases. We have invested in U.S. Government securities and agency obligations, corporate securities, municipal obligations, agency equity securities, mutual funds, U.S. Government sponsored agency issued mortgage-backed securities and collateralized mortgage obligations. As required by Statement of Financial Accounting Standard (“SFAS”) No. 115, Accounting for Certain Investments in Debt and Equity Securities, we have established an investment portfolio of securities that are categorized as held to maturity or available for sale. We do not currently maintain a portfolio of securities categorized as trading. Substantially all of our investment securities are purchased for the available for sale portfolio which totaled $137.7 million, or 4.1% of total assets, at December 31, 2008. At such date, we had net unrealized losses with respect to such securities of $245,000. At December 31, 2008, the held to maturity securities portfolio totaled $48,000.

At December 31, 2008, our mortgage-backed security portfolio (which was classified as available for sale) totaled $3.1 million, or 0.1% of total assets. At such date, we had net unrealized gains with respect to our mortgage-backed securities of $19,000. Investments in mortgage-backed securities involve a risk that actual prepayments will be greater than estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments thereby changing the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or in the event the issuer redeems such securities. In addition, the fair value of such securities may be adversely affected by changes in interest rates.

Investment Securities Portfolio Composition. The following table sets forth certain information relating to our available for sale investment securities portfolio at the dates indicated:

	At December 31,					
	2008		2007		2006	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government securities and agency obligations	$ 119,811	$ 120,071	$ 105,428	$ 105,413	$ 78,201	$ 77,569
Corporate securities	3,548	3,527	4,935	4,920	5,245	5,130
Municipal obligations	9,635	9,652	13,931	13,914	15,970	15,928
Agency equity securities	8	8	536	422	547	537
Asset Management Fund - ARM Fund	4,907	4,406	5,812	5,812	6,000	5,836
Total investment securities	137,909	137,664	130,642	130,481	105,963	105,000
FHLBank Topeka stock	47,011	47,011	65,837	65,837	62,022	62,022
Total investment securities and FHLBank Topeka stock	$ 184,920	$ 184,675	$ 196,479	$ 196,318	$ 167,985	$ 167,022

Investment Security Maturity and Yield. The following table sets forth the fair value of available for sale investment securities which mature during each of the years indicated and the weighted average yields for each range of maturities at December 31, 2008. No tax-exempt yields have been adjusted to a tax-equivalent basis.

	Maturing During the Year Ending December 31,				
(Dollars in thousands)	2009	2010 - 2013	2014 - 2018	After 2018	Total
Bonds and other debt securities:					
U.S. Government securities and agency obligations					
Balance	$ 95,071	$ 20,000	$ 5,000	$ -	$ 120,071
Weighted average yield	1.91%	1.28%	4.08%	-	1.90%
Corporate securities					
Balance	$ -	$ 3,527	$ -	$ -	$ 3,527
Weighted average yield	-	6.56%	-	-	6.56%
Municipal obligations					
Balance	$ 792	$ 4,542	$ 4,318	$ -	$ 9,652
Weighted average yield	4.56%	4.21%	4.39%	-	4.32%

Equity Securities:					
Asset Management Fund - ARM Fund					
Balance	$ 4,406	$ -	$ -	$ -	$ 4,406
Weighted average yield	4.25%	-	-	-	4.25%
Agency equity securities					
Balance	$ 8	$ -	$ -	$ -	$ 8
Weighted average yield	-	-	-	-	-
FHLBank Topeka stock					
Balance	$ 47,011	$ -	$ -	$ -	$ 47,011
Weighted average yield	2.32%	-	-	-	2.32%
Total fair value	$ 147,288	$ 28,069	$ 9,318	$ -	$ 184,675
Weighted average yield	2.13%	2.42%	4.22%	-	2.28%

Mortgage-Backed Securities Portfolio Composition. The following table sets forth the composition of our mortgage-backed securities portfolio at the dates indicated:

	At December 31,					
	2008		2007		2006	
(Dollars in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Fixed-rate:						
FHLMC	$ 243	$ 239	$ 820	$ 802	$ 1,146	$ 1,100
FNMA	343	344	654	637	1,110	1,068
GNMA	360	370	458	445	654	604
FHLMC/FNMA CMOs	329	323	2,406	2,374	5,936	5,833
Total fixed-rate	1,275	1,276	4,338	4,258	8,846	8,605
Adjustable-rate:						
GNMA	994	1,020	1,299	1,325	1,932	1,966
FNMA	734	728	988	979	1,535	1,541
FHLMC	111	109	130	127	163	160
Total adjustable-rate	1,839	1,857	2,417	2,431	3,630	3,667
Total mortgage-backed securities	$ 3,114	$ 3,133	$ 6,755	$ 6,689	$ 12,476	$ 12,272

Mortgage-Backed Security Maturity and Yield. Information regarding the contractual maturities and weighted average yield of our mortgage-backed securities portfolio at December 31, 2008 is presented below. Due to repayments of the underlying loans, the actual maturities of mortgage-backed securities generally are less than their contractual maturities.

	Maturing During the Year Ending December 31,			
(Dollars in thousands)	2009	2010 - 2013	After 2013	Total
Fixed-rate:				
FHLMC				
Balance	$ 171	$ 41	$ 27	$ 239
Weighted average yield	3.18%	7.26%	7.64%	4.38%
FNMA				
Balance	$ 124	$ -	$ 220	$ 344
Weighted average yield	1.48%	-	6.76%	4.86%

GNMA				
Balance	$ -	$ -	$ 370	$ 370
Weighted average yield	-	-	6.22%	6.22%
FHLMC/FNMA CMOs				
Balance	$ 88	$ -	$ 235	$ 323
Weighted average yield	5.31%	-	3.60%	4.07%
Adjustable-rate:				
FHLMC				
Balance	$ -	$ -	$ 109	$ 109
Weighted average yield	-	-	5.46%	5.46%
FNMA				
Balance	$ -	$ -	$ 728	$ 728
Weighted average yield	-	-	5.59%	5.59%
GNMA				
Balance	$ -	$ -	$ 1,020	$ 1,020
Weighted average yield	-	-	5.02%	5.02%
Total fair value	$ 383	$ 41	$ 2,709	$ 3,133
Weighted average yield	3.12%	7.26%	5.40%	5.15%

Unrealized Losses. At December 31, 2008 and 2007, all unrealized losses related to investment and mortgage-backed securities are considered temporary in nature. Investment and mortgage-backed securities with unrealized losses at December 31, 2008 and 2007, are summarized in the following tables:

	Less than 12 Months		12 Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
At December 31, 2008:						
U.S. Government securities and agency obligations	$ 5,004	$ 4	$ -	$ -	$ 5,004	$ 4
Corporate securities	3,548	21	-	-	3,548	21
Municipal obligations	1,475	15	-	-	1,475	15
Asset Management Fund - ARM Fund	4,907	501	-	-	4,907	501
Mortgage-backed securities	1,484	12	501	15	1,985	27
Total temporarily impaired securities	$ 16,418	$ 553	$ 501	$ 15	$ 16,919	$ 568
At December 31, 2007:						
U.S. Government securities and agency obligations	$ 19,994	$ 3	$ 11,999	$ 30	$ 31,993	$ 33
Corporate securities	3,570	3	1,350	12	4,920	15
Municipal obligations	1,424	21	1,570	14	2,994	35
Agency equity securities	5	1	412	113	417	114
Mortgage-backed securities	1,871	17	3,062	81	4,933	98
Total temporarily impaired securities	$ 26,864	$ 45	$ 18,393	$ 250	$ 45,257	$ 295

We believe all unrealized losses on securities at December 31, 2008 and 2007 are temporary. Impairment is deemed temporary if the positive evidence indicating that an investment's carrying amount is recoverable within a reasonable time period outweighs negative evidence to the contrary. At December 31, 2008, we had the ability and intent to hold these securities until maturity or for the period necessary to recover the unrealized losses.

Sources of Funds

General. Our primary sources of funds are deposits; amortization of loans, loan prepayments and maturity of loans; repayment, maturity or sale of investment and mortgage-backed securities; 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 utilize FHLBank advances and other borrowings as additional funding sources.

Deposits. As a regional community bank, we offer a variety of products designed to attract deposits from the general public, local businesses and governmental entities. Our product offerings consist of checking (both interest- and noninterest-bearing), money market, savings, time deposits and individual retirement accounts. We did not have any brokered deposits at December 31, 2008, 2007 or 2006.

Deposit Composition. The following table shows the distribution of our deposits by type of deposit, as of the dates indicated:

	At December 31,					
	2008		2007		2006	
(Dollars in thousands)	Amount	%	Amount	%	Amount	%
Time deposits:						
0.00% - 0.99%	$ 67	-%	$ 20	-%	$ -	-%
1.00% - 1.99%	397	0.02	101	-	542	0.03
2.00% - 2.99%	338,428	14.67	3,879	0.16	27,594	1.34
3.00% - 3.99%	939,321	40.71	129,910	5.34	151,499	7.38
4.00% - 4.99%	88,438	3.83	398,325	16.39	348,777	16.99
5.00% - 5.99%	9,475	0.41	866,878	35.67	592,013	28.85
6.00% - 6.99%	-	-	-	-	128	0.01
Total time deposits	1,376,126	59.64	1,399,113	57.56	1,120,553	54.60
Transaction accounts:						
Noninterest-bearing checking	149,597	6.49	164,275	6.76	154,123	7.51
Savings	204,494	8.86	188,613	7.76	45,452	2.21
Interest-bearing checking	327,361	14.19	328,267	13.51	349,033	17.01
Money market	249,714	10.82	350,276	14.41	383,182	18.67
Total transaction accounts	931,166	40.36	1,031,431	42.44	931,790	45.40

Total deposits	$ 2,307,292	100.00%	$ 2,430,544	100.00%	$ 2,052,343	100.00%

Deposit Average Balances and Average Rates Paid. The following table shows the average balance of each type of deposit and the average rate paid on each type of deposit for the years indicated:

	Year Ended December 31,					
	2008		2007		2006	
(Dollars in thousands)	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid	Average Balance	Average Rate Paid
Interest-bearing checking	$ 325,351	0.82%	$ 326,545	1.13%	$ 361,056	1.15%
Savings	206,594	2.15	90,036	2.70	51,643	0.51
Money market	309,481	1.58	385,210	3.04	393,807	2.82
Time deposits	1,290,469	4.10	1,287,195	4.98	1,085,350	4.12
Total interest-bearing deposits	2,131,895	3.04	2,088,986	3.92	1,891,856	3.18
Noninterest-bearing checking	148,122	-	135,617	-	119,394	-
Total deposits	$ 2,280,017	2.84%	$ 2,224,603	3.69%	$ 2,011,250	2.99%

Time Deposit Maturity. The following table presents, by various interest rate categories and maturities, the amount of time deposits at December 31, 2008:

	Balance at December 31, 2008 Maturing in the 12 Months Ending December 31,				
(Dollars in thousands)	2009	2010	2011	Thereafter	Total
Time deposits:					
0.00% - 0.99%	$ 67	$ -	$ -	$ -	$ 67
1.00% - 1.99%	303	-	-	94	397
2.00% - 2.99%	323,593	7,443	1,557	5,835	338,428
3.00% - 3.99%	767,829	158,886	11,006	1,600	939,321
4.00% - 4.99%	62,279	13,725	7,712	4,722	88,438
5.00% - 5.99%	7,088	1,197	1,090	100	9,475
Total time deposits	$ 1,161,159	$ 181,251	$ 21,365	$ 12,351	$ 1,376,126

Time Deposits Exceeding $100,000. The following table shows the maturities of our time deposits exceeding $100,000 at December 31, 2008 by the time remaining to maturity.

(Dollars in thousands)		Amount	Weighted Average Rate
Quarter ending:			
March 31, 2009	$	83,755	3.16%
June 30, 2009		55,180	3.53
September 30, 2009		57,983	3.63
December 31, 2009		66,913	3.78
After December 31, 2009		41,868	3.83
Total time deposits exceeding $100,000	$	305,699	3.54%

Time Deposits Exceeding $250,000. The following table shows the maturities of our time deposits exceeding $250,000 at December 31, 2008 by the time remaining to maturity.

(Dollars in thousands)		Amount	Weighted Average Rate
Quarter ending:			
March 31, 2009	$	20,788	2.99%
June 30, 2009		13,620	3.83
September 30, 2009		5,422	3.80
December 31, 2009		11,813	4.04
After December 31, 2009		7,226	3.98
Total time deposits exceeding $250,000	$	58,869	3.59%

Borrowings. We utilize advances from the FHLBank as an alternative to retail deposits to fund our operations as part of our operating strategy. The FHLBank is part of a system of 12 regional Federal Home Loan Banks, each subject to Federal Housing Finance Board supervision and regulation, that function as a central reserve bank providing credit to financial institutions. As a condition of membership in the FHLBank we are required to own stock of the FHLBank. Our FHLBank advances are collateralized by our qualifying residential, multi-family residential and commercial real estate mortgages, residential construction, commercial construction and agricultural real estate loans, and secondarily by our investment in capital stock of the FHLBank. FHLBank advances are made pursuant to several different credit programs, each of which has its own interest rate and range of maturities. The maximum amount that the FHLBank will advance to member institutions, including us, fluctuates from time to time in accordance with the policies of the FHLBank.

On April 26, 2004, we formed TierOne Capital Trust I (“TierOne Capital Trust”), which issued capital securities (“Trust Preferred Securities”) to investors. The proceeds from the sale of the Trust Preferred Securities were used to purchase $30.9 million of our junior subordinated debentures (“debentures”). The debentures are callable at par in June 2009 and mature in June 2034. Our obligation under the debentures constitutes a full and unconditional guarantee of TierOne Capital Trust’s obligations under the Trust Preferred Securities. In accordance with Interpretation No. 46 (Revised), “Consolidation of Variable Interest Entities” (“FIN 46R”), the trust is not consolidated and related amounts are treated as debt of the Company. On November 18, 2008, we announced that we had elected to defer payments of interest on these debentures. As permitted under the terms of the indenture between the Company and our trustee, we have the right to extend the interest payment period at any time for up to 20 consecutive quarterly periods. Accordingly, our election to defer payments of interest does not constitute an event of default under the indenture and upon expiration of the deferral period, all accrued and unpaid interest on the debentures will be due and payable at the same contractual rate that would have been payable were it not for the extension. Pursuant to the indenture and subject to limited exceptions, we, among other limitations, may not pay dividends or repurchase the Company’s common stock during the deferral period.

FHLBank Advances and Other Borrowings. The following table shows certain information regarding our borrowings at or for the dates indicated:

	At or For the Year Ended December 31,		
(Dollars in thousands)	2008	2007	2006
FHLBank Topeka advances:			
Average balance outstanding during the year	$ 609,095	$ 745,337	$ 824,101
Maximum amount outstanding at any month-end during the year	$ 608,752	$ 844,268	$ 907,920
Balance outstanding at end of the year	$ 608,715	$ 634,195	$ 907,164
Average interest rate during the year	4.46%	4.27%	4.07%
Weighted average interest rate at end of the year	4.46%	4.39%	4.29%
Other borrowings:			
Average balance outstanding during the year	$ 59,692	$ 67,011	$ 69,400
Maximum amount outstanding at any month-end during the year	$ 88,711	$ 82,990	$ 84,403
Balance outstanding at end of the year	$ 60,134	$ 55,093	$ 55,212
Average interest rate during the year	4.00%	6.13%	6.17%
Weighted average interest rate at end of the year	2.60%	5.76%	6.12%

For more information regarding our borrowings, see “Note 13 – FHLBank Topeka Advances and Other Borrowings” included in Item 8. Financial Statements and Supplementary Data in Part II of this Annual Report on Form 10-K.

Subsidiary Activities

TierOne Bank is the wholly owned subsidiary of TierOne Corporation. TMS Corporation of the Americas is the wholly owned subsidiary of TierOne Bank and holds all of the stock of TierOne Investments and Insurance, Inc. (d/b/a TierOne Financial) and TierOne Reinsurance Company. TierOne Financial provides a wide selection of investment and insurance products, equity securities, mutual funds and annuities. These products are made available to consumers via licensed representatives in our banking offices. TierOne Reinsurance Company reinsures credit life and disability insurance which is sold in conjunction with the origination of consumer loans by TierOne Bank. United Farm & Ranch Management, Inc. is a wholly owned subsidiary of TierOne Bank that provides agricultural customers with professional farm and ranch management and real estate brokerage services.

Personnel

As of December 31, 2008, 2007 and 2006, we had 855, 862 and 850 full-time equivalent employees, respectively. Employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

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Regulation and Supervision

The following is not intended to be a complete discussion but is intended to be a summary of some of the more significant provisions of laws and regulations which are applicable to the Company and the Bank. This regulatory framework is intended to protect depositors, federal deposit insurance funds and the banking system as a whole, and not to protect security holders. To the extent that the information describes statutory and regulatory provisions, it is qualified in its entirety by reference to those provisions. Additionally, such statutes, regulations and policies are continually under review by Congress and state legislatures, and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to the Company or the Bank, including changes in interpretations, could have a material effect on our business.

General. The Bank, as a federally chartered stock savings bank, is subject to OTS regulations, examinations and reporting requirements. The Bank is also subject to regulation and examination by the Federal Deposit Insurance Corporation ("FDIC"), which insures the deposits of the Bank to the maximum extent permitted by law and requirements established by the Board of Governors of the Federal Reserve System. The investment and lending authority of savings institutions is prescribed by federal laws and regulations and such institutions are prohibited from engaging in any activities not permitted by such laws and regulations. Such regulation and supervision primarily is intended for the protection of depositors and not for the purpose of protecting stockholders.

The OTS regularly examines the Bank and prepares reports for consideration by our Board of Directors on any deficiencies that it may find in the Bank's operations. The FDIC also has the authority to examine the Bank in its role as the administrator of the Deposit Insurance Fund. The Bank's relationship with its depositors and borrowers is also regulated to a great extent by both federal, and to a lesser extent, state laws, especially in such matters as the ownership of deposit accounts and the form and content of the Bank's mortgage requirements. The OTS enforcement authority over all savings institutions and their holding companies includes, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with the OTS. Any change in such laws or regulations, whether by the FDIC, the OTS or the Congress, could have a material impact on our operations.

Supervisory Agreement. On January 15, 2009, the Bank entered into a supervisory agreement with the OTS, the Bank's primary federal regulator, in response to regulatory concerns raised in the Bank's most recent regulatory examination by the OTS and to address the current economic environment facing the banking and financial industry. The agreement requires, among other things:

- The review, and where appropriate, revisions to or adoption of: (a) loan policies, procedures and reporting; (b) credit administration and underwriting; (c) asset classification; (d) allowance for loan and lease losses; and (e) internal asset review;
  - Enhanced management oversight including restrictions on changes in compensation arrangements; and
- Strengthening the Bank's capital position, including a requirement that the Bank maintain a minimum core capital ratio of 8.5% and a minimum total risk-based capital ratio of 11.0%.

The supervisory agreement also prohibits capital distributions by the Bank and the acceptance of brokered deposits. The Company agreed to maintain the Bank's regulatory capital (at the levels described above) as well as to not pay dividends on its common stock, make payments on its trust preferred securities or repurchase any shares of its common stock until the OTS issues a written notice of non-objection. The supervisory agreement will remain in effect until modified, suspended or terminated by the OTS. The foregoing information does not purport to be a complete summary of the supervisory agreement and is qualified in its entirety by reference to the supervisory agreement filed as Exhibit 10.24 to this Annual Report on Form 10-K.

Insurance of Deposit Accounts. The deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund ("DIF") of the FDIC and are subject to deposit insurance assessments to maintain the DIF. The FDIC utilizes a risk-based assessment system that imposes insurance premiums based upon a risk matrix that takes into account a bank's capital level and supervisory rating.

Deposit accounts are insured by the FDIC generally up to a maximum of $100,000 per account and up to a maximum of $250,000 for self-directed retirement accounts. Our deposits, therefore, are subject to FDIC deposit insurance assessments. The Emergency Economic Stabilization Act of 2008 included a provision that temporarily increased the FDIC insurance coverage from $100,000 to $250,000 per depositor, per insured bank. Additionally, deposits maintained in different categories of legal ownership at the same bank can be separately insured. Therefore, it is possible to have deposits of more than $250,000 at one insured bank and still be fully insured. The increased deposit insurance provisions are currently scheduled to expire on December 31, 2009 at which time they will revert back to the traditional coverage amounts.

Effective January 1, 2007, the FDIC imposed deposit assessment rates based on the risk category of the Bank. Risk Category I is the lowest risk category while Risk Category IV is the highest risk category. The insurance assessment rate at December 31, 2008 ranges from five to 43 basis points of total qualified deposits depending on a bank's FDIC risk category. Because of favorable loss experience and a healthy reserve ratio in the Bank Insurance Fund ("BIF") of the FDIC, well-capitalized and well-managed banks have in recent years paid minimal premiums for FDIC insurance. With the additional deposit insurance, a deposit premium refund, in the form of credit offsets, was granted to banks that were in existence on December 31, 1996 and paid deposit insurance premiums prior to that date. For 2007, we utilized credit offsets to eliminate nearly all of our 2007 FDIC insurance assessments. We paid FDIC insurance premiums totaling $3.1 million during the year ended December 31, 2008.

On October 16, 2008, the FDIC published a restoration plan designed to replenish the DIF over a period of five years and to increase the deposit insurance reserve ratio, which decreased to 1.01% of insured deposits on June 30, 2008, to the statutory minimum of 1.15% of insured deposits by December 31, 2013. In order to implement the restoration plan, the FDIC proposes to change both its risk-based assessment system and its base assessment rates. For the first quarter of 2009 only, the FDIC increased all FDIC deposit assessment rates by seven basis points. The new assessment rates range from 12-14 basis points for Risk Category I institutions to 50 basis points for Risk Category IV institutions. Changes to the risk-based assessment system would include increasing premiums for institutions that rely on excessive amounts of brokered deposits, increasing premiums for excessive use of secured liabilities (including FHLBank advances), lowering premiums for smaller institutions with high capital levels and adding financial ratios and debt issuers ratings to the premium calculations for banks with over $10 billion in assets, while providing a reduction for their unsecured debt. Either an increase in the Risk Category of the Bank or adjustments to the base assessment rates could have a material adverse effect on our earnings.

Regulatory Capital Requirements. Pursuant to the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), the OTS adopted regulations implementing new capital standards applicable to all savings associations, including the Bank. Such capital standards require that savings associations maintain: (a) capital of not less than 1.5% of adjusted total assets (Tangible Capital); (b) core (Tier 1) capital of not less than 4% of adjusted total assets; and (c) total risk-based capital of not less than 8% of risk-weighted assets. Pursuant to a supervisory agreement entered into between the OTS and the Bank on January 15, 2009, the OTS has required that the Bank maintain an elevated ratio of 11.0% (as opposed to 10.0%) with respect to total risk-based capital to risk-weighted assets and a ratio of 8.5% (as opposed to 5.0%) with respect to core (Tier 1) capital. The OTS is authorized to impose capital requirements in excess of those standards on individual institutions on a case-by-case basis. As of December 31, 2008, the Bank exceeded these elevated ratios mandated by the OTS and met all regulatory capital requirements.

Under the tangible capital requirement, a savings bank must maintain tangible capital in an amount equal to at least 1.5% of adjusted total assets. Tangible capital is defined as core capital less all intangible assets and goodwill, plus a specified amount of purchased mortgage servicing rights.

Under the Core (Tier 1) capital requirement adopted by the OTS, savings banks must maintain "core capital" in an amount equal to at least 4.0% of adjusted total assets. Core (Tier 1) capital consists of: common stockholders' equity (including retained earnings), non-cumulative perpetual preferred stock, certain non-withdrawable and pledged deposits; and minority interests in the equity accounts of consolidated subsidiaries plus purchased mortgage servicing rights valued at the lower of 90% of fair value, 90% of original cost or the current amortized book value as determined in conformity with U.S. generally accepted accounting principles (“GAAP”) and goodwill, less non-qualifying intangible assets.

Under the risk-based capital requirement, a savings bank must maintain total capital (which is defined as core capital plus supplementary capital) equal to at least 8.0% of risk-weighted assets. A savings bank must calculate its risk-weighted assets by multiplying each asset and off-balance sheet item by various risk factors, which range from 0% for cash and securities issued by the United States Government or its agencies to 100% for repossessed assets or loans more than 90 days past due. Supplementary capital may include, among other items, cumulative perpetual preferred stock, perpetual subordinated debt, mandatory convertible subordinated debt, intermediate-term preferred stock and general allowances for loan losses. The allowance for loan losses includable in supplementary capital is limited to 1.25% of risk-weighted assets. The amount of supplementary capital that can be included is limited to 100% of core capital.

Certain exclusions from capital and assets are required to be made for the purpose of calculating total capital, in addition to the adjustments required for calculating core capital. However, in calculating regulatory capital, institutions can add back unrealized losses and deduct unrealized gains net of taxes, on debt securities reported as a separate component of capital calculated according to GAAP.

OTS regulations establish special capitalization requirements for savings banks that own service corporations and other subsidiaries, including subsidiary savings banks. According to these regulations, certain subsidiaries are consolidated for capital purposes and others are excluded from assets and capital. In determining compliance with the capital requirements, all subsidiaries engaged solely in activities permissible for national banks, engaged solely in mortgage-banking activities or engaged in certain other activities solely as agent for its customers are “includable” subsidiaries that are consolidated for capital purposes in proportion to the Bank’s level of ownership, including the assets of includable subsidiaries in which the Bank has a minority interest that is not consolidated for GAAP purposes. For excludable subsidiaries, the debt and equity investments in such subsidiaries are deducted from assets and capital. At December 31, 2008, the Bank had $1.3 million of investments subject to a deduction from tangible capital.

Under current OTS policy, savings institutions must value securities available for sale at amortized cost for regulatory capital purposes. This means that in computing regulatory capital, savings institutions should add back any unrealized losses and deduct any unrealized gains, net of income taxes, on securities reported as a separate component of capital calculated according to GAAP.

The OTS and the FDIC generally are authorized to take enforcement action against a savings bank that fails to meet its capital requirements, which action may include restrictions on operations and banking activities, the imposition of a capital directive, a cease-and-desist order, civil money penalties or harsher measures such as the appointment of a receiver or conservator or a forced merger into another institution. In addition, under current regulatory policy, a savings bank that fails to meet its capital requirements is prohibited from paying any dividends.

For more information see “Note 20 – Regulatory Capital Requirements” included in Item 8. Financial Statements and Supplementary Data, in Part II of this Annual Report on Form 10-K.

Prompt Corrective Action. Under the prompt corrective action regulations, the OTS is required and authorized to take supervisory actions against undercapitalized savings associations. For this purpose, a savings institution is placed in one of the following five categories based on the savings institutions capital:

- well-capitalized (at least 5% leverage capital, 6% Tier 1 risk-based capital and 10% total risk-based capital);
- adequately capitalized (at least 4% leverage capital, 4% Tier 1 risk-based capital and 8% total risk-based capital);
- undercapitalized (less than 3% leverage capital, 4% Tier 1 risk-based capital or 8% total risk-based capital);
- significantly undercapitalized (less than 3% leverage capital, 3% Tier 1 risk-based capital or 6% total risk-based capital); and

- critically undercapitalized (less than 2% tangible capital)

Generally, the banking regulator is required to appoint a receiver or conservator for a savings association that is “critically undercapitalized” within specific time frames. The regulations also provide that a capital restoration plan must be filed with the OTS within 45 days of the date a savings institution receives notice that it is “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” Any holding company for a savings institution required to submit a capital restoration plan must guarantee the lesser of an amount equal to 5% of the savings institution’s assets at the time it was notified or deemed to be undercapitalized by the OTS, or the amount necessary to restore the savings institution to adequately capitalized status. This guarantee remains in place until the OTS notifies the savings institution that it has maintained adequately capitalized status for each of four consecutive calendar quarters, and the OTS has the authority to require payment and collect payment under the guarantee. Failure by a holding company to provide the required guarantee will result in certain operating restrictions on the savings institution, such as restrictions on the ability to declare and pay dividends, pay executive compensation and management fees and increase assets or expand operations. The OTS may also take any number of discretionary supervisory actions against undercapitalized institutions, including the issuance of a capital directive and the replacement of senior executive officers and directors.

Safety and Soundness Guidelines. Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted Interagency Guidelines Prescribing Standards for Safety and Soundness to implement the safety and soundness standards required under federal law. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. If an institution fails to meet these standards, the appropriate federal banking agency may require the institution to submit a compliance plan.

Capital Distributions. OTS regulations govern capital distributions by savings institutions, which include cash dividends, stock repurchases and other transactions charged to the capital account of a savings institution. A savings institution must file an application for OTS approval of the capital distribution if any of the following occur or would occur as a result of the capital distribution:

- the total capital distributions for the applicable calendar year exceed the sum of the institution’s net income for that year to date plus the institution’s retained net income for the preceding two years;
- the institution would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or OTS-imposed condition; or
- the institution is not eligible for expedited treatment of its filings.

Even if an application is not otherwise required, every savings institution that is a subsidiary of a holding company must still file a notice with the OTS at least 30 days before the board of directors declares a dividend or approves a capital distribution.

Branching by Federal Savings Institutions. OTS policy permits interstate branching to the full extent permitted by statute (which is essentially unlimited). Generally, federal law prohibits federal savings institutions from establishing, retaining or operating a branch outside the state in which the federal institution has its home office unless the institution meets the Internal Revenue Service (“IRS”) domestic building and loan test (generally, 60% of a thrift’s assets must be housing-related) (“IRS Test”). The IRS Test requirement does not apply if: (a) the branch(es) result(s) from an emergency acquisition of a troubled savings institution (however, if the troubled savings institution is acquired by a bank holding company, does not have its home office in the state of the bank holding company bank subsidiary and does not qualify under the IRS Test, its branching is limited to the branching laws for state-chartered banks in the state where the savings institution is located); (b) the law of the state where the branch would be located would permit the branch to be established if the federal savings institution were chartered by the state in which its home office is located; or (c) the branch was operated lawfully as a branch under state law prior to the savings institution’s reorganization to a federal charter.

Furthermore, the OTS will evaluate a branching applicant's record of compliance with the Community Reinvestment Act of 1977 ("CRA"). An unsatisfactory CRA record may be the basis for denial of a branching application.

Community Reinvestment Act and the Fair Lending Laws. Under the CRA, as implemented by FDIC regulations, an institution has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low- and moderate-income neighborhoods.

The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examinations, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institutions. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. An institution's failure to comply with the provisions of the CRA could, at a minimum, result in regulatory restrictions on its activities, and failure to comply with the fair lending laws could result in enforcement actions by the OTS, as well as other federal regulatory agencies and the Department of Justice. The Bank received a satisfactory CRA rating in its recent federal examination.

Loans-to-One Borrower Limitations. Generally, a federal savings institution may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus (this amount was approximately $53.5 million at December 31, 2008). An additional amount may be loaned, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. As of December 31, 2008, we were in compliance with the loans-to-one borrower limitations.

Qualified Thrift Lender Test. As a federal savings institution, we are required to satisfy the qualified thrift lender ("QTL") test. Under the QTL test, we must maintain at least 65% of our "portfolio assets" in "qualified thrift investments" (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of the most recent 12-month period. "Portfolio assets" generally means total assets of a savings institution, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets and the value of property used to conduct the saving's institutions business. We may also satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code. A savings institution that fails the QTL test must either convert to a bank charter or operate under specified restrictions.

At December 31, 2008, approximately 75.9% of the portfolio assets of the Bank were qualified thrift investments.

Federal Reserve System. The Bank is subject to various regulations promulgated by the Federal Reserve, including, among others, Regulation B (Equal Credit Opportunity), Regulation D (Reserves), Regulation E (Electronic Funds Transfers), Regulation Z (Truth in Lending), Regulation CC (Availability of Funds), and Regulation DD (Truth in Savings). Regulation D requires noninterest-bearing reserve maintenance in the form of either vault cash or funds on deposit at the Federal Reserve Bank of Kansas City or another designated depository institution in an amount calculated by a formula. The balances maintained to meet the reserve requirements imposed by the Federal Reserve may be used to satisfy liquidity requirements. At December 31, 2008, the Bank was in compliance with these reserve requirements.

Savings banks are authorized to borrow from a Federal Reserve Bank ("FRB") "discount window," but FRB regulations require savings banks to exhaust other reasonable alternative sources of funds, including FHLBank advances, before borrowing from a Federal Reserve Bank.

Affiliate Restrictions. Section 11 of the Home Owners' Loan Act provides that transactions between an insured subsidiary of a holding company and an affiliate thereof will be subject to the restrictions that apply to transactions between banks that are members of the Federal Reserve System and their affiliates pursuant to Sections 23A and 23B of the Federal Reserve Act.

Generally, Section 23A and 23B and OTS regulations issued in connection therewith limit the extent to which a savings institution or its subsidiaries may engage in certain "covered transactions" with affiliates to an amount equal to 10% of the institution's capital stock and surplus, in the case of covered transactions with any one affiliate, and to an amount equal to 20% of such capital stock and surplus, in the case of covered transactions with all affiliates. Section 23B applies to “covered transactions” and certain other transactions and requires that all such transactions be on terms and under circumstances that are substantially the same, or at least as favorable to the savings institution or its subsidiary, as those prevailing at the time for comparable transactions with nonaffiliated companies. A “covered transaction” is defined to include a loan or extension of credit to an affiliate; a purchase of investment securities issued by an affiliate; a purchase of assets from an affiliate, with certain exceptions; the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any party; or the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

Section 23B transactions also apply to the provision of services and the sale of assets by a savings association to an affiliate.

In addition, under OTS regulations, a savings institution may not make a loan or extension of credit to an affiliate unless the affiliate is engaged only in activities permissible for bank holding companies; a savings institution may not purchase or invest in securities of an affiliate other than shares of a subsidiary; a savings institution and its subsidiaries may not purchase a low-quality asset from an affiliate; and covered transactions and certain other transactions between a savings institution or its subsidiaries and an affiliate must be on terms and conditions that are consistent with safe and sound banking practices. With certain exceptions, each loan or extension of credit by a savings institution to an affiliate must be secured by collateral with a fair value of at least 100% (depending on the type of collateral) of the amount of the loan or extension of credit.

The OTS regulation generally excludes all non-bank and non-savings institution subsidiaries of savings institutions from treatment as affiliates, except to the extent that the OTS or the FRB decides to treat such subsidiaries as affiliates. The regulation also requires savings institutions to make and retain records that reflect affiliate transactions in reasonable detail, and provides that certain classes of savings institutions may be required to give the OTS prior notice of affiliate transactions.

The U.S.A. Patriot Act. In December 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act") became effective. The USA Patriot Act is designed to combat money laundering and terrorist financing while protecting the United States financial system. The USA Patriot Act imposes enhanced policy, record keeping and due diligence requirements on domestic financial institutions. The USA Patriot Act also amended the Bank Secrecy Act to facilitate access to customer account information by government officials while immunizing banks from liability for releasing such information. Among other requirements, Title III of the USA Patriot Act and related OTS regulations impose the following requirements with respect to financial institutions:

- Establishment of anti-money laundering programs;
- Establishment of a program specifying procedures for obtaining identifying information from customers seeking to open new accounts, including verifying the identity of customers within a reasonable period of time;
- Establishment of enhanced due diligence policies, procedures and controls designed to detect and report money laundering; and
- Prohibition on correspondent accounts for foreign shell banks and compliance with record keeping obligations with respect to correspondent accounts of foreign banks.

In addition, bank regulators are directed to consider a holding company's effectiveness in combating money laundering when ruling on Federal Reserve Act and Bank Merger Act applications. During 2008, we purchased a new software package from our core processor which is expected to enhance our ability to identify and react to possible money laundering activity.

Current and Future Regulatory Issues. During 2008, the Bank established an Identity Theft Protection Program to address potential issues in existing and prospective new accounts within both the deposit and lending business lines. In addition, we verified our compliance with the affiliated marketing provisions of the Fair and Accurate Credit Transaction Act and new FDIC insurance regulations surrounding the Temporary Liquidity Guarantee Program. The Bank also updated its Vendor Management Risk Assessment for Gramm-Leach-Bliley Act purposes.

In 2009, there are numerous regulatory issues in which the Bank is implementing additional controls and training to enhance compliance. New Regulation Z procedures for calculating high cost loans have been implemented and we are working with our third-party loan documentation vendors toward meeting higher-priced mortgage rules by the

October 2009 deadline. Our appraisal processes are being modified to conform to Regulation Z revisions pertaining to appraisals. Adoption of the new Good Faith Estimate form will be in place by the fourth quarter of 2009 compliance date. The Bank is also working on compliance with changes to international ACH transaction regulations which are scheduled for

September of 2009 and is also conducting various special reviews in regulatory areas such as Fair Lending and the USA Patriot Act Customer Identification Program.

Item 1A. Risk Factors

In addition to other information contained in this Annual Report on Form 10-K, the following risk factors should be considered in evaluating our business. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may adversely affect our business, financial condition and/or results of operations.

Liquidity risk could impair our ability to fund operations and could adversely impact our financial condition.

Liquidity is essential to our business. An inability to raise funds through traditional deposit taking processes, borrowings, the sale of securities or loans and other sources could have a substantial negative effect on our liquidity. Our access to funding sources in amounts adequate to finance our activities or the terms of which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general. Factors that could impact our access to liquidity sources include a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations regarding the prospects for the financial services industry in light of recent troubles faced by banking organizations and the continued deterioration in the credit markets.

We rely on commercial and retail deposits, advances from the FHLBank and other borrowings to fund our operations. Although we have historically been able to replace maturing deposits and advances as necessary, we might be unable to replace such funds in the future if, among other things, our results of operations or financial condition or the results of operations or financial condition of the FHLBank or market conditions were to change.

We may be unable to comply with the provisions of our supervisory agreement with the Office of Thrift Supervision.

On January 15, 2009, the Bank entered into a supervisory agreement with the OTS. The supervisory agreement requires, among other things, strengthening the Bank’s capital position through increased minimum capital requirements, and the review, and where appropriate, revisions to or adoption of (i) loan policies, procedures and reporting, (ii) credit administration and underwriting, (iii) asset classification, (iv) allowance for loan and lease losses and (v) internal asset review. See “Recent Developments – Regulatory Developments” included in Item 1. Business in Part I of this Annual Report on Form 10-K. Failure to comply with the supervisory agreement could result in the initiation of a formal enforcement action by the OTS.

As a bank holding company, our earnings are dependent upon the performance of the Bank and the Bank’s subsidiaries.

Since we are a holding company with no significant assets other than the Bank, we currently depend upon dividends from the Bank for a substantial portion of our revenues. These dividends are the primary funding source for the dividends we pay on our common stock. Our ability to pay dividends will continue to depend in large part upon our receipt of dividends or other capital distributions from the Bank. Various state and federal laws and regulations limit the amount of dividends that a bank may pay to a parent holding company. In addition, our right to participate in a distribution of assets upon the liquidation or reorganization of a subsidiary may be subject to prior claims of the subsidiary’s creditors. In the event the Bank is unable to pay dividends to the Company, we may not be able to service our debt, pay our obligations or pay dividends on our common stock. The inability to receive dividends from the Bank could therefore have a material adverse effect on our business, our financial condition and our results of operations.

The continuation of adverse market conditions in the United States economy and the markets in which we operate could continue to adversely impact us.

The United States has experienced a prolonged weakening of economic conditions and declines in housing prices and real estate values in general. A continued deterioration of overall market conditions, a continued economic downturn or prolonged economic stagnation in our markets or adverse changes in laws and regulations that impact the banking industry may have a negative impact on our business. If the strength of the U.S. economy in general and the strength of the economy in areas where we lend (or previously provided real estate financing) continue to decline, this could result in, among other things, a further deterioration in credit quality or a continued reduced demand for credit, including a resultant adverse effect on our loan portfolio and provision for loan losses. Negative conditions in the real estate markets where we operate (or areas we formerly operated) could adversely affect our borrowers' ability to repay their loans and the value of the underlying collateral.

Current levels of market volatility are unprecedented.

The capital and credit markets have been experiencing volatility and disruption for the past 12-18 months. These levels of volatility and disruption have reached unprecedented levels. In many cases, the markets have produced significant downward pressure on stock prices and credit availability for certain issuers without regard to those issuers' underlying financial strength. If current levels of volatility and market disruption persist, or continue to worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our financial condition or results of operations.

Current market conditions may continue to adversely affect our industry, business, financial conditions and results of operations.

Significant declines in the housing market, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. Reflecting concern about the stability of the financial markets generally and the strength of counterparties, many lenders and institutional investors have reduced, and in some cases, ceased to provide funding to borrowers including other financial institutions. The resulting lack of available credit, lack of confidence in the financial sector, increased volatility in the financial markets and reduced business activity could materially and adversely affect our business, financial condition and results of operations. For example:

- Market developments have, and may continue to, affect borrower confidence levels, behaviors and financial condition, which could impact their borrowing and payment activities, and our ability to assess creditworthiness which could impact lending activities, charge-offs and provision for loan losses.
- Estimates of inherent losses in the loan portfolio rely on complex judgments. The current state of the economy and housing market makes the process of estimating inherent losses difficult and subject to significant volatility.
- Increased regulation in the financial services industry could increase compliance costs and limit our ability to pursue business opportunities.
- Industry competition could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions.

In addition, further negative market developments may affect consumer confidence levels and may cause adverse changes in payment patterns, causing increases in delinquencies and default rates, which may impact our charge-offs and provision for loan losses. A worsening of these conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the financial services industry.

Overall, during the past year, the general business environment has had an adverse effect on our business, and there can be no assurance that the environment will improve in the near term. Until conditions improve, we expect our business, financial condition and results of operations to be adversely affected.

Concern of customers regarding deposit insurance may cause a decrease in deposits.

With recent increased concerns about the financial services industry, customers increasingly are concerned about the extent to which their deposits are insured by the FDIC. Customers may withdraw deposits in an effort to ensure that the amount they have on deposit with their bank is fully insured. Decreases in deposits may adversely affect our funding costs and results of operations.

Our deposit insurance premium could significantly increase which could have a material adverse effect on our results of operations.

The FDIC insures deposits at FDIC-insured financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. Current economic conditions have increased bank failures and expectations for further failures, in which case the FDIC ensures payments of deposits up to insured limits from the Deposit Insurance Fund.

On October 16, 2008, the FDIC published a restoration plan designed to replenish the Deposit Insurance Fund over a period of five years and to increase the deposit insurance reserve ratio, which decreased to 1.01% of insured deposits on June 30, 2008, to the statutory minimum of 1.15% of insured deposits by December 31, 2013. In order to implement the restoration plan, the FDIC proposes to change both its risk-based assessment system and its base assessment rates. For the first quarter of 2009 only, the FDIC increased all FDIC deposit assessment rates by seven basis points. The new assessment rates range from 12-14 basis points for Risk Category I institutions to 50 basis points for Risk Category IV institutions. Changes to the risk-based assessment system would include increasing premiums for institutions that rely on excessive amounts of brokered deposits, increasing premiums for excessive use of secured liabilities (including FHLBank advances), lowering premiums for smaller institutions with high capital levels and adding financial ratios and debt issuers ratings to the premium calculations for banks with over $10 billion in assets, while providing a reduction for their unsecured debt. To supplement the DIF, the FDIC is also currently considering a special fee to be assessed to federally-insured financial institutions on September 30, 2009. An increase in the risk category of the Bank, adjustments to the base assessment rates or additional assessments could have a material adverse effect on our financial condition and results of operations.

Legislative and regulatory issues could adversely affect our financial condition and results of operations.

We are subject to extensive regulation, supervision and examination by the OTS as our primary federal regulator, and by the FDIC, which insures our deposits. As a member of the FHLBank, we must also comply with applicable regulations of the Federal Housing Finance Board and the FHLBank. Regulation by these agencies is intended primarily for the protection of our depositors and the Deposit Insurance Fund and not for the benefit of our stockholders. Our activities are also regulated under consumer protections laws applicable to our lending, deposit and other activities. A sufficient claim against us under these laws could have a material adverse effect on our financial condition and results of operations.

Our loan origination and purchase activity is highly concentrated in certain types of loans.

At December 31, 2008, $1.6 billion, or 52.8%, of our total loans consisted of multi-family residential, commercial real estate, land and land development, commercial construction and business loans. These types of loans generally expose a lender to a greater risk of non-payment and loss than one-to-four family residential mortgage loans because repayment of such loans is dependent upon the successful operation of the property and the income stream of the borrowers. Additionally, these types of loans typically involve larger loan balances to single borrowers or groups of related borrowers compared to one-to-four family residential mortgage loans. Also, many of the Bank’s commercial borrowers have more than one loan outstanding. Consequently, an adverse development with respect to one loan or one credit relationship may expose us to a significantly greater risk of loss compared to an adverse development with respect to a one-to-four family residential mortgage loan.

At December 31, 2008, $229.5 million, or 7.8%, of our total loans consisted of residential construction loans. Our portfolio of residential construction loans increased dramatically in 2004, 2005 and 2006 as a result of our emphasis on loans with relatively higher yields, adjustable interest rates and/or shorter terms to maturity. Risk of loss on a residential construction loan is dependent largely upon the accuracy of the initial estimate of the property’s value when completed compared to the projected cost (including interest) of construction and other assumptions, including the approximate time to sell the property. Due to the concentration of real estate collateral, these events could have a material adverse impact on the value of collateral, resulting in delinquencies and/or losses. Customer demand for loans secured by real estate may be negatively influenced by the economy in general, an increase in unemployment, a decrease in real estate values or an increase in interest rates.

Our concentration of loans in certain geographic areas of the United States may expose us to increased credit risk that may cause us to record additional provisions for loan losses and/or may result in future loan charge-offs.

Nevada. At December 31, 2008, $171.5 million, or 6.2%, of our net loans were collateralized by properties in the state of Nevada, primarily in Las Vegas. Our loans in the Las Vegas area are primarily composed of land development, commercial construction and residential construction loans. At December 31, 2008, our nonperforming land development, commercial construction and residential construction loans in the state of Nevada totaled $43.9 million, $15.0 million and $12.4 million, respectively. Additionally, loans 30-89 days delinquent in the state of

Nevada totaled $17.3 million at December 31, 2008.

Arizona. At December 31, 2008, $126.9 million, or 4.6%, of our net loans were collateralized by properties in the state of Arizona. Our loans in Arizona are primarily composed of land and land development loans, commercial construction loans, commercial real estate, residential construction loans and warehouse mortgage lines of credit. At December 31, 2008, our nonperforming loans collateralized by properties in Arizona consisted of $7.8 million of residential construction loans and $3.2 million of land development loans. Loans 30-89 days delinquent in the state of Arizona totaled $480,000 at December 31, 2008.

Florida. At December 31, 2008, $69.6 million, or 2.5%, of our net loans were collateralized by properties in the state of Florida. Our loans in Florida are primarily composed of one-to-four family residential loans, residential construction loans and land development loans. At December 31, 2008, our nonperforming residential construction, land development and one-to-four family residential loans in the state of Florida totaled $5.5 million, $4.1 million and $4.0 million, respectively. Loans 30-89 days delinquent in the state of Florida totaled $232,000 at December 31, 2008.

South Carolina. At December 31, 2008, $59.6 million, or 2.1%, of our net loans were collateralized by properties in the state of South Carolina. Our loans in South Carolina primarily consist of residential construction loans. At December 31, 2008, our nonperforming residential construction loans in South Carolina totaled $13.9 million. Loans 30-89 days delinquent in South Carolina totaled $4.7 million at December 31, 2008.

North Carolina. At December 31, 2008, $55.7 million, or 2.0%, of our net loans were collateralized by properties in the state of North Carolina. Our loans in North Carolina primarily consist of residential construction and land development loans. At December 31, 2008, our nonperforming residential construction and land development loans in the state of North Carolina totaled $5.5 million and $1.5 million, respectively. Loans 30-89 days delinquent in North Carolina totaled $14.0 million at December 31, 2008.

Further deterioration in the nation's economic condition could materially affect geographic markets in which we have concentrations of loans and have a material adverse effect on our financial condition and results of operations.

Potential future loan losses may increase.

We maintain an allowance for loan losses that represents management's best estimate of probable losses within our existing loan portfolio. The level of the allowance for loan losses reflects management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. During 2007 and 2008, our levels of delinquent loans, nonperforming loans (loans 90 or more days delinquent), impaired loans and charge-offs increased significantly. These increases were primarily attributable to the continued deterioration in the real estate market and the economy in general. We have been further impacted by the erosion of property values and an overall increase in housing inventory (both developed lots and completed houses) in many of the areas of the country in which we do business and where the collateral for our loans resides. Additionally, significantly tightened credit standards have made it more difficult for potential borrowers to obtain financing and for current borrowers to refinance existing loans. If the recent trend is prolonged and losses continue to increase, our results of operations will continue to be negatively impacted.

Our allowance for loan losses may be inadequate.

An inadequate allowance for loan losses could adversely affect our results of operations. We are exposed to the risk that our customers may be unable to repay their loans according to their terms and that any collateral securing the payment of their loans may not be sufficient to assure full repayment. We evaluate the collectibility of our loan portfolio and provide for an allowance for loan losses which is based on our historical loan loss experience for each group of loans as further adjusted for specific factors.

If our evaluation is incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in the loan portfolio, resulting in additions to our allowance for loan losses. Increases in the allowance for loan losses result in an expense for the period. If, as a result of general economic conditions or a decrease in asset quality, management determines that additional increases in the allowance for loan losses are warranted, we may incur additional expenses. We can make no assurances that our allowance for loan losses will be adequate to cover loan losses inherent in our portfolio.

Our loans are primarily secured by real estate, including regional concentrations of loans in areas of the United States that are susceptible to tornados, earthquakes, hurricanes or other natural disasters. If a natural disaster were to occur in one of our major market areas, loan losses could occur that are not incorporated in the existing allowance for loan losses.

Our results of operations are significantly affected by the fiscal and monetary policies of the federal government and the governments of the states in which we operate.

The Board of Governors of the Federal Reserve System, also known as the Federal Reserve Board, regulates the supply of money and credit in the United States. Its policies determine in large part our cost of funds for lending and investing and the return we earn on those loans and investments, both of which impact our net interest margin, and can significantly affect the value of financial instruments such as debt securities and mortgage servicing rights. Its policies can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve Board policies are beyond our control and difficult to predict or anticipate.

The amount of income taxes we are required to pay on our earnings is based on federal and state legislation and regulations. We have provided for current and deferred income taxes in our financial statements, based on our results of operations, business activity, and interpretations of tax statutes. We may take filing positions or follow tax strategies that may be subject to challenge by federal and state taxing authorities. Our net income and earnings per share may be reduced if a federal, state or local authority assessed charges for taxes that have not been provided for in our consolidated financial statements.

If the interest payments on our interest-bearing liabilities increase relative to the interest we earn on our interest-earning assets, our net interest income may decline.

When interest-bearing liabilities mature or reprice more quickly than interest-earning assets, a significant increase in market interest rates could adversely affect net interest income. Conversely, a significant decrease in market interest rates could result in increased net interest income. We seek to manage our exposure to interest rate fluctuations, however, changes in market interest rates are neither predictable nor controllable and may have an adverse impact on our financial condition and results of operations.

Prevailing interest rates may significantly affect the overall demand for loans and could also impact the extent to which borrowers repay and refinance loans. Loan prepayments and refinancings, as well as prepayments of mortgage-backed securities, may increase in a declining interest rate environment. Call provisions associated with our investment in U.S. government securities and agency obligations and corporate securities may also negatively impact net interest income in a declining interest rate environment. Such prepayment, refinancing and security call activity may negatively impact the yield of our loan portfolio and investment and mortgage-backed security portfolios, as we would reinvest the prepaid funds in a lower interest rate environment. Additionally, adjustable-rate mortgage loans and mortgage-backed securities generally contain interim and lifetime caps that limit the amount interest rates can increase or decrease at repricing dates.

In a decreasing interest rate environment, our level of core deposits may decline if our depositors seek higher-yielding instruments or other investment products we are unwilling to offer. This may increase our cost of funds and decrease our net interest margin to the extent that alternative funding sources are utilized to fund our business activities. In an increasing interest rate environment, depositors tend to prefer higher-yielding time deposits which could adversely affect our net interest income if rates were to subsequently decline.

We could be held responsible for environmental liabilities of properties acquired through foreclosure.

If we are forced to foreclose on a defaulted mortgage loan to recover our investment, we may be subject to environmental liabilities related to the underlying real property. Hazardous substances or wastes, contaminants, pollutants or sources thereof may be discovered on properties under our ownership or after a sale to a third party. The amount of environmental liability could exceed the value of the real property. There can be no assurance that we would not be fully liable for the entire cost of any removal, remediation or other clean-up on the acquired property, that the cost of removal and clean-up would not exceed the value of the property or that costs could be recovered from any third party. Additionally, it may be difficult or impossible to sell the property prior to or following any environmental remediation.

Our cost of funds may increase as a result of general economic conditions, interest rates or competitive pressures.

Our cost of funds may increase because of general economic conditions, unfavorable conditions in capital markets, interest rates and competitive pressures. We have traditionally obtained funds primarily through deposits and borrowings.

Generally, deposits are a preferable source of funds than borrowings because interest rates paid for deposits are typically less than interest rates charged for borrowings. If deposit growth is inadequate to fund our operations we may have to rely on borrowings as a source of funds. Relying on borrowings as a primary funding source may have an adverse impact on our net interest margin.

Competition could result in our loan portfolios and deposit base declining.

The banking and financial services businesses in our market areas are highly competitive. Our market areas have a high density of financial institutions, some of which have greater financial resources, name recognition and market presence than us, and all of which are our competitors. Competition within the banking, mortgage and finance industries may limit our ability to attract and retain customers. Our competition for loans comes primarily from commercial banks, savings banks, savings and loan associations, mortgage banking companies, insurance companies, finance companies and credit unions. Our most direct competition for deposits historically has come from commercial banks, savings banks, savings and loan associations and credit unions. In addition, we face competition for deposits from products offered by brokerage firms, insurance companies and other financial intermediaries, such as money market and other mutual funds and annuities. If we are unable to attract and retain customers, our loan and deposit growth may be inhibited which could have an adverse impact on our financial condition and results of operations.

We may not be able to retain or replace key members of management or attract and retain qualified customer relationship managers.

We depend on the services of existing management personnel to carry out our business and investment strategies. It is critical that we are able to attract and retain management and other qualified personnel. Competition for qualified personnel is significant in our geographical market areas. The loss of services of any management personnel, or the inability to recruit and retain qualified personnel in the future, could have an adverse effect on our financial condition and results of operations.

We rely on communications, information, operating and financial control systems technology from third-party service providers. An interruption in these third-party systems could have an adverse effect on our business.

We rely heavily on third-party service providers for much of our communications, information, operating and financial control systems technology. Any failure, interruption or breach in security of these systems could result in failures or interruptions in our customer relationship management, general ledger, deposit, loan servicing and loan origination systems. We can make no assurances that such failures or interruptions will not occur or, if they do occur, that they will be adequately addressed by us or the third parties on which we rely. Any failure or interruption could have a material adverse effect on our business, financial condition and results of operations. If any of our third-party service providers experience financial, operational or technological difficulties, or if there is any other disruption in our relationships with them, we may be required to locate alternative sources of such services. We can make no assurances that we could negotiate terms that are favorable to us, or could obtain comparable services without the need to expend substantial resources.

Our stock price can be volatile.

Our stock price can fluctuate in response to a variety of factors including actual or anticipated variations in quarterly operating results, changes in our stockholder dividend policy, recommendations of securities analysts and news media reports relating to trends, concerns and other issues in the financial services industry. Other factors that may influence our stock price include investor perception of the financial services industry; products or services offered by our competitors; operating and stock price performance of other companies that investors or analysts deem comparable to us; and changes in governmental regulations.

General market fluctuations, industry factors and general economic conditions and political conditions and events, such as future terrorist activities, economic slowdowns or recessions, interest rate changes or credit loss trends, also could cause our stock price to decline regardless of our operating results.

If we fail to maintain effective systems of internal and disclosure control, we may not be able to accurately report our financial results or prevent fraud.

Effective internal and disclosure controls are necessary for us to provide reliable financial reports, to effectively prevent fraud and to operate successfully as a public company. If we were unable to provide accurate and reliable financial reports or prevent fraud, our reputation and results of operations would be adversely effected. As part of our ongoing monitoring of internal controls, we may discover material weaknesses or significant deficiencies in our internal controls as defined under standards adopted by the Public Company Accounting Oversight Board ("PCAOB") that require remediation. Under PCAOB standards, a "material weakness" is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. A "significant deficiency" is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of the company's financial reporting..

Any failure to maintain effective internal and disclosure controls, or to make necessary improvements in such controls in a timely manner, could harm operating results or cause us to fail in meeting our financial reporting obligations. Such a failure could have an impact on our ability to remain listed on the NASDAQ Global Select Market. Ineffective internal and disclosure controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on our stock price.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We currently operate 69 banking offices in Nebraska (59), Iowa (9) and Kansas (1) of which 51 are owned by us and 18 are under operating leases. We own our corporate headquarters located in Lincoln, Nebraska.

For further information regarding our properties, see "Note 21 – Lease Commitments" included in Item 8. Financial Statements and Supplementary Data, in Part II of this Annual Report on Form 10-K.

Item 3. Legal Proceedings

Except for litigation relating to an insurance claim against a large national insurance company as described below, we are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to our consolidated financial statements.

On July 18, 2008, the Bank filed suit against Hartford Financial Services Group ("Hartford") on a bond insuring the Bank for up to $7.5 million against fraudulent losses related to TransLand. The suit was filed after Hartford's initial denial of the Bank's 2007 claim following TransLand's failure to remit loan payoffs and periodic payments to the Bank involving loans serviced by TransLand. The $7.5 million insurance claim was recorded as a receivable in the third quarter of 2007. At December 31, 2008, this receivable was included in other assets in the Company's Statement of Financial Condition. On February 17, 2009, Hartford remitted $7.5 million to the Bank without prejudice to further claims for legal fees and interest asserted by the Bank in the aforementioned lawsuit. There can be no assurance as to additional amounts, if any, that we may recover or the timing, if we are successful, for recovery by us of our interest, fees and expenses.

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

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

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Price Summary. Our common stock trades on the NASDAQ Global Select Market under the symbol "TONE." As of December 31, 2008, we had 1,397 stockholders of record, which does not include those persons or entities holding stock in nominee or "street" name through brokerage firms or others. The following table shows the high and low bid prices of our common stock during the periods indicated as well as the period end closing sales price and the dividend paid each quarter.

	2008				2007			
	High	Low	Close	Dividend	High	Low	Close	Dividend
First Quarter	$ 22.75	$ 10.11	$ 11.28	$ 0.08	$ 32.04	$ 24.88	$ 27.04	$ 0.07
Second Quarter	11.42	4.25	4.60	0.04	32.98	24.01	30.10	0.08
Third Quarter	7.08	2.46	5.15	-	30.57	18.62	26.47	0.08
Fourth Quarter	6.24	2.67	3.75	-	28.16	18.62	22.15	0.08

Common Stock Repurchase Activity. The following table details our purchases of common stock during the three months ended December 31, 2008:

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs *	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs
October 2008				
Beginning Date - October 1, 2008				
Ending Date - October 31, 2008	942	$ 4.43	942	1,772,838
November 2008				
Beginning Date - November 1, 2008				
Ending Date - November 30, 2008	-	-	-	1,772,838
December 2008				

Beginning Date - December 1, 2008					
Ending Date - December 31, 2008	314		3.42	314	1,772,524
Total shares purchased during the three months ended December 31, 2008	1,256	$	4.18	1,256	1,772,524

* Information related to our publicly announced plan authorizing purchases of common stock during the three months ended December 31, 2008, is as follows:

Date Purchase Plan Announced	Number of Shares Approved for Purchase	Expiration Date of Purchase Plan
March 20, 2008	1,797,592	No stated expiration date

Performance Graph. The following graph represents $100.00 invested in our common stock at the closing price of the common stock on December 31, 2003, and assumes the reinvestment of all dividends. The graph demonstrates comparison of the cumulative total returns for the common stock of TierOne Corporation, the Russell 2000 Index and the SNL Securities $1B - $5B Thrift Index for the periods indicated.

The following information in this Item 5 of this Annual Report on Form 10-K is not deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C under the Securities Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates it by reference into such a filing.

Item 6. Selected Financial Data

	At or For the Year Ended December 31,				
(Dollars in thousands, except per share data)	2008	2007	2006	2005	2004
Selected Statement of Operations Data:					
Total interest income	$ 181,773	$ 234,021	$ 223,887	$ 177,343	$ 124,980
Total interest expense	94,409	117,901	98,019	72,428	47,769
Net interest income	87,364	116,120	125,868	104,915	77,211
Provision for loan losses	84,455	68,101	6,053	6,436	4,887
Net interest income after provision for loan losses	2,909	48,019	119,815	98,479	72,324
Total noninterest income	31,454	30,337	29,084	26,585	23,905
Total noninterest expense (1)	127,639	95,057	81,769	72,450	58,212
Income (loss) before income taxes	(93,276)	(16,701)	67,130	52,614	38,017
Income tax expense (benefit)	(18,034)	(4,276)	25,815	19,782	14,152
Net income (loss)	$ (75,242)	$ (12,425)	$ 41,315	$ 32,832	$ 23,865
Net income (loss) per common share, basic	$ (4.46)	$ (0.74)	$ 2.50	$ 2.02	$ 1.42
Net income (loss) per common share, diluted	$ (4.46)	$ (0.74)	$ 2.41	$ 1.97	$ 1.39
Dividends declared per common share	$ 0.12	$ 0.31	$ 0.27	$ 0.23	$ 0.20
Selected Financial Condition Data:					
Total assets	$ 3,317,945	$ 3,537,766	$ 3,431,169	$ 3,222,275	$ 3,048,081
Cash and cash equivalents	249,859	241,461	86,808	88,034	70,030
Investment securities	137,712	130,551	105,090	102,725	127,883
Net loans after allowance for loan losses	2,719,000	2,909,589	3,017,031	2,813,800	2,628,155
Deposits	2,307,292	2,430,544	2,052,343	2,038,319	1,864,761
FHLBank Topeka advances and other borrowings	668,849	689,288	962,376	814,924	841,666
Stockholders' equity	270,613	345,590	353,283	308,867	277,023
Selected Operating Ratios:					
Average yield on interest-earning assets	5.89%	7.21%	7.24%	6.05%	5.33%

Average rate on interest-bearing liabilities	3.37%	4.06%	3.52%	2.72%	2.31%
Average interest rate spread (2)	2.52%	3.15%	3.72%	3.33%	3.02%
Net interest margin (2)	2.83%	3.58%	4.07%	3.58%	3.29%
Average interest-earning assets to average interest-bearing liabilities	110.18%	111.80%	110.95%	110.10%	113.29%
Net interest income after provision for loan losses to noninterest expense (3)	2.28%	50.52%	146.53%	135.93%	124.24%
Total noninterest expense to average assets (3)	3.85%	2.74%	2.48%	2.31%	2.35%
Efficiency ratio (3)(4)	106.18%	63.78%	51.64%	53.70%	56.95%
Return on average assets (3)	-2.27%	-0.36%	1.25%	1.05%	0.96%
Return on average equity (3)	-25.51%	-3.39%	12.48%	11.28%	8.53%
Average equity to average assets (3)	8.90%	10.56%	10.04%	9.29%	11.29%

(1) Includes a $42.1 million goodwill impairment charge for the year ended December 31, 2008.

(2) Excluding the receipt of a $2.7 million loan prepayment fee, our average interest rate spread and net interest margin would have been 3.63% and 3.99%, respectively, for the year ended December 31, 2006.

(3) Employee stock options were expensed beginning January 1, 2006.

(4) Efficiency ratio is calculated as total noninterest expense, less amortization expense of other intangible assets, as a percentage of the sum of net interest income and noninterest income.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

We are a Nebraska-based financial services holding company that offers customers a wide variety of full-service consumer, commercial and agricultural banking products and services through TierOne Bank, our wholly owned banking subsidiary. TierOne Bank's franchise network includes 69 banking offices located in Nebraska, Iowa and Kansas.

As a regional community bank, our goal is to provide our customers competitive financial services through a positive, quality service environment that distinguishes us from our competition. This is achieved by our strategic focus on our core businesses of mortgage and business lending and retail banking that has contributed to the Bank's history of growth. At December 31, 2008, the Company had total assets of $3.3 billion, net loan receivables of $2.8 billion, total deposits of $2.3 billion and stockholders equity of $270.6 million.

The following is a discussion and analysis of the Company's financial condition and results of operations including information on the Company's critical accounting policies, asset/liability management, liquidity and capital resources and contractual obligations. Information contained in this Management's Discussion and Analysis should be read in conjunction with the disclosure regarding "Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995," as well as the discussion set forth in "Item 1A. Risk Factors" and "Item 8. Financial Statements and Supplementary Data."

Critical Accounting Policies

See "Note 1 – Summary of Significant Accounting Policies" included in Item 8. Financial Statements and Supplementary Data, in Part II of this Annual Report on Form 10-K for a summary of our significant accounting policies. Various elements of our accounting policies, by nature, are inherently subject to estimation techniques, valuation assumptions and other subjective assessments. Our policies with respect to the methodologies used to recognize income, determine the allowance for loan losses, evaluating investment and mortgage-backed securities for impairment, evaluating goodwill and other intangible assets, valuation of mortgage servicing rights, valuation and measurement of derivatives and commitments, valuation of other real estate owned and estimating income taxes are our most critical accounting policies. These policies are important to the presentation of our financial condition and results of operations, involve a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. The use of different judgments, assumptions and estimates could result in material differences in our financial condition and results of operations.

Income Recognition. We recognize interest income by methods that conform to GAAP. In the event management believes collection of all or a portion of contractual interest on a loan has become doubtful, which generally occurs after a loan is contractually delinquent 90 days or more, we discontinue the accrual of interest and charge-off all previously accrued interest. Interest received on nonperforming loans is included in income only if principal recovery is reasonably assured. A nonperforming loan is restored to accrual status when it is brought current and the collectibility of the total contractual principal and interest is no longer in doubt.

Allowance for Loan Losses. We have identified the allowance for loan losses as a critical accounting policy where amounts are subject to material variation. This policy is significantly affected by our judgment and uncertainties and there is a likelihood that materially different amounts could be reported under different, but reasonably plausible, conditions or assumptions. The allowance for loan losses is considered a critical accounting estimate because there is a large degree of judgment in:

- Assigning individual loans to specific risk levels (pass, special mention, substandard, doubtful and loss);
- Valuing the underlying collateral securing the loans;
- Determining the appropriate reserve factor to be applied to specific risk levels for special mention loans and those adversely classified (substandard, doubtful and loss); and
- Determining reserve factors to be applied to pass loans based upon loan type.

We establish provisions for loan losses, which are charges to our operating results, in order to maintain a level of total allowance for loan losses that, in management's belief, covers all known and inherent losses that are both probable and reasonably estimable at each reporting date. Management reviews the loan portfolio no less frequently than monthly in order to identify those inherent losses and to assess the overall collection probability of the loan portfolio. Management's review includes a quantitative analysis by loan category, using historical loss experience, classifying loans pursuant to a grading system and consideration of a series of qualitative loss factors. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available or as future events occur.

The allowance for loan losses consists of two elements. The first element is an allocated allowance established for specific loans identified by the credit review function that are evaluated individually for impairment and are considered to be impaired. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Impairment is measured by:

- The fair value of the collateral if the loan is collateral dependent;
- The present value of expected future cash flows; or
- The loan's observable market price.

The second element is an estimated allowance established for losses that are probable and reasonable to estimate on each category of outstanding loans. While management uses available information to recognize probable losses on loans inherent in the portfolio, future additions to the allowance may be necessary based on changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgment of information available to them at the time of their examination.

Investment and Mortgage-Backed Securities. We evaluate our available for sale and held to maturity investment securities for impairment on a quarterly basis. An impairment charge in the Consolidated Statements of Operations is recognized when the decline in the fair value of investment securities below their cost basis is judged to be other-than-temporary. Various factors are utilized in determining whether we should recognize an impairment charge, including, but not limited to, the length of time and extent to which the fair value has been less than its cost basis and our ability and intent to hold the investment security for a period of time sufficient to allow for any anticipated recovery in fair value.

Goodwill and Other Intangible Assets. We recorded goodwill as a result of our 2004 acquisition of United Nebraska Financial Co. ("UNFC"). We tested this goodwill for impairment annually during the third quarter of each year, or between annual assessment dates whenever events or significant changes in circumstances indicated that the carrying value may be impaired. We performed a goodwill impairment test as of March 31, 2008 due to adverse changes in the business climate. As a result of a decline in the market value of our common stock to levels below our book value, we determined that the entire amount of our goodwill was impaired, and we recorded a $42.1 million goodwill impairment charge to write-off our goodwill at March 31, 2008.

The value of core deposit intangible assets acquired in connection with the UNFC transaction and our acquisition of Marine Bank's banking office in Omaha, Nebraska, which is subject to amortization, is included in the Consolidated Statements of Financial Condition as other intangible assets. Determining the amount of identifiable intangible assets and their average lives involves multiple assumptions and estimates and is typically determined by performing a discounted cash flow analysis, which involves a combination of any or all of the following assumptions: customer attrition, account runoff, alternative funding costs, deposit servicing costs and discount rates. Core deposit intangible assets are amortized using an accelerated method of amortization which is recorded in the Consolidated Statements of

Operations as other operating expense.

We review our core deposit intangible assets for impairment whenever events or changes in circumstances indicate that we may not recover our investment in the underlying assets or liabilities which gave rise to the identifiable intangible assets. No events or circumstances triggered an impairment analysis of our core deposit intangible assets during the year ended December 31, 2008.

Mortgage Servicing Rights. On January 1, 2007 we adopted SFAS No. 156, Accounting for Servicing of Financial Assets – an Amendment of FASB Statement No. 140 ("SFAS No. 156"). In accordance with SFAS No. 156, we have elected to continue to utilize the amortization method for all of our mortgage servicing right assets, thus, carrying our mortgage servicing rights at the "lower of cost or market" (fair value). Under the amortization method, we amortize mortgage servicing rights in proportion to and over the period of net servicing income. Income generated as a result of new servicing assets is reported as net gain on sale of loans held for sale in the Consolidated Statements of Operations. Loan servicing fees, net of amortization of mortgage servicing rights, is recorded in fees and service charges in the Consolidated Statements of Operations.

We capitalize the estimated value of mortgage servicing rights upon the sale of loans. The estimated value takes into consideration contractually known amounts, such as loan balance, term and interest rate. These estimates are impacted by loan prepayment speeds, servicing costs and discount rates used to compute a present value of the cash flow stream. We evaluate the fair value of mortgage servicing rights on a quarterly basis using current prepayment speed, cash flow and discount rate estimates. Changes in these estimates impact fair value and could require us to record a valuation allowance or recovery. The fair value of mortgage servicing rights is highly sensitive to changes in assumptions. Changes in prepayment speed assumptions have the most significant impact on the fair value of mortgage servicing rights. Generally, as interest rates decline, prepayments accelerate with increased refinance activity, which results in a decrease in the fair value of mortgage servicing rights. As interest rates rise, prepayments generally slow, which results in an increase in the fair value of mortgage servicing rights. All assumptions are reviewed for reasonableness on a quarterly basis and adjusted as necessary to reflect current and anticipated market conditions. Thus, any measurement of fair value is limited by the conditions existing and the assumptions utilized as of a particular point in time, and those assumptions may not be appropriate if applied at a different point in time. We currently do not utilize direct financial hedges to mitigate the effect of changes in the fair value of our mortgage servicing rights.

Derivatives and Commitments. We account for our derivatives and hedging activities in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activity, as amended by SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, SFAS No. 149, Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities and SEC Staff Accounting Bulletin No. 109.

In the normal course of business, we enter into contractual commitments, including loan commitments and rate lock commitments, to extend credit to finance residential mortgages. These commitments, which contain fixed expiration dates, offer the borrower an interest rate guarantee provided the loan meets underwriting guidelines and closes within the time frame established by us. Interest rate risk arises on these commitments and subsequently closed loans if interest rates increase or decrease between the time of the interest rate lock and the delivery of the loan to the investor. Loan commitments related to mortgage loans that are intended to be sold are considered derivatives in accordance with the guidance of SEC Staff Accounting Bulletin No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings. Accordingly, the fair value of these derivatives at the end of the reporting period is based on a quoted market price that closely approximates the amount that would have been recognized if the loan commitment was funded and sold.

To mitigate the effect of interest rate risk inherent in providing loan commitments, we hedge our commitments by entering into mandatory or best efforts delivery forward sale contracts. These forward contracts are marked-to-market through earnings and are not designated as accounting hedges under SFAS No. 133. The change in the fair value of loan commitments and the change in the fair value of forward sales contracts generally move in opposite directions and, accordingly, the impact of changes in these valuations on earnings during the loan commitment period is recorded in our results of operations.

Although the forward loan sale contracts also serve as an economic hedge of loans held for sale, forward contracts have not been designated as accounting hedges under SFAS No. 133 and, accordingly, loans held for sale are accounted for at the lower of cost or market in accordance with SFAS No. 65, Accounting for Certain Mortgage Banking Activities.

Other Real Estate Owned and Repossessed Assets. Property and other assets acquired through foreclosure of defaulted mortgage or other collateralized loans are carried at the lower of cost or fair value, less estimated costs to sell the property and other assets. The fair value of other real estate owned is generally determined from appraisals obtained by independent appraisers. Development and improvement costs relating to such property are capitalized to the extent they are deemed to be recoverable.

An allowance for losses on other real estate owned and repossessed assets is intended to include amounts for estimated losses as a result of impairment in value of real property after repossession. We review our other real estate owned for impairment in value whenever events or circumstances indicate that the carrying value of the property or other assets may not be recoverable.

Income Taxes. We estimate income taxes payable based on the amount we expect to owe various tax authorities. Accrued income taxes represent the net estimated amount due to, or to be received from, taxing authorities. In estimating accrued income taxes, we assess the relative merits and risks of the appropriate tax treatment of transactions, taking into account the applicable statutory, judicial and regulatory guidance in the context of our tax position. Although we utilize current information to record income taxes, underlying assumptions may change over time as a result of unanticipated events or circumstances.

In assessing the realizability of our deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will be realized. We consider the scheduled reversals of deferred tax liabilities and carryback opportunities in making the assessment of the necessity of a valuation allowance.

In June 2006, the Financial Accounting Standards Board (“FASB”) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109 (“FIN 48”). FIN 48 requires that we determine whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the recognition threshold, the position is measured to determine the amount of benefit to be recognized in the financial statements. Any interest and penalties related to uncertain tax positions are recorded in income tax expense in the Consolidated Statements of Operations.

Comparison of Financial Condition at December 31, 2008 and 2007

General. Our total assets were $3.3 billion at December 31, 2008, a decrease of $219.8 million, or 6.2%, compared to $3.5 billion at December 31, 2007.

Cash and Cash Equivalents. Our cash and cash equivalents totaled $249.9 million at December 31, 2008, an increase of $8.4 million, or 3.5%, compared to $241.5 million at December 31, 2007. The increase was primarily attributable to loan repayments which exceeded deposit outflows during the year.

Investment Securities. Our available for sale investment securities totaled $137.7 million at December 31 , 2008, an increase of $7.2 million, or 5.5%, compared to $130.5 million at December 31, 2007. During the year ended December 31, 2008, security purchases totaled $453.7 million which were substantially offset by maturing investment securities totaling $447.3 million. The securities purchased during 2008 were primarily agency obligations that were purchased to collateralize deposits. Losses due to other-than-temporary impairment were $1.4 million for the year ended December 31, 2008. These losses related to a $906,000 loss on the Asset Management Fund (ARM Fund), a $519,000 loss on Freddie Mac preferred stock and a $9,000 loss on Farmer Mac preferred stock.

Mortgage-Backed Securities. Our mortgage-backed securities, all of which are recorded as available for sale, totaled $3.1 million at December 31, 2008, a decrease of $3.6 million, or 53.2%, compared to $6.7 million at December 31, 2007. The decrease in our mortgage-backed securities was the result of $3.6 million of principal payments received during the year ended December 31, 2008.

Loans Receivable. Net loans totaled $2.8 billion at December 31, 2008, a decrease of $193.9 million, or 6.5%, compared to $3.0 billion at December 31, 2007. During the year ended December 31, 2008, we originated $1.2 billion of loans (exclusive of warehouse mortgage lines of credit) and purchased $427.2 million of loans. These increases were offset by $1.7 billion of principal repayments (exclusive of warehouse mortgage lines of credit) and charge-offs and $365.8 million of loan sales.

The decrease in net loans at December 31, 2008 was primarily attributable to a decrease in loan originations related to our tightening of our credit policies and our reduction of exposure in selected business lines and geographic markets due to the continued deterioration in these real estate markets and the economy in general. See "Loan Quality and Nonperforming Assets" for a discussion on the business lines and geographic markets in which we have reduced our exposure.

The following table details the composition of our loan portfolio at the dates indicated:

	At December 31,		Increase	
(Dollars in thousands)	2008	2007	(Decrease)	% Change
One-to-four family residential (1)	$ 384,614	$ 314,623	$ 69,991	22.25%
Second mortgage residential	76,438	95,477	(19,039)	(19.94)
Multi-family residential	199,152	106,678	92,474	86.69
Commercial real estate	356,067	370,910	(14,843)	(4.00)
Land and land development	396,477	473,346	(76,869)	(16.24)
Residential construction	229,534	513,560	(284,026)	(55.31)
Commercial construction	360,163	540,797	(180,634)	(33.40)
Agriculture - real estate	95,097	91,068	4,029	4.42
Business	250,619	252,712	(2,093)	(0.83)
Agriculture - operating	106,429	100,365	6,064	6.04
Warehouse mortgage lines of credit	133,474	86,081	47,393	55.06
Consumer	373,087	397,247	(24,160)	(6.08)
Total loans	2,961,151	3,342,864	(381,713)	(11.42)
Unamortized premiums, discounts and deferred loan fees	9,558	9,451	107	1.13
Loans in process (2):				
Land and land development	(50,622)	(84,765)	34,143	(40.28)
Residential construction	(32,846)	(139,514)	106,668	(76.46)
Commercial construction	(105,021)	(151,907)	46,886	(30.86)
Net loans	$ 2,782,220	$ 2,976,129	$ (193,909)	(6.52) %
(1) Includes loans held for sale	$ 13,917	$ 9,348	$ 4,569	48.88%

(2) Loans in process represents the undisbursed portion of construction and land development loans.

At December 31, 2008, the outstanding balance (net of loans in process) of our residential construction loans was $196.7 million, a decrease of $177.4 million, or 47.4%, compared to $374.0 million at December 31, 2007. The outstanding balance (net of loans in process) of our land and land development loans was $345.9 million at December 31, 2008, a decrease of $42.7 million, or 11.0%, compared to $388.6 million at December 31, 2007. The outstanding balance (net of loans in process) of our commercial construction loans was $255.1 million at December 31, 2008, a decrease of $133.7 million, or 34.4%, compared to $388.9 million at December 31, 2007.

The increase in multi-family residential loans at December 31, 2008 was primarily the result of the completion of construction on several multi-family development projects. Upon completion of construction, the loans were reclassified to multi-family residential from commercial construction.

We maintain a corporate policy of not participating in subprime residential real estate lending or negative amortizing mortgage products for loans placed into our portfolio. The OTS, our primary federal regulatory agency, defines subprime loans as loans to borrowers displaying one or more credit risk characteristics including lending to a borrower with a credit bureau risk score (FICO) of 660 or below. Furthermore, we have not purchased collateralized loan obligations, collateralized debt obligations, structured investment vehicles or asset-backed commercial paper.

Redefining our Primary Lending Market Area. As previously discussed, on June 30, 2008, we announced the closing of all nine of our loan production offices in an effort to focus our lending activity in our primary market area of Nebraska, Iowa and Kansas. At December 31, 2008, $1.6 billion, or 53.7%, of our total loans were secured by property located in Nebraska, Iowa and Kansas. Loans collateralized by property in states in which we formerly operated a loan production office (Arizona, Colorado, Florida, Minnesota, Nevada and North Carolina) totaled $763.6 million, or 25.8%, of our total loan portfolio at December 31, 2008. Loans in all other states totaled $607.6 million, or 20.5%, of our total loan portfolio.

Loan Portfolio Concentration by State. The following table details the concentration of our total loan portfolio by state at the dates indicated:

	At December 31,			
(Dollars in thousands)	2008	%	2007	%
Within our Primary Market Area:				
Nebraska	$ 1,383,732	46.73%	$ 1,367,659	40.91%
Iowa	123,330	4.16	135,885	4.06
Kansas	82,834	2.80	69,180	2.07
Total within our Primary Market Area	1,589,896	53.69	1,572,724	47.04
Within Former Loan Production Office States:				
Nevada	192,624	6.51	247,260	7.40
Colorado	157,924	5.33	237,441	7.10
Arizona	144,359	4.88	161,339	4.83
Minnesota	132,057	4.46	157,985	4.73
North Carolina	63,768	2.15	121,594	3.64
Florida	72,912	2.46	168,765	5.05
Total within former loan production office states	763,644	25.79	1,094,384	32.75
Other States:				
South Carolina	66,786	2.26	103,153	3.09
California	68,642	2.32	78,817	2.36
Texas	76,162	2.57	74,390	2.22
Illinois	63,502	2.14	70,891	