TIERONE CORP
Form 10-K
March 09, 2005

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2004

Commission File Number: 005-78774

TierOne Corporation

(Exact name of registrant as specified in its charter)

Wisconsin	**04-3638672**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1235 N Street, Lincoln, Nebraska 68508
Telephone Number (402) 475-0521

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Title of Class Common Stock, Par Value $0.01 Per Share

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 and (2) has been subject to such filing requirements for the past 90 days. YES X NO ___

Indicate by check mark whether the Registrant is an accelerated filer as defined in Rule 12b-2 of the Securities Exchange Act of 1934.
YES X NO ___

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. |_|

The aggregate market value of the voting stock held by non-affiliates of the Registrant was $393,327,795 as of June 30, 2004. As of March 1, 2005, there were 18,284,311 issued and outstanding shares of the Registrant s common stock.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the Registrant s Annual Meeting of Shareholders to be held May 2, 2005 are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

TierOne Corporation
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Part I.

Item 1. Business

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

Statements contained in this Annual Report on Form 10-K and the accompanying 2004 Annual Report 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. Factors which could result in material variations include, but are not limited to:

Changes in interest rates which could affect net interest margins and net interest income;

Competitive factors which could affect net interest income and noninterest income;

Changes in demand for loans, deposits and other financial services in the company's market area;

Changes in asset quality and general economic conditions;

Unanticipated issues associated with the execution of the company's strategic plan;

Unanticipated difficulties in realizing the growth opportunities and cost savings from recent acquisitions;

Unanticipated issues related to the resultant integration of recent acquisitions; and

Other factors discussed in documents filed by the company 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. The company undertakes no obligation, and disclaims 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 Form 10-K and the accompanying 2004 Annual Report.

Available Information

TierOne Corporation (Company) is a public company and files annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC). The Company maintains a website at www.tieronebank.com and makes available, free of charge, on its Internet web site copies of its 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, the Company has available on its website, free of charge, its Code of Conduct and Ethics, Audit Committee Charter, Compensation Committee Charter and Nominating and Corporate Governance Committee Charter. The Company is not including the information contained on or available through its website as a part of, or incorporating by reference into, this Annual Report on Form 10-K.

General

The Company is a Wisconsin corporation headquartered in Lincoln, Nebraska. The Company became the holding company for TierOne Bank (Bank), a federally chartered stock savings bank, in connection with the mutual to stock conversion of the Bank which was completed in October 2002. The Bank operates from 68 banking offices located in Nebraska, Iowa and Kansas and eight loan production offices located in Arizona, Colorado, Florida, Minnesota and North Carolina. The executive office of the Company is located at 1235 N Street, Lincoln, Nebraska 68508.

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.

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 principal business is gathering deposits from the general public in the market areas surrounding our 68 banking offices and investing those deposits, together with funds generated from operations and borrowings, primarily in loans and to a lesser degree in investment securities. We continue to implement our management strategy to grow and diversify our operations as a regional community bank. Highlights of our

management strategy, which is also designed to increase our profitability, include:

- building a strong corporate brand and identity;
- continuing our controlled growth and expanding our franchise;
- repositioning our loan portfolio to increase yields and/or reduce interest rate risk;
- emphasizing growth of our core deposits and managing our cost of funds;
- increasing our fee income and expanding our products and services; and
- maintaining asset quality.

In recent years, we have increased our emphasis on construction, commercial real estate and land, second mortgage residential, consumer, business, multi-family residential and agricultural loans and warehouse mortgage lines of credit. These loans typically have higher yields than single-family residential first mortgage loans and/or expected shorter terms to maturity. At December 31, 2004, our portfolio of second mortgage residential, multi-family residential, commercial real estate and land, construction, agricultural, business and consumer loans and warehouse mortgage lines of credit amounted to $2.7 billion in the aggregate, or 86.5%, of our total loan portfolio, compared to an aggregate of $1.7 billion, or 74.8% of our total loan portfolio, at December 31, 2003. The remainder of our loan portfolio consisted of one-to-four family residential first mortgage loans which amounted to $418.3 million, or 13.5% of the total loan portfolio, and $559.1 million, or 25.2% of the total loan portfolio, at December 31, 2004 and 2003, respectively.

We originate loans to customers located in Nebraska, Iowa, Kansas, Arizona, Colorado, Florida, Minnesota and North Carolina (Primary Lending Market Area). We also purchase loans and loan participation interests from financial institutions, loan correspondents and mortgage bankers located throughout the United States. At December 31, 2004 approximately 29.2% of our loan portfolio consisted of loans secured by properties or made to individuals located outside our Primary Lending Market Area. During 2004, we redefined our Primary Lending Market Area to include Arizona, Florida, Minnesota and North Carolina. We purchase adjustable-rate, single-family residential first mortgage loans for our portfolio, while selling substantially all newly originated fixed-rate, single-family residential first mortgage loans in the secondary market (with servicing retained). We sell substantially all newly originated fixed-rate, single-family residential first mortgage loans which produce noninterest income in the form of net gains and losses on sales and loan servicing fees. We also have developed relationships with several financial institutions from which we purchase commercial real estate and land and construction loans or participation interests in such loans. In addition, we originate warehouse mortgage lines of credit with a number of mortgage brokerage firms located throughout the United States.

In order to effectively manage our diversified loan portfolio, we have employed a number of additional loan officers in recent years with experience in construction, commercial real estate, business, agricultural and consumer lending. We endeavor to ensure that all of our loans, whether originated by us or purchased, are in compliance with our underwriting standards.

In addition to our loan activities, we focus on our deposit products, particularly checking accounts, and the sale of other products such as annuities and securities.

Our revenues are derived principally from interest on our loans, and, to a lesser extent, noninterest income and interest and dividends on our investment securities. Our primary sources of funds are principal and interest payments on loans, proceeds from the sale of loans, advances from the Federal Home Loan Bank (FHLB), deposits and principal and interest payments on investment securities.

Market Area and Competition

We are a community-oriented 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 68 banking offices located in Nebraska, seven counties in southwest Iowa and two counties in northern Kansas (Primary Banking Market Area). In addition to loans generated through our banking offices, our lending efforts have been expanded to include eight loan production offices located in Arizona, Colorado, Florida, Minnesota and North Carolina whose sole purpose is to originate commercial real estate and land and/or construction loans in their respective states. In recent years, we have increased our investment in commercial real estate and land and construction loans secured by properties located in other parts of the United States. The five largest concentrations of loans outside our Primary Lending Market Area (excluding warehouse mortgage lines of credit) are California ($130.5 million or 4.2% of the total loan portfolio), South Carolina ($117.9 million or 3.8%), Texas ($83.9 million or 2.7%), New York ($63.1 million or 2.0%) and the State of Washington ($56.0 million or 1.8%).

Our corporate headquarters are located in Lincoln, Nebraska, which is the state capital and home of the University of Nebraska-Lincoln. The Primary Banking Market Area in which our banking offices are located was once dominated by agriculture, but now consists of a diverse

blend of industries, urban centers and significant corporate investment. The region s population is 1.9 million persons and more than 90% of the individuals in our Primary Banking Market Area live in Nebraska. Population growth continues in the region and, according to the latest Census Bureau estimates, Nebraska exhibited the second highest population growth between 2003 and 2004 of all states in the northern Great Plains area with populations of one million or more residents. The region s main metropolitan areas of Omaha and Lincoln, as well as other mid-sized regional growth centers scattered throughout our Primary Banking Market Area, lead the balance of the region in net population growth. The U.S. Census Bureau reported the median household income in Nebraska was estimated to be $41,406 in 2003, a 10.8% increase from 2000 compared to a national median household income growth rate of 5.0% for the same period. Nebraska s cost of living index ranks the state as the tenth most affordable in the country based on data from the third quarter of 2004.

The nation s continued economic recovery during 2004 contributed to Nebraska s growing economic momentum despite a state budget deficit and only modest relief from a continued severe drought which has impacted several states throughout the Midwest. Nebraska non-farm employment growth has been relatively consistent and continues to experience modest gains. Strong growth in the transportation, health care, professional/business and financial services sectors, combined with a large and relatively stable retail workforce, has helped to offset declines in the educational services area. Unemployment rates in Nebraska have historically been approximately two to three percentage points below national averages and typically rank the state among the lowest in the country for unemployment. Nebraska unemployment finished 2004 at 3.6% compared to a national level of 5.4%. After a record 2003, taxable retail sales through October 2004 have already outpaced the previous year by 7.8%. Sales of existing homes in Nebraska s two leading urban markets (Omaha and Lincoln) continue near record activity with major developments of new home construction in both communities. Median sales prices of existing single-family homes at the quarter ended September 30, 2004 were $134,100 and $139,600 for Omaha and Lincoln, respectively, and are well below national levels of $188,500 and less than the Des Moines ($144,500), Kansas City ($152,300) and Minneapolis ($219,800) metropolitan areas. Total Nebraska nonresidential and non-building construction contracts slowed in 2004 from record levels in 2003; however, residential construction continued to grow to over $1.65 billion, a 4.6% increase above 2003 record levels. Major capital developments throughout Omaha and Lincoln and continued corporate expansion of leading regional businesses, combined with other investment projects scattered throughout the primary banking market region, are expected to contribute to a modestly growing regional economy.

We strengthened our market footprint within our existing Primary Banking Market Area following the August 2004 acquisition of United Nebraska Financial Co. (UNFC), the parent company of United Nebraska Bank (UNB) headquartered in Grand Island, Nebraska. As a result of the acquisition, we added 16 banking offices in 11 Nebraska communities including Broken Bow, Burwell, Callaway, Columbus, Grand Island, Holdrege, Lexington, North Platte, Omaha, O Neill and Ord. Four existing Bank offices in Broken Bow, Columbus, North Platte and Ord were consolidated and the former UNB Omaha office was closed. As a result, we improved our market share position to the top three in nine of eleven former UNB communities. Virtually all of these communities serve as a regional economic growth center for retail commerce, medical care and professional and government services for local and surrounding area residents. Located generally in agricultural areas of Greater Nebraska, unemployment rates have historically run at or below state levels and many of the larger communities have diversified their industrial employment mix to minimize cyclical trends in the agricultural economy.

We also expanded our loan production capabilities in early 2004 with the opening of a third Colorado loan production office in Fort Collins. This growth was further supplemented through the November 2004 purchase from First Indiana Bank of Indianapolis, Indiana of four residential construction loan production offices located in Phoenix, Arizona; Orlando, Florida; and Charlotte and Raleigh, North Carolina and outstanding loan balances of $134.4 million. These additional offices will enable us to build upon our growing commercial real estate and land and/or construction lending business and were located in metropolitan areas known for economic growth and vitality. Five of our eight loan production offices are located in the top ten fastest growing major metropolitan areas of the country.

Fort Collins, Colorado, just 62 miles north of Denver, is Colorado s third largest metropolitan area with a 2000 Census population of over 251,000 residents. Fort Collins ranked as the fastest growing metropolitan area along Colorado s Front Range during the 1990 s with a population growth rate of 35.1%. Together with nearby Loveland, Fort Collins is the primary regional growth center of north central Colorado. Colorado State University is the area s largest employer and leads a diverse mix of education, health, retail and banking industries. Unemployment in December 2004 was 5.0%; moderately below the national unemployment rate of 5.4%.

Phoenix, Arizona, the 14th largest metropolitan area in the United States with over 3.25 million residents, ranks among the top three fastest growing metropolitan areas in the nation with populations in excess of one million. The greater Phoenix area is a $50 billion marketplace driven by technology and is the corporate or regional headquarters for Intel, Avnet, Motorola, AlliedSignal, Honeywell and Boeing Company. Nearly one-third of all Phoenix jobs are in the service sector with nearly one-fourth of all jobs in wholesale or retail trade. A strong manufacturing sector, especially in electronics, has ranked Phoenix third in the nation among electronic production centers. The third quarter 2004 median sale price of an existing single-family home in Phoenix was $172,700. The Phoenix metropolitan area is also home to Arizona State University. Unemployment in the Phoenix metropolitan area was 3.3% in December 2004.

Ranked as the 27th largest metropolitan area in the United States, Orlando, Florida had 1.6 million people in 2000; an increase of 34.3% from 1990. Orlando is considered the sixth fastest growing city in the nation. Tourism, lead by Walt Disney World, Epcot Center and Sea World,

is a $21.8 billion annual industry followed by high technology at $9.0 billion. Orlando s cost of living index ranks the community below national levels. The median sales price for an existing home in the third quarter of 2004 was $180,500. Leading employment sectors include trade, transportation and utilities (181,600 employees), leisure and hospitality (178,600), professional and business services (162,000), government (108,800) and education and health services (99,100). The University of Central Florida, with over 42,000 students, is located in Orlando. December 2004 unemployment for the Orlando metropolitan area was 3.8%.

Charlotte, North Carolina is the nation s 33rd largest metropolitan area with nearly 1.5 million people in 2000. During the 1990 s, Charlotte s population grew 29.0% ranking it among the ten fastest growing cities (one million or more in population) in the United States. By 2013, the metropolitan area is expected to have 2.1 million people. Charlotte has more headquartered Fortune 500 companies than all but five other U.S. cities. Considered the nation s second largest banking center, Charlotte s largest industry segment is wholesale trade followed by services, manufacturing and construction. Over 12,600 residential units were built in Charlotte in 2004 totaling $1.6 billion. Unemployment was 5.2% in December 2004.

In 2000, Raleigh, North Carolina was ranked as the 40th largest metropolitan area in the United States with nearly 1.2 million people. It s growth rate during the 1990 s of 38.9% tied with Atlanta, Georgia as the fourth fastest growing major metropolitan area in the U.S. The tri-city metropolitan area of Raleigh, Durham and Chapel Hill, North Carolina has averaged growth of nearly 3,500 people each month since 2000. Forbes Magazine ranked Raleigh-Durham as the second best city in the country for business. The tri-city area is home to North Carolina State University, the University of North Carolina and Duke University. Education and health care is the area s leading employment industry followed by trade/transportation/utilities, professional and business services and manufacturing. The median sales price for residential homes was $184,800 in the third quarter 2004. The unemployment rate in Raleigh was 3.3% in December 2004.

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 statewide or regional presence and, in some cases, a national presence. In recent years, our market area has experienced continued consolidation of the banking industry as locally based institutions have been acquired by large regional and nationally based financial institutions.

Many of these financial service providers are significantly larger than us and have greater financial resources. Our competition for loans comes principally from commercial banks, savings banks, credit unions, mortgage brokers, mortgage-banking companies and insurance companies. Our most direct competition for deposits has historically come from commercial banks, savings 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.

Lending Activities

Loan Portfolio Composition. At December 31, 2004, our total loans receivable amounted to $3.1 billion, of which $418.3 million or 13.5% consisted of one-to-four family residential loans. Our investment in one-to-four family residential loans decreased $140.9 million, or 25.2%, as implementation of our lending strategy has caused us to increase our emphasis on construction, second mortgage residential, consumer, commercial real estate and land, business, multi-family residential and agricultural loans as well as warehouse mortgage lines of credit. Our emphasis on higher yielding and/or shorter term loans has also allowed us to reduce the weighted average contractual maturity of our loan portfolio. At December 31, 2004, 77.4% of our total loan portfolio had contractual maturities of 10 years or less compared to 64.9% at December 31, 2003. Additionally, 64.0% of our total loan portfolio had adjustable interest rates at December 31, 2004 compared to 63.0% at December 31, 2003.

The types of 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 include, but are not limited to, economic conditions, monetary policies of the Federal Government, including the Board of Governors of the Federal Reserve System (Federal Reserve Board) and legislative tax policies.

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

	December 31,									
	2004		**2003**		**2002**		**2001**		**2000**	
(Dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Real estate loans:										
One-to-four family residential (1)	$ 418,270	13.54%	$ 559,134	25.20%	$ 547,619	28.66%	$ 487,015	32.10%	$ 541,711	44.79%
Second mortgage residential	255,222	8.26	258,121	11.63	25,590	1.34	15,487	1.03	23,730	1.96
Multi-family residential	142,454	4.61	99,078	4.47	79,953	4.18	74,209	4.89	67,025	5.54
Commercial real estate and land	597,114	19.33	449,152	20.25	398,076	20.83	258,277	17.03	210,654	17.42
Residential construction	601,075	19.46	245,782	11.08	156,322	8.18	113,300	7.47	77,421	6.40
Commercial construction	282,399	9.14	154,247	6.95	143,020	7.49	95,614	6.30	46,187	3.82
Agriculture	66,830	2.16	--	--	--	--	--	--	--	--
Total real estate loans	2,363,364	76.50	1,765,514	79.58	1,350,580	70.68	1,043,902	68.82	966,728	79.93
Business loans	142,675	4.62	64,522	2.91	33,375	1.75	12,193	0.80	2,755	0.23
Agriculture - operating	71,223	2.31	--	--	--	--	--	--	--	--
Warehouse mortgage lines of credit	132,928	4.30	78,759	3.55	236,492	12.38	224,067	14.77	37,173	3.07
Consumer loans:										
Home equity	56,441	1.83	33,874	1.53	37,522	1.96	45,398	2.99	57,264	4.74
Home equity line of credit	142,725	4.62	117,899	5.31	94,801	4.96	61,839	4.08	38,700	3.20
Home improvement	73,386	2.37	74,915	3.38	82,081	4.30	76,555	5.05	76,015	6.29
Automobile	80,512	2.61	67,351	3.04	60,707	3.18	42,547	2.80	22,496	1.86
Other	25,956	0.84	15,621	0.70	15,131	0.79	10,486	0.69	8,283	0.68
Total consumer loans	379,020	12.27	309,660	13.96	290,242	15.19	236,825	15.61	202,758	16.77
Total loans	3,089,210	100.00%	2,218,455	100.00%	1,910,689	100.00%	1,516,987	100.00%	1,209,414	100.00%
Unamortized premiums, discounts and deferred loan fees	7,228		10,790		3,998		(232)		(768)	
Undisbursed portion of construction and land development loans in process	(441,452)		(193,063)		(123,331)		(109,852)		(70,625)	
Net loans	2,654,986		2,036,182		1,791,356		1,406,903		1,138,021	
Allowance for loan losses	(26,831)		(19,586)		(17,108)		(13,464)		(9,947)	

	December 31,				
Net loans after allowance for loan losses	$ 2,628,155	$ 2,016,596	$ 1,774,248	$ 1,393,439	$ 1,128,074
(1) Includes loans held for sale	$ 11,956	$ 7,083	$ 8,504	$ 14,373	$ 3,712

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Contractual Terms to Final Maturities. The following table shows the scheduled contractual maturities of our loans as of December 31, 2004, before giving effect to net items. Demand loans, loans having no stated schedule of repayments and no stated maturity, and overdrafts are reported as due in one year or less. The amounts shown below do not take into account loan prepayments.

(Dollars in thousands)	One-to-Four Family Residential	Second Mortgage Residential	Multi-Family Residential	Commercial Real Estate and Land	Residential Construction	Commercial Construction
Amounts due after December 31, 2004 in:						
One year or less	$ 1,579	$ 145	$ 5,251	$ 77,496	$ 548,066	$ 39,278
After one year through two years	1,031	911	12,354	42,007	38,654	43,299
After two years through three years	2,195	2,102	19,908	63,419	--	16,580
After three years through five years	15,688	6,596	38,391	102,336	--	76,527
After five years through ten years	15,086	34,739	59,904	269,659	194	91,001
After ten years through fifteen years	29,236	141,248	4,260	25,885	573	1,474
After fifteen years	353,455	69,481	2,386	16,312	13,588	14,240
Total (1)	$ 418,270	$ 255,222	$ 142,454	$ 597,114	$ 601,075	$ 282,399

(1) Gross of unamortized premiums, discounts and deferred loan fees, undisbursed portion of construction and land development loans in process and allowance for loan losses.

(Dollars in thousands)	Agriculture	Business Loans	Agriculture - Operating	Warehouse Mortgage Lines of Credit	Consumer	Total
Amounts due after December 31, 2004 in:						
One year or less	$ 6,574	$ 57,095	$ 54,264	$ 132,928	$ 26,075	$ 948,751
After one year through two years	2,448	9,176	4,487	--	34,193	188,560
After two years through three years	2,487	24,526	1,845	--	66,410	199,472
After three years through five years	10,005	33,239	7,416	--	207,874	498,072
After five years through ten years	35,615	16,880	2,887	--	28,942	554,907
After ten years through fifteen years	5,067	1,497	167	--	14,705	224,112
After fifteen years	4,634	262	157	--	821	475,336
Total (1)	$ 66,830	$ 142,675	$ 71,223	$ 132,928	$ 379,020	$ 3,089,210

(1) Gross of unamortized premiums, discounts and deferred loan fees, undisbursed portion of construction and land development loans in process and allowance for loan losses.

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The following table shows the dollar amount of all loans, including loans held for sale, before net items, due after one year from December 31, 2004 as shown in the preceding table, which have fixed interest rates or which have floating or adjustable interest rates.

(Dollars in thousands)	Fixed-Rate	Floating or Adjustable-Rate	Total

One-to-four family residential	$ 85,883	$ 330,808	$ 416,691
Second mortgage residential	240,527	14,550	255,077
Multi-family residential	60,221	76,982	137,203
Commercial real estate and land	107,016	412,602	519,618
Residential contruction	22,391	30,618	53,009
Commercial construction	151,612	91,509	243,121
Agriculture	13,124	47,132	60,256
Business loans	44,712	40,868	85,580
Agriculture - operating	10,144	6,815	16,959
Consumer	216,392	136,553	352,945
Total	$ 952,022	$ 1,188,437	$ 2,140,459

Origination, Purchase, Sale and Servicing of Loans. Our lending activities are subject to underwriting standards and loan origination procedures established by our Board of Directors and management. Applications for mortgages and other loans are taken at our banking and loan production offices. In the past, we relied on a network of loan correspondents and brokers to originate a substantial part of our loans. In recent years we have greatly expanded our capacity to directly originate loans through the expansion of our loan production office network and the employment of a number of experienced loan originators. We continue to use loan correspondents to originate single-family residential loans to supplement our origination efforts. A substantial portion of such loans consists of fixed-rate, single-family residential mortgage loans which we sell into the secondary market with servicing retained.

Although we originate both adjustable-rate and fixed-rate loans, our ability to originate and purchase fixed or adjustable-rate loans is dependent upon the relative customer demand for such loans, which is affected by the current and expected future level of interest rates. In order to implement our strategy of building a mortgage loan portfolio that consists primarily of adjustable-rate loans, our purchase activity has increased in recent years. The loans purchased for retention during this period consisted of construction, one-to-four family residential, second mortgage residential, consumer (primarily home improvement loans and indirect automobile financing), commercial real estate and land (including participation interests), multi-family residential and business loans.

Generally, we originate adjustable-rate mortgage loans for retention in our portfolio. It is our current policy to sell substantially all the single-family, fixed-rate residential first mortgage loans we originate or purchase. Substantially all of the loans sold are sold to either Fannie Mae (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) or the FHLB 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 FHLB 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. During 2002, 2003 and 2004, we increased our purchases of fixed-rate, single-family residential first mortgage loans for immediate sale as we continued to increase the size of our loan servicing portfolio. While we purchased $15.6 million of such loans in 2000, in 2001, 2002, 2003 and 2004 such purchases increased to $195.4 million, $339.0 million, $324.1 million and $159.4 million, respectively.

In recent years, we have developed lending relationships with several financial institutions and mortgage bankers pursuant to which we have purchased whole loans or loan participation interests secured by properties located outside our Primary Lending Market Area. Our purchases have consisted of second mortgage residential, construction loans or participation interests in such loans, both residential and commercial, as well as commercial real estate and land, and were originated under underwriting guidelines substantially identical to our own guidelines. For loans in which we hold a participation interest we generally require the lead lender to maintain anywhere from 5% to 50% interest in the loans. Prior to entering into such relationships, we conduct on-site due diligence of each lender, including document review as well as management interviews. We also conduct on-site inspections of selected properties and of the market areas in which the properties are located. In addition, we apply our own underwriting standards to each loan or loan participation we purchase. We also review and underwrite, with respect to construction loans, the individual builders to whom loans are being extended, establishing a limit as to the total amount that we will lend to each such builder. We engage local independent inspectors to inspect the progress of construction on properties securing such loans and base our disbursements on such inspections. We also generally visit the lenders every three to six months to conduct follow-up inspections of the lenders operations as well as to review the collateral property securing the loans. The following primary lending relationships existed at December 31, 2004:

Charleston and Columbia, South Carolina. Of the primary relationships, the first is with a mortgage banker in the Charleston and Columbia, South Carolina markets. Pursuant to the relationship with this mortgage banker, we have purchased loans made to local

builders to finance the construction of residential properties. Under the terms of our arrangement, we service these loans and the mortgage banker shares 50% of any losses incurred. As of December 31, 2004, this relationship consisted of 620 individual loans with an aggregate balance of $127.0 million. The outstanding loan balance under this relationship (disbursed loan proceeds) was $70.6 million at December 31, 2004.

Maitland (Orlando), Florida. The second relationship is with a mortgage banker in the Maitland (Orlando), Florida area which began in April 2003. Pursuant to this relationship, we have purchased loans made to individual borrowers to finance the construction of single-family residential properties. Under the terms of this relationship, all loans purchased are pre-approved for permanent financing following the construction phase. Disbursements are made on the purchased loans by others as the construction phase progresses. As of December 31, 2004, this relationship encompassed 455 individual loans with an aggregate balance of $67.3 million. The outstanding loan balance under this relationship (disbursed loan proceeds) was $31.5 million at December 31, 2004.

Birmingham, Alabama. The third relationship is with a financial institution headquartered in Birmingham, Alabama and involves the purchase of generally a 50% loan participation interest in residential construction and commercial real estate and land loans extended to builders. Currently, the loans are secured by properties located in Birmingham, Alabama; Atlanta, Georgia and Las Vegas, Nevada. At December 31, 2004, this relationship consisted of 397 individual loans with an aggregate balance of $36.0 million. The outstanding loan balance under this relationship (disbursed loan proceeds) was $26.7 million at December 31, 2004.

At December 31, 2004 and 2003, we were servicing $1.1 billion and $956.7 million, respectively, of loans for others, primarily consisting of one-to-four family residential loans sold by us to investors. In recent years, we began selling substantially all fixed-rate loans with servicing retained in order to develop additional sources of noninterest income. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of unremedied defaults, remitting certain insurance and tax payments on behalf of the borrowers and generally administering the loans. The gross servicing fee income from loans sold is generally 0.25% to 0.50% of the total balance of each loan serviced.

Loans-to-One Borrower Limitations. As a federal savings bank, we are limited in the amount of loans we can make to any one borrower. This amount is equal to 15% of our unimpaired capital and surplus (this amount was approximately $38.5 million at December 31, 2004), although we are permitted to lend up to an additional 10% of unimpaired capital and surplus if the loans are secured by readily marketable securities. Our aggregate loans to any one borrower have been within these limits for the year ended December 31, 2004. At December 31, 2004, our six largest credit relationships with an individual borrower and related entities consisted of loans that total $25.4 million, $24.9 million, $20.0 million, $20.0 million, $19.4 million and $18.9 million. A brief summary of these six relationships follows:

The largest credit is a $25.4 million relationship collateralized by a 364 unit apartment complex located in Colorado Springs, Colorado. This relationship consists of three loans: a $12.6 million one-year adjustable-rate loan with a five-year term, a $12.7 million fixed-rate loan with a five-year term and a $100,000 fixed-rate loan with a five- year term. These loans are classified as multi-family residential loans in the loan composition table.

The second largest credit relationship consists of a business revolving line of credit for $12.0 million and an equipment term note of $12.9 million. Both loans are secured by the assets of four related companies in Lincoln, Nebraska engaged in asphalt and concrete paving and utilities construction. The $12.0 million adjustable-rate revolving line of credit, which matures in September 2006, is intended to finance work-in-process, accounts receivable and inventory. The $12.9 million adjustable-rate term note, which matures in September 2009, consolidated existing equipment loans with other financial institutions. At December 31, 2004, the total outstanding balance on the line of credit was $12.0 million. These loans are classified as business loans in the loan composition table.

The third largest credit relationship consists of two $10.0 million business revolving lines of credit secured by real estate and other business assets to a borrower who owns an excavation and construction company in Lincoln, Nebraska. One $10.0 million line is intended to finance work-in-process, accounts receivable and inventory. The other $10.0 million line is intended to finance equipment. Both loans have adjustable interest rates and mature in September 2006. At December 31, 2004, the total outstanding balance for both lines of credit aggregated $575,000. These lines of credit are classified as business loans in the loan composition table.

The fourth largest credit relationship consists of two adjustable-rate business revolving lines of credit, one for $19.75 million and one for $250,000 to four related companies located in Lincoln, Nebraska. The $19.75 million line of credit is used to purchase real estate tax sale certificates from various governmental entities in several states while the $250,000 line of credit is used to meet operating needs of the borrower. The borrower s interest in the real estate tax sale certificates purchased and all other business assets of the borrower are used to secure both lines of credit. At December 31, 2004, the total outstanding balance for both lines of credit aggregated $14.3 million. These lines of credit are classified as business loans in the loan composition table.

The fifth largest credit relationship consists of a $19.4 million credit relationship to construct a 323 unit apartment complex to be built in San Antonio, Texas. In addition to being secured by real estate, we are also secured by letters of credit totaling $1.1 million. This credit relationship carries a fixed interest rate for the first three years with annual adjustments thereafter and matures in September 2009. At December 31, 2004, $1,000 had been disbursed under this credit relationship as this is a new loan which is classified as a commercial construction loan in the loan composition table.

The sixth largest credit relationship is an $18.9 million participation interest in the construction financing of a 442,576 square foot retail center located in Omaha, Nebraska. We are one of three financial institutions participating in this $67.3 million construction project. This loan has an adjustable-rate and matures in August 2005. At December 31, 2004, a total of $18.0 million had been disbursed under this credit relationship. This loan is classified as a commercial construction loan in the loan composition table.

Each of these relationships was performing in accordance with its terms and conditions as of December 31, 2004.

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

	Year Ended December 31,		
(Dollars in thousands)	**2004**	**2003**	**2002**
Net loans after allowance for loan losses, beginning of year	$ 2,016,596	$ 1,774,248	$ 1,393,439
Loan originations:			
One-to-four family residential	145,655	377,661	239,093
Second mortgage residential	3,361	2,787	1,084
Multi-family residential	10,794	42,309	6,243
Commercial real estate and land	167,448	99,426	75,889
Residential construction	190,964	154,695	100,599
Commercial construction	166,714	59,075	69,793
Agriculture	7,404	--	--
Business	221,466	99,198	38,340
Agriculture - operating	37,432	--	--
Warehouse mortgage lines of credit (1)	3,145,266	5,491,777	4,427,554
Consumer	152,692	147,069	133,379
Total loan originations	4,249,196	6,473,997	5,091,974
Loan purchases:			
One-to-four family residential (2)	192,163	652,751	641,188
Second mortgage residential	122,069	304,593	31,984
Multi-family residential	12,895	13,500	19,696
Commercial real estate and land	44,925	43,949	120,291
Residential construction	551,654	184,126	97,949
Commercial construction	42,371	45,568	14,200
Business	8,511	21,326	--
Consumer	75,891	67,526	85,249

	Year Ended December 31,		
Total loan purchases	1,050,479	1,333,339	1,010,557
Total loan originations and purchases	5,299,675	7,807,336	6,102,531
Sales and loan principal repayments:			
Loan sales:			
One-to-four family residential	(280,990)	(627,525)	(565,585)
Consumer	(4,041)	(6,519)	(2,129)
Loan principal repayments:			
Mortgage, business and consumer	(1,349,928)	(1,215,568)	(725,674)
Warehouse mortgage lines of credit (1)	(3,091,097)	(5,649,510)	(4,415,441)
Total loan sales and principal repayments	(4,726,056)	(7,499,122)	(5,708,829)
Increase due to acquisition	304,300	--	--
Decrease due to other items (3)	(266,360)	(65,866)	(12,893)
Net loans after allowance for loan losses, end of year	$ 2,628,155	$ 2,016,596	$ 1,774,248

(1) Reflects amounts advanced and repaid under such lines of credit during the years presented.
(2) Substantially all of these loans were acquired from mortgage bankers and sold to Fannie Mae, Freddie Mac or the Federal Home Loan Bank with servicing retained.
(3) Other items consist of unamortized premiums, discounts and deferred loan fees, undisbursed portion of construction and land development loans in process and the allowance for loan losses.

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One-to-Four Family Residential Mortgage Lending. We offer both fixed-rate and adjustable-rate loans with maturities of up to 30 years secured by single-family residences. Single-family mortgage loan originations are generally obtained from our in-house loan representatives, from existing or past customers, from mortgage bankers and through referrals from members of our local communities. At December 31, 2004, our one-to-four family residential mortgage loans totaled $418.3 million or 13.5% of total loans. Of such amount, $224.2 million, or 53.6%, related to loans secured by properties located outside our Primary Lending Market Area and approximately 79.3% had adjustable rates. The average loan size of our one-to-four family residential mortgage portfolio was $108,000 at December 31, 2004. A total of $1.9 million, or 0.46%, of our one-to-four family residential mortgage loans at December 31, 2004 were 90 days or more delinquent compared to $1.5 million, or 0.26%, at December 31, 2003. During the years ended December 31, 2004 and 2003, we charged-off an aggregate of $16,000 and $6,000 of one-to-four family residential mortgage loans, respectively.

We currently originate or purchase adjustable-rate, single-family residential mortgage loans with terms of 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 (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% to 6%.

The origination or purchase of adjustable-rate, residential mortgage loans helps reduce our exposure to increases in interest rates. However, adjustable-rate loans generally pose credit 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 single-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 clauses 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 real estate loans made by us.

Second Mortgage Residential Lending. Second mortgage loans declined to $255.2 million, or 8.3% of the total loan portfolio, at December 31, 2004 compared to $258.1 million, or 11.6% of the total loan portfolio, at December 31, 2003. Although the purchase for retention in our portfolio of fixed-rate second mortgage residential loans is contrary to our general policy of pursuing adjustable-rate loans, the expected yields and lives of the fixed-rate loans justified their inclusion in our loan portfolio. At December 31, 2004, $212.2 million, or 83.1% of our second mortgage residential loans, were secured by properties located outside our Primary Lending Market Area. The average loan size of our second mortgage residential loan portfolio was $35,000 at December 31, 2004. Of the second mortgage residential loans outstanding at December 31, 2004, approximately 94.3% were fixed-rate loans. At December 31, 2004, $739,000, or 0.29%, were 90 or more days delinquent compared to $224,000, or 0.09%, at December 31, 2003. During the years ended December 31, 2004 and 2003, we charged-off an aggregate of $520,000 and $107,000, respectively, of second mortgage residential loans.

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Multi-Family Residential Real Estate. We invest in multi-family residential loans that are secured by multi-family housing units generally located in our Primary Lending Market Area. At December 31, 2004, our multi-family residential loan portfolio totaled $142.5 million, or 4.6% of the total loan portfolio, compared to $99.1 million, or 4.5% of the total loan portfolio, at December 31, 2003. At December 31, 2004, 86.6% of the multi-family residential loans were secured by properties located in our Primary Lending Market Area. The average loan size of our multi-family residential loan portfolio was $1.8 million at December 31, 2004 and 54.0% of our multi-family residential loans had adjustable rates of interest. At December 31, 2004, $2.4 million, or 1.7% of our multi-family residential loans, were 90 or more days delinquent. We had no multi-family residential loans 90 or more days delinquent at December 31, 2003. We had no charge-offs of multi-family residential loans during the years ended December 31, 2004 and 2003.

The largest multi-family residential credit relationship at December 31, 2004 is a $25.4 million relationship collateralized by a 364 unit apartment complex located in Colorado Springs, Colorado. This relationship consists of three loans: a $12.6 million one-year adjustable-rate loan with a five-year term, a $12.7 million fixed-rate loan with a five-year term and a $100,000 fixed-rate loan with a five-year term. These loans were performing in accordance with their loan terms at December 31, 2004.

Commercial Real Estate and Land Lending. We invest in commercial real estate loans that are secured by properties generally used for business purposes, such as office buildings and retail facilities, and land being held for commercial and residential development. The properties securing these loans are located primarily in Lincoln and Omaha, Nebraska and in selected areas outside of our Primary Lending Market Area. We have increased our involvement in this lending category as part of our strategy to increase our investment in loans with higher yield and/or shorter expected average lives. We have also increased our capacity to originate such loans internally with the hiring of several experienced commercial real estate lenders as well as the opening of loan production offices in Arizona, Colorado, Florida, Minnesota and North Carolina.

Our underwriting procedures provide generally that commercial real estate loans (as well as multi-family, land and commercial construction loans) may be made in amounts up to 80% of the value of the property if it is located within our Primary Lending Market Area and 75% of the value if it is outside our Primary Lending Market Area. Any loan exceeding such loan-to-value ratio must be supported by documentation of the relevant factors justifying the deviation which is reviewed by the Board of Directors on a quarterly basis. The following is a summary of lending guidelines concerning our commercial real estate lending:

The total of commercial real estate loans exceeding established loan-to-value limits may not exceed 30% of our risk-based capital. At December 31, 2004, we were in compliance with established guidelines related to risk-based capital as these loans totaled 18.0% of our risk-based capital.

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The total of all commercial real estate loans, land loans related to commercial development, multi-family residential loans and commercial construction loans cannot exceed 50% of our total loan portfolio. At December 31, 2004, 33.1% of our total loan portfolio consisted of such loans. Furthermore, no more than 40% of such loans can be secured by properties located outside of our Primary Lending Market Area. At December 31, 2004, 19.4% of such loans were secured by properties outside our Primary Lending Market Area, with the highest concentration of such loans in California (4.2%).

Such loans are currently originated with various indices such as U.S. Treasury CMT, Libor or prime rate, plus a margin, with various terms and with interest rates which generally adjust every three or five years. The majority of these loans have 20 or 25 year amortization schedules and require payment of the remaining principal at maturity. Our adjustable-rate loans generally do not have periodic limits on the increases or decreases in the interest rate that may be affected at the time of the adjustment other than lifetime floor and ceiling limits.

Most commercial real estate and land and multi-family residential loans are underwritten by our centralized loan underwriting department. In underwriting these loans, we consider all aspects of the credit profile of each borrower s ability to repay the debt. We consider the borrower s income, probable continuation of income and credit history.

Loans in excess of $10.0 million, in addition to management level approval, must also be approved by our Board of Directors.

We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 125%. Personal guarantees are generally required. In addition, we require that security instruments contain affirmative language concerning the prospective borrower s responsibility for compliance with laws and regulations (including environmental, health and safety) and for protecting the environmental conditions of the security property. A phase one environmental assessment report, prepared in conformance with our environmental risk policy, is normally obtained if the loan is in excess of $1.0 million or if there is any indication of possible contamination at the security property.

Our commercial real estate and land loan portfolio at December 31, 2004 was $597.1 million, or 19.3% of total loans, compared to $449.2 million, or 20.3% of total loans, at December 31, 2003. At December 31, 2004, $468.2 million, or 78.4% of our commercial real estate and land loans, were secured by properties located within our Primary Lending Market Area. The average loan size of our commercial real estate loan portfolio at December 31, 2004 was $631,000. At December 31, 2004, 78.7% of our commercial real estate and land loans had adjustable rates. A total of $707,000, or 0.12%, of our commercial real estate and land loans at December 31, 2004 were 90 days or more delinquent. We had no commercial real estate and land loans delinquent 90 or more days at December 31, 2003. During the years ended December 31, 2004 and 2003, we charged-off an aggregate of $0 and $330,000, respectively, of commercial real estate and land loans.

The largest commercial real estate loan outstanding at December 31, 2004 is a $16.3 million 10-year adjustable-rate loan and a $3.0 million adjustable-rate operating line of credit secured by a 59 bed acute care hospital located in Lincoln, Nebraska dedicated to heart surgeries and related procedures. These loans were performing in accordance with their terms at December 31, 2004.

In recent years we have increased our lending to finance the acquisition of land for residential and commercial real estate projects. Such land loans totaled $151.2 million, or 4.9% of total loans, at December 31, 2004 ($106.2 million of which had been disbursed at such date). The average size of our land loans at December 31, 2004 was $724,000.

During 2004, we refinanced a land development loan and a revolving line of credit loan aggregating $20.0 million which are secured by a 290 acre parcel of land in Lincoln, Nebraska. At December 31, 2004, a total of $10.8 million had been disbursed to the borrower. The loans were performing in accordance with their terms at December 31, 2004.

Loans secured by commercial real estate and multi-family residential real estate properties generally involve larger principal amounts and a greater degree of risk than single-family residential mortgage loans. Payments on loans secured by multi-family and commercial real estate properties 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 Lending. We offer 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 are also involved in commercial real estate construction lending as well as purchasing participation interests in such loans. Approximately 60% of our residential construction loans are for pre-sold houses. We originate our residential construction loans within our Primary Lending Market Area typically through direct contact with home builders. Most of such loans involve properties located in our Primary Lending Market Area. During the past few years, we have become involved in purchasing residential construction loans and participation interests in such loans secured by properties located outside our Primary Lending Market Area, generally in more densely populated cities in South Carolina, Georgia, Alabama and Nevada. As part of the increased emphasis on construction lending, we have, in recent years, hired several experienced loan originators in order to increase our capabilities in this type of lending. Additionally, on November 1, 2004, we completed the purchase of all non-Indiana residential construction loan production offices from First Indiana Bank. The purchase, which included $134.4 million of outstanding residential construction loans against forward commitments of $264.5 million, also included loan production offices in Phoenix, Arizona; Charlotte, North Carolina; Raleigh, North Carolina and Orlando, Florida. The following summarizes the residential construction loan portfolios at each of the loan production offices acquired from First Indiana Bank:

Phoenix, Arizona. At December 31, 2004, there were 131 individual residential construction loans to individuals and local builders outstanding. The aggregate balance of these loans was $52.3 million ($24.6 million had been disbursed) at December 31, 2004.

Charlotte, North Carolina. At December 31, 2004, there were 205 individual residential construction loans to individuals and local builders outstanding. The aggregate balance of these loans was $63.1 million ($25.4 million had been disbursed) at December 31, 2004.

Raleigh, North Carolina. At December 31, 2004, there were 114 individual residential construction loans to individuals and local builders outstanding. The aggregate balance of these loans was $56.7 million ($25.1 million had been disbursed) at December 31, 2004.

Orlando, Florida. At December 31, 2004, there were 107 individual residential construction loans outstanding to both individuals and local builders. The aggregate balance of these loans was $98.9 million ($49.3 million had been disbursed) at December 31, 2004.

The following is a summary of our lending guidelines for residential construction loans:

Whether we originate or purchase residential construction loans, we review all plans, specifications and cost estimates and require that the contractor be deemed reputable.

The amount of construction advances to be made, together with the sum of previous disbursements, may not exceed the percentage of completion of the construction.

Such loans generally have terms not exceeding 18 months, have loan-to-value ratios of 90% or less of the appraised value upon completion and do not require the amortization of the principal during the term of the loan.

The loans are generally made with adjustable rates of interest based on the Wall Street Journal prime rate plus a margin.

At December 31, 2004, residential construction loans (including participation interests) totaled $601.1 million (including undisbursed loans in process), or 19.5%, of our total loan portfolio. Of such amount, $156.7 million, or 26.1%, related to loans secured by properties located outside our Primary Lending Market Area. The average loan size of our residential construction loans was $304,000 at December 31, 2004. A total of 83.6% of our residential construction loans had adjustable rates of interest at December 31, 2004. At December 31, 2004, $2.3 million, or 0.38%, of our total residential construction loan portfolio was 90 or more days delinquent compared to $1.0 million, or 0.41%, at December 31, 2003. During the years ended December 31, 2004 and 2003, we charged-off an aggregate of $138,000 and $13,000, respectively, of residential construction loans.

We have increased significantly our involvement in commercial construction lending during the last three years. Most of such loans are extended to build office buildings, retail centers or apartment buildings. As a result of such efforts, commercial construction loans totaled $282.4 million (including undisbursed loans in process) at December 31, 2004, or 9.1% of total loans, compared to $154.2 million, or 7.0% of total loans, at December 31, 2003. The average loan size of our commercial construction loan portfolio was $3.7 million at December 31, 2004. At December 31, 2004, $50.3 million, or 17.8%, of our commercial construction loans were secured by properties located outside our Primary Lending Market Area. Of the commercial construction loans outstanding at December 31, 2004, approximately 41.4% had adjustable rates. At December 31, 2004 and 2003, we had no commercial construction loans 90 or more days delinquent. Additionally, there were no commercial construction loans charged-off during the years ended December 31, 2004 and 2003.

At December 31, 2004, our largest commercial construction loan was an $18.9 million participation in the construction financing of a 442,576 square foot retail center located in Omaha, Nebraska. We are one of three financial institutions participating in this $67.3 million construction project. At December 31, 2004, a total of $18.0 million had been disbursed under this credit relationship. This loan was performing in accordance with its terms at December 31, 2004.

Risk of loss on a construction loan 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 sell residential properties. If the appraised 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 Banking Market Area to finance agricultural production activities and to purchase or refinance agricultural real estate. Agricultural real estate loans are made to farmers and ranchers to purchase or refinance real estate used in agricultural activities. At December 31, 2004, our agricultural real estate loans totaled $66.8

million or 2.2% of the total loan portfolio. At December 31, 2004, 76.6% of our agricultural real estate loans had adjustable interest rates. The average loan size of our agricultural real estate loan portfolio was $112,000 at December 31, 2004. At December 31, 2004, $349,000 or 0.52%, of our agricultural real estate loans were 90 or more days delinquent. We had no charge-offs of agricultural real estate loans during the year ended December 31, 2004.

Agricultural operating loans are made to finance the day-to-day operations of agricultural production activities. At December 31, 2004, our agricultural operating loans totaled $71.2 million or 2.3% of the total loan portfolio. At December 31, 2004, 73.8% of our agricultural operating loans had adjustable interest rates. The average loan size of our agricultural operating loan portfolio was $57,000 at December 31, 2004. At December 31, 2004, $1,000 of our agricultural operating loans was 90 or more days delinquent. We charged-off $64,000 of agricultural operating loans during the year ended December 31, 2004.

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Warehouse Mortgage Lines of Credit. We are actively involved in originating revolving lines of credit to mortgage brokers. The lines are drawn upon by such companies to fund the origination of single-family residential 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 third parties 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 each company to which such mortgage broker intends to sell loans. Under such agreements, the loan purchaser agrees to hold the mortgage documents 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 depending upon the amount of the line and other factors. The lines are structured with adjustable rates indexed to the Wall Street Journal prime rate. We fund a portion of the advances using short-term borrowings from the FHLB. Maximum amounts permitted to be advanced by us under existing warehouse mortgage lines of credit range in amounts from $2.5 million to $55.0 million. Our warehouse mortgage lines of credit totaled $132.9 million, or 4.3% of the total loan portfolio, at December 31, 2004 compared to $78.8 million, or 3.6% of the total loan portfolio, at December 31, 2003. With respect to our largest line of credit ($55.0 million), we have arranged participation interests aggregating $20.0 million to other financial institutions thus reducing to $35.0 million our line of credit in order to limit risk and to ensure compliance with our loans-to-one borrower regulatory limitation. At December 31, 2004, the largest outstanding amount under an individual warehouse mortgage line was $16.1 million. Additionally, at December 31, 2004, unused warehouse mortgage lines of credit totaled $439.6 million compared to unused lines of $493.1 million at December 31, 2003. Line of credit advances totaled $3.1 billion for the year ended December 31, 2004 compared to $5.5 billon for the year ended December 31, 2003, which is the result of a reduced level of refinancing activity during the year ended December 31, 2004 compared to the year ended December 31, 2003 which was partially offset by an increased number of brokers with which we do business. At December 31, 2004 and December 31, 2003, there were no warehouse mortgage lines of credit 90 or more days delinquent. During the years ended December 31, 2004 and 2003, we charged-off an aggregate of $20,000 and $110,000, respectively, of warehouse mortgage lines of credit.

Business Lending. Business loans are made predominantly to small and mid-sized businesses located within our Primary Banking Market Area. We are increasing our focus on such lending in conjunction with our overall increased emphasis on loans with higher yields and/or shorter expected lives. At December 31, 2004, we had $142.7 million in business loans which amounted to 4.6% of total loans receivable compared to $64.5 million or 2.9% of total loans receivable at December 31, 2003. Of the business loans outstanding at December 31, 2004, approximately 60.2% had adjustable rates. At December 31, 2004, $771,000 or 0.54% of our total business loan portfolio was 90 or more days delinquent compared to $219,000 or 0.34% at December 31, 2003. For the years ended December 31, 2004 and 2003, we charged-off an aggregate of $57,000 and $5,000, respectively, of business loans.

The largest credits consists of a business revolving line of credit for $12.0 million and an equipment term note of $12.9 million. Both loans are secured by the assets of four related companies in Lincoln, Nebraska engaged in asphalt and concrete paving and utilities construction. The $12.0 million revolving line of credit is intended to finance work-in-process, accounts receivable and inventory. This line of credit carries an adjustable interest rate and matures in September 2006. The $12.9 million term note was executed to consolidate existing equipment loans with other financial institutions and carries an adjustable interest rate. This note matures in September 2009. At December 31, 2004, the total outstanding balance for both lines of credit aggregated $24.9 million.

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Consumer and Other Lending. Consumer loans, consisting primarily of home equity, home improvement and automobile loans amounted to $379.0 million or 12.3% of our total loan portfolio at December 31, 2004. We generally offer home equity loans and 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 100% of value. We also offer home improvement loans in amounts up to $100,000 with a term of 15 years or less and a loan-to-value ratio up to 100% of value. A substantial portion of our home improvement loans consist of participation interests we have purchased from a third party. Under the terms of our arrangement with this third party, 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. During 2004, we purchased $22.7 million of such loans and at December 31, 2004, we held $56.4 million of loans purchased under such arrangement. 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 73 new and used automobile dealers located primarily in Lincoln and Omaha, Nebraska. During 2004, we purchased approximately $26.7 million of such loans. Although employees of the automobile dealership take the application, the loan is made pursuant to our own underwriting standards and must be approved by one of our authorized loan officers. Upon closing of the loan by the dealer, the loan is purchased by us. Our consumer loan portfolio also includes recreational vehicle, boat, motorcycle and other unsecured loans.

Unsecured loans and loans secured by rapidly depreciating assets, such as automobiles, entail greater risks than single-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. At December 31, 2004, $1.1 million, or 0.30% of our consumer loan portfolio, was 90 or more days delinquent compared to $700,000, or 0.23%, at December 31, 2003. For both years ended December 31, 2004 and 2003, we charged-off $1.4 million of consumer loans.

Loan Commitments. At December 31, 2004, we had issued commitments totaling $834.8 million, excluding the undisbursed portion of construction and land development 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 to extend credit do not necessarily represent future cash requirements since many of the commitments may expire without being drawn.

Derivative Financial Instruments. The Company enters into commitments to fund loans in which the interest rate on the loan is set prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives under Statement of Financial Accounting Standard (SFAS) No. 133 and are recorded at their fair value in other assets on the Consolidated Statements of Financial Condition. Changes in fair value are recorded in the net gain on loans held for sale category on the Consolidated Statements of Income. Fair value is based on a quoted market price that closely approximates the gain that would have been recognized if the loan commitment was funded and sold at December 31, 2004. The amount of expected servicing rights is excluded from the measurement of fair value. The measurement of fair value is also adjusted for anticipated cancellation by the borrower of commitments that will never be funded. Rate lock commitments expose the Company to interest rate risk.

The Company manages the interest rate risk by entering into forward sales commitments, which are also defined as derivatives under SFAS No. 133, and are recorded at their fair value in the other liabilities category on the Consolidated Statements of Financial Condition, with changes in fair value reported in net gain on loans held for sale on the Consolidated Statements of Income. Their fair value is based on a quoted premium or penalty that would be received or paid if we exited the forward position at December 31, 2004.

Loan Approval Procedures and Authority. Our Board of Directors establishes lending policies. All general lending procedures are set on an ongoing basis by the Asset/Liability Committee 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 Financial Analysis Manager. Under policies established by the Board of Directors, various officers or combinations of officers have loan approval authority, the specific amounts and requirements being set forth for each loan type. For loan amounts in excess of $10.0 million, approval of our Board of Directors is required.

Delinquent Loans, Classified Assets and Real Estate Owned

Delinquencies and Classified Assets. Reports listing all delinquent accounts are generated and reviewed by management on a monthly basis. These reports include information regarding all loans 30 days or more delinquent and all real estate owned. These reports are also provided to the Board of Directors. 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. We generally send the borrower a written notice of non-payment after the loan is first past due. Our loan recovery guidelines provide that telephone, written correspondence and/or face-to-face contact will be attempted to ascertain the reasons for delinquency and the prospects of repayment. When contact is made with the borrower at any time prior to commencing legal action, we will attempt to obtain full payment or work out a repayment schedule with the borrower. In the event payment is not then received or the loan not otherwise satisfied, additional 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 all property that secures 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 real estate owned.

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 Office of Thrift Supervision s (OTS) 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. Problem 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.

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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. In addition to these specific valuation allowances, we establish a general valuation allowance to absorb losses which exist in the loan portfolio but which have not been specifically identified. To quantify this general valuation allowance, we segment the loan portfolio by loan type and apply loss factors to develop our allowance levels. These loss factors are developed using our historical loan loss experience for each group of loans as further adjusted for specific documented factors, including the following:

Trends and levels of delinquent or "impaired" loans;
Trends and levels of charge-offs;
Trends in volume and underwriting terms or guarantees for the loans;
Impact of changes in underwriting standards, risk tolerances, or other changes in lending practices;
Changes in qualifications or experience of the lending staff;
Changes in local or national economic or industry conditions; and
Changes in credit concentration.

Although 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 reasonably estimable at each reporting date, actual losses are dependent upon future events and, as such, further additions to the level of allowances for loan losses may become necessary.

The Asset Classification Committee is composed of the following officers of the Bank: Chief Executive Officer, Chief Operating Officer, Chief Credit Officer, Director of Lending, Chief Financial Officer, the Assistant Director of Lending, Controller, Financial Analysis Manager and Regulatory Reporting Accountant. The Asset Classification Committee reviews and classifies assets no less frequent than quarterly and the Board of Directors reviews the results of the reports on a quarterly basis. At December 31, 2004 and 2003, we had $29.3 million and $10.4 million, respectively, of assets classified as substandard which consisted of real estate owned, single-family residential mortgage, residential construction, business and consumer loans. Non-accrual loans are those loans 90 days or more delinquent. At December 31, 2004 and 2003, substandard assets included in loans 90 days or more delinquent were $10.2 million and $3.6 million, respectively. At such dates, we had no loans classified as doubtful or loss. In addition, as of December 31, 2004 and 2003, we had $36.9 million and $35.3 million, respectively, of loans designated special mention.

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Delinquent Loans. The following table shows the delinquencies in our loan portfolio as of the dates indicated:

	December 31, 2004				December 31, 2003			
	30-89 Days Overdue		90 or More Days Overdue		30-89 Days Overdue		90 or More Days Overdue	
(Dollars in thousands)	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance	Number of Loans	Principal Balance
One-to-four family residential	38	$ 8,203	13	$ 1,914	23	$ 1,844	11	$ 1,461

	December 31, 2004				December 31, 2003			
Second mortgage residential	43	1,426	19	739	26	1,051	4	224
Multi-family residential	--	--	1	2,374	--	--	--	--
Commercial real estate and land	8	643	3	707	2	142	--	--
Residential construction	16	1,529	13	2,256	15	2,501	3	1,012
Commercial construction	--	--	--	--	--	--	--	--
Agriculture	2	120	3	349	--	--	--	--
Business loans	20	1,122	4	771	2	126	1	219
Agriculture - operating	18	566	1	1	--	--	--	--
Warehouse mortgage lines of credit	--	--	--	--	--	--	--	--
Consumer loans	391	3,448	107	1,121	255	2,945	60	700
Total delinquent loans	536	$ 17,057	164	$ 10,232	323	$ 8,609	79	$ 3,616
Delinquent loans as a percentage of total loans		0.55%		0.33%		0.39%		0.16%

Non-Accrual Loans and Real Estate Owned. The following table sets forth information regarding non-accrual loans and real estate owned. At December 31, 2004, nonperforming loans consisted of 32 single-family residential loans with an average balance of $83,000, 13 residential construction loans with an average balance of $174,000, one multi-family residential loan with a balance of $2.4 million, six commercial real estate and land and agriculture real estate loans with an average balance of $176,000, four business loans with an average balance of $193,000 and 107 consumer loans with an average balance of $10,000. At such date, real estate owned totaled $382,000 consisting of nine single-family residential properties and repossessed automobiles. Troubled debt restructurings consisted of 11 loans with an average balance of $315,000 at December 31, 2004. Such restructured loans were performing in accordance with their terms at such date. It is our policy to cease accruing interest on loans contractually delinquent 90 days or more and charge-off all accrued interest. For the years ended December 31, 2004 and 2003, the amount of interest income not recognized on non-accrual loans was $513,000 and $308,000, respectively. Total impaired loans (includes troubled debt restructurings) amounted to approximately $6.1 million and $864,000 at December 31, 2004 and 2003, respectively.

The following table shows the amounts of our nonperforming assets at the dates indicated. We did not have any accruing loans 90 days or more past due at the dates shown.

	December 31,				
(Dollars in thousands)	**2004**	**2003**	**2002**	**2001**	**2000**
Non-accruing loans:					
One-to-four family residential	$ 1,914	$ 1,461	$ 981	$ 895	$ 1,009
Second mortgage residential	739	224	180	3	--
Multi-family residential	2,374	--	--	--	--
Commercial real estate and land	707	--	3,795	--	2,703
Residential construction	2,256	1,012	106	--	380
Commercial construction	--	--	--	--	--
Agriculture	349	--	--	--	--
Business loans	771	219	--	--	--
Agriculture - operating	1	--	--	--	--
Warehouse mortgage lines of credit	--	--	--	--	--

	December 31,				
Consumer	1,121	700	427	767	416
Total non-accruing loans	10,232	3,616	5,489	1,665	4,508
Real estate owned, net (1)	382	678	1,967	168	807
Total nonperforming assets	10,614	4,294	7,456	1,833	5,315
Troubled debt restructurings	3,469	468	209	345	185
Total nonperforming assets and troubled debt restructurings	$ 14,083	$ 4,762	$ 7,665	$ 2,178	$ 5,500
Total nonperforming loans as a percent of net loans	0.39%	0.18%	0.31%	0.12%	0.40%
Total nonperforming assets as a percent of total assets	0.35%	0.19%	0.38%	0.12%	0.39%
Total nonperforming assets and troubled debt restructurings as a percent of total assets	0.46%	0.22%	0.39%	0.14%	0.40%

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

When we acquire property through foreclosure or deed in lieu of foreclosure, 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. Thereafter, if there is a further deterioration in value, we provide for a specific valuation allowance and charge operations for the diminution in value. It is our policy to obtain an appraisal or broker s price opinion on all real estate subject to foreclosure proceedings prior to the time of foreclosure. It is our policy to require appraisals on a periodic basis on foreclosed properties as well as conduct inspections on such properties.

Allowance for Loan Losses. A provision for loan losses is charged to income when it is determined by management to be required based on its analysis. The allowance is maintained at a level 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 quarterly in order to identify those inherent losses and to assess the overall collection probability of the 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. The evaluation process includes, among other things, an analysis of delinquency trends, nonperforming loan trends, the level of charge-offs and recoveries, prior loss experience, total loans outstanding, the volume of loan originations, the type, size, terms and geographic concentration of loans held by us, the value of collateral securing the loan, the number of loans requiring heightened management oversight and general economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change.

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 (i) the fair value of the collateral if the loan is collateral dependent, (ii) the present value of expected future cash flows, or (iii) 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 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.

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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)	**2004**	**2003**	**2002**	**2001**	**2000**
Allowance for loan losses, beginning of year	$ 19,586	$ 17,108	$ 13,464	$ 9,947	$ 8,860
Allowance for loan losses acquired	4,221	--	--	--	--
Charge-offs:					
One-to-four family residential	(16)	(6)	(16)	(37)	(61)
Second mortgage residential	(520)	(107)	(21)	--	--
Multi-family residential	--	--	--	--	--
Commercial real estate and land	--	(330)	--	(1)	--
Residential construction	(138)	(13)	--	--	--
Commercial construction	--	--	--	--	--
Agriculture	--	--	--	--	--
Business loans	(57)	(5)	(99)	--	--
Agriculture - operating	(64)	--	--	--	--
Warehouse mortgage lines of credit	(20)	(110)	--	--	--
Consumer	(1,421)	(1,368)	(1,018)	(458)	(137)
Total charge-offs	(2,236)	(1,939)	(1,154)	(496)	(198)
Recoveries on loans previously charged-off	373	146	103	16	12
Provision for loan losses	4,887	4,271	4,695	3,997	1,273
Allowance for loan losses, end of year	$ 26,831	$ 19,586	$ 17,108	$ 13,464	$ 9,947
Allowance for loan losses as a percent of net loans	1.01%	0.96%	0.96%	0.96%	0.87%
Allowance for loan losses as a percent of nonperforming loans	262.23%	541.65%	311.68%	808.65%	220.65%
Ratio of net charge-offs during the year as a percent of average loans outstanding during the year	0.08%	0.10%	0.08%	0.04%	0.02%

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

December 31,				
2004	**2003**	**2002**	**2001**	**2000**

	December 31,									
(Dollars in thousands)	**Amount of Allowance**	**Loan Category as a % of Total Loans**	**Amount of Allowance**	**Loan Category as a % of Total Loans**	**Amount of Allowance**	**Loan Category as a % of Total Loans**	**Amount of Allowance**	**Loan Category as a % of Total Loans**	**Amount of Allowance**	**Loan Category as a % of Total Loans**
One-to-four family residential	$ 805	13.54%	$ 1,069	25.20%	$ 1,071	30.00%	$ 976	33.13%	$ 813	46.75%
Second mortgage residential *	2,369	8.26	2,343	11.63	--	--	--	--	--	--
Multi-family residential	2,468	4.61	2,002	4.47	1,740	4.18	1,715	4.89	1,395	5.54
Commercial real estate and land	7,323	19.33	5,482	20.25	6,343	20.83	3,876	17.03	3,316	17.42
Residential construction	3,140	19.46	1,570	11.08	1,051	8.18	597	7.47	353	6.40
Commercial construction	2,000	9.14	1,011	6.95	1,259	7.49	586	6.30	235	3.82
Agriculture	873	2.16	--	--	--	--	--	--	--	--
Business	1,796	4.62	788	2.91	400	1.75	146	0.80	33	0.23
Agriculture - operating	990	2.31	--	--	--	--	--	--	--	--
Warehouse mortgage lines of credit	266	4.30	207	3.55	473	12.38	448	14.77	74	3.07
Consumer	4,795	12.27	5,003	13.96	4,771	15.19	4,736	15.61	3,447	16.77
Unallocated	6	--	111	--	--	--	384	--	281	--
Total	$ 26,831	100.00%	$ 19,586	100.00%	$ 17,108	100.00%	$ 13,464	100.00%	$ 9,947	100.00%

* Second mortgage residential loans disclosed separately for 2004 and 2003 as we began analyzing this portfolio seperately in 2003 due to our increased investment in such loans.

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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 their assets 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 the Board of Directors, requires management to maintain adequate liquidity, generate a favorable return on investment without incurring undue interest rate and credit risk and to complement our lending activities. We primarily utilize investments in securities for liquidity management and 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 commercial paper, municipal obligations, agency equity securities, mutual funds, U.S. Government sponsored agency issued mortgage-backed securities and collateralized mortgage obligations. As required by SFAS No. 115, 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 held for trading. Substantially all of our investment securities are purchased for the available for sale portfolio which totaled $127.8 million, or 4.2% of total assets, at December 31, 2004. At such date, we had net unrealized losses with respect to such securities of $343,000. At December 31, 2004, the held to maturity securities portfolio totaled $126,000.

At December 31, 2004, our mortgage-backed security portfolio (all of which were classified as available for sale) totaled $36.2 million or 1.2% of total assets. Of such amount, $20.3 million were collateralized mortgage obligations (CMOs), $7.4 million were issued by FNMA, $5.9 million were issued by the Government National Mortgage Association (GNMA) and $2.5 million were issued by the FHLMC. Of the $36.2 million of mortgage-backed securities, $9.2 million had adjustable-rates with interest rate adjustments of 1.0% to 2.0% annually. 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 such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

The GNMA is a government agency within the Department of Housing and Urban Development which is intended to help finance government-assisted housing programs. GNMA securities are backed by loans insured by the Federal Housing Administration, or guaranteed by the Veterans Administration. The timely payment of principal and interest on GNMA securities is guaranteed by GNMA and backed by the full faith and credit of the U.S. Government. FHLMC is a private corporation chartered by the U.S. Government. FHLMC issues participation certificates backed principally by conventional mortgage loans. FHLMC guarantees the timely payment of interest and the ultimate return of principal on participation certificates. FNMA is a private corporation chartered by the U.S. Congress with a mandate to establish a secondary market for mortgage loans. FNMA guarantees the timely payment of principal and interest on FNMA securities. FHLMC and FNMA securities are not backed by the full faith and credit of the U.S. Government, but because FHLMC and FNMA are U.S. Government-sponsored enterprises, these securities are considered to be among the highest quality investments with minimal credit risks.

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The following table sets forth certain information relating to our investment securities portfolio at the dates indicated:

	December 31,					
	2004		2003		2002	
(Dollars in thousands)	**Carrying Value**	**Market Value**	**Carrying Value**	**Market Value**	**Carrying Value**	**Market Value**
U.S. Government securities and agency obligations	$ 83,371	$ 82,865	$ 12,877	$ 12,886	$ 2,000	$ 2,000
Corporate securities	11,532	11,714	24,496	24,660	23,418	22,546
Municipal obligations	23,560	23,554	142	142	157	157
Agency equity securities	3,763	3,823	--	--	--	--
Asset Management Fund - ARM Fund	6,000	5,927	6,000	5,969	6,000	6,000
Total investment securities	128,226	127,883	43,515	43,657	31,575	30,703
Federal Home Loan Bank stock	54,284	54,284	37,143	37,143	21,459	21,459
Total investment securities and Federal Home Loan Bank stock	$ 182,510	$ 182,167	$ 80,658	$ 80,800	$ 53,034	$ 52,162

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The following table sets forth the amount of investment securities which mature during each of the periods indicated and the weighted average yields for each range of maturities at December 31, 2004. No tax-exempt yields have been adjusted to a tax-equivalent basis.

(Dollars in thousands)	**One Year or less**	**Weighted Average Yield**	**Over One Year Through Five Years**	**Weighted Average Yield**	**Over Five Years Through Ten Years**	**Weighted Average Yield**	**Over Ten Years**	**Weighted Average Yield**	**Total Amortized Cost**	**2004 Fair Value**
Bonds and other debt securities:										
U.S. Government securities and agency obligations	$ 12,024	2.59%	$ 61,124	3.13%	$ 9,230	4.57%	$ 993	3.30%	$ 83,371	$ 82,865

(Dollars in thousands)	One Year or less	Weighted Average Yield	Over One Year Through Five Years	Weighted Average Yield	Over Five Years Through Ten Years	Weighted Average Yield	Over Ten Years	Weighted Average Yield	Total Amortized Cost	2004 Fair Value
Corporate securities	754	3.28	2,619	3.49	5,941	6.34	2,218	9.23	11,532	11,714
Municipal obligations	2,121	3.21	6,106	4.19	10,339	4.35	4,994	4.82	23,560	23,554
Equity securities:										
Asset Management Fund - ARM Fund	6,000	2.74	--	--	--	--	--	--	6,000	5,927
Agency equity securities	3,763	5.20	--	--	--	--	--	--	3,763	3,823
Federal Home Loan Bank stock	54,284	4.17	--	--	--	--	--	--	54,284	54,284
Total investment securities and Federal Home Loan Bank stock	$ 78,946	3.83%	$ 69,849	3.23%	$ 25,510	4.89%	$ 8,205	5.83%	$ 182,510	$ 182,167

The following table sets forth the purchases, sales and principal repayments of our investment securities portfolio during the years indicated:

	At or For the Year Ended December 31,		
(Dollars in thousands)	2004	2003	2002
Investment securities at beginning of year	$ 43,657	$ 30,703	$ 44,745
Investment securities acquired	118,479	--	--
Purchases	13,969	33,939	62,980
Maturities	(28,362)	(22,000)	(76,259)
Principal repayments	(2,686)	(15)	(92)
Sales	(16,787)	--	--
Gain (loss) on sale	596	--	--
Loss on impairment of securities	(135)	--	--
Change in unrealized gain (loss), net	(486)	1,014	(491)
Amortizations of premiums and discounts, net	(362)	16	(180)
Investment securities at end of year	$ 127,883	$ 43,657	$ 30,703
Weighted average yield at end of year	3.84%	4.25%	3.41%

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The following table sets forth the composition of our mortgage-backed securities portfolio at the dates indicated:

	December 31,					
	2004		2003		2002	
(Dollars in thousands)	Carrying Value	Market Value	Carrying Value	Market Value	Carrying Value	Market Value
Fixed-rate:						
FHLMC	$ 2,336	$ 2,305	$ 102	$ 109	$ 148	$ 155
FNMA	3,011	3,029	2,179	2,234	4,132	4,283
GNMA	1,391	1,363	--	--	--	--
FHLMC/FNMA CMOs	20,520	20,283	--	--	--	--
Private CMOs	1	1	4	4	3,492	3,603

	December 31,					
Total fixed-rate	27,259	26,981	2,285	2,347	7,772	8,041
Adjustable-rate:						
GNMA	4,504	4,566	7,001	7,030	12,786	12,911
FNMA	4,281	4,387	5,972	6,049	8,919	9,011
FHLMC	242	241	284	286	404	406
Total adjustable-rate	9,027	9,194	13,257	13,365	22,109	22,328
Total mortgage-backed securities	$ 36,286	$ 36,175	$ 15,542	$ 15,712	$ 29,881	$ 30,369

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Information regarding the contractual maturities and weighted average yield of our mortgage-backed securities portfolio at December 31, 2004 is presented below. Due to repayments of the underlying loans, the actual maturities of mortgage-backed securities generally are less than the scheduled maturities.

(Dollars in thousands)	One Year or Less	Weighted Average Yield	Over One Year Through Five Years	Weighted Average Yield	Over Five Years	Weighted Average Yield	Total Amortized Cost	2004 Fair Value
Fixed-rate:								
FHLMC	$ --	--%	$ 1,903	4.08%	$ 433	6.35%	$ 2,336	$ 2,305
FNMA	140	4.26	2,160	5.40	711	6.09	3,011	3,029
GNMA	2	5.78	39	5.69	1,350	5.92	1,391	1,363
CMOs	--	--	1,807	4.07	18,714	3.95	20,521	20,284
Total fixed-rate	142	4.28	5,909	4.57	21,208	4.19	27,259	26,981
Adjustable-rate:								
GNMA	--	--	--	--	4,504	3.61	4,504	4,566
FNMA	--	--	--	--	4,281	3.70	4,281	4,387
FHLMC	--	--	--	--	242	4.04	242	241
Total adjustable-rate	--	--	--	--	9,027	3.66	9,027	9,194
Total	$ 142	4.28%	$ 5,909	4.57%	$ 30,235	4.03%	$ 36,286	$ 36,175

The following table sets forth the purchases, sales and principal repayments of our mortgage-backed securities during the years indicated:

	At or For the Year Ended December 31,		
(Dollars in thousands)	2004	2003	2002

	At or For the Year Ended December 31,		
Mortgage-backed securities at beginning of year	$ 15,712	$ 30,369	$ 46,287
Mortgage-backed securities acquired	29,784	--	--
Purchases	--	83,979	19,706
Repayments	(8,955)	(42,294)	(35,484)
Sales	--	(53,775)	--
Change in unrealized gain (loss), net	(281)	(318)	(11)
Amortizations of premiums and discounts, net	(85)	(2,249)	(129)
Mortgage-backed securities at end of year	$ 36,175	$ 15,712	$ 30,369
Weighted average yield at end of year	4.12%	3.80%	5.37%

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At December 31, 2004, all unrealized losses related to investment and mortgage-backed securities are considered temporary in nature. An 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. Investment and mortgage-backed securities with unrealized losses at December 31, 2004, are summarized below:

	Less than 12 Months		12 Months or Longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government securities and agency obligations	$ 78,586	$ 536	$ --	$ --	$ 78,586	$ 536
Corporate securities	3,339	34	--	--	3,339	34
Municipal obligations	10,035	42	--	--	10,035	42
Agency equity securities	10	1	--	--	10	1
Asset Management Fund - ARM Fund	--	--	5,927	73	5,927	73
Mortgage-backed securities	25,145	345	--	--	25,145	345
Total temporarily impaired securities	$ 117,115	$ 958	$ 5,927	$ 73	$ 123,042	$ 1,031

The investment securities available for sale in a continuous loss position for 12 months or longer consisted of one investment security with unrealized losses of $73,000 at December 31, 2004. The unrealized loss on these securities resulted from market interest rates and we do not deem the conditions that caused the losses to be other-than-temporary.

In response to concerns regarding the potential value of FNMA equity securities, the Company recorded an other-than-temporary impairment charge of $135,000, in the fourth quarter, on our holdings of FNMA equity securities as the value of these securities could be impacted by factors other than interest rate changes. The Company s estimated carrying value represents the fair value of these securities and there were no unrealized losses associated with them at December 31, 2004.

Sources of Funds

General. Deposits, loan repayments and prepayments, proceeds from sales of loans, cash flows generated from operations and FHLB advances are the primary sources of our funds for use in lending, investing and for other general purposes.

Deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposits consist of checking (both interest-bearing and noninterest-bearing), money market, savings, time deposits and individual retirement accounts.

The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition. Our deposits are obtained predominantly from the areas where our banking offices are located. We have historically relied primarily on customer service and long-standing relationships with customers to attract and retain these deposits; however, market interest rates and rates offered by competing financial institutions significantly affect our ability to attract and retain deposits.

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We use traditional means of advertising our deposit products, including broadcast and print media. We have expanded our marketing efforts to include direct mailings in an effort to attract new checking relationships. In 2000, we introduced our High Performance checking product line which includes a number of product options for our customers including free checking, interest-bearing checking and the Wall Street checking account. As a result, the number and aggregate balance of our checking accounts increased from approximately 36,700 and $157.5 million, respectively, at December 31, 2000 to approximately 90,300 and $526.3 million, respectively, at December 31, 2004, reflecting increases of 146.1% and 234.1%. Employees are offered incentives to sell the products and customers receive gifts for opening new accounts as well as referring other customers.

We use brokered time deposits as an additional source of funds for our loan origination and purchases activity. At December 31, 2004 and December 31, 2003 we had brokered time deposits of $124.6 million and $65.5 million, respectively.

The following table shows the distribution of, and certain other information relating to, our deposits by type of deposit, as of the dates indicated:

	December 31,					
	2004		2003		2002	
(Dollars in thousands)	Amount	%	Amount	%	Amount	%
Time deposits:						
0.00% - 0.99%	$ 979	0.05%	$ --	--%	$ --	--%
1.00% - 1.99%	263,662	14.14	253,465	20.83	61,399	5.44
2.00% - 2.99%	324,732	17.41	106,783	8.77	89,316	7.91
3.00% - 3.99%	261,869	14.04	89,183	7.33	124,186	11.00
4.00% - 4.99%	102,531	5.50	108,041	8.88	132,626	11.75
5.00% - 5.99%	12,803	0.69	28,070	2.31	99,786	8.84
6.00% - 6.99%	1,219	0.07	222	0.02	9,399	0.83
7.00% - 7.99%	--	--	--	--	--	--
8.00% or more	--	--	--	--	8	--
Total time deposits (1)	967,795	51.90	585,764	48.14	516,720	45.77
Transaction accounts:						
Savings	79,546	4.26	19,627	1.61	15,855	1.41
Money market	291,111	15.61	270,942	22.27	270,275	23.94
Interest-bearing checking	414,093	22.21	295,122	24.26	290,237	25.71
Noninterest-bearing checking	112,216	6.02	45,308	3.72	35,793	3.17
Total transaction accounts	896,966	48.10	630,999	51.86	612,160	54.23
Total deposits	$ 1,864,761	100.00%	$ 1,216,763	100.00%	$ 1,128,880	100.00%

(1) Includes $124.6 million, $65.5 million and $0, respectively, of brokered time deposits at December 31, 2004, 2003 and 2002.

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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,								
	2004			2003			2002		
(Dollars in thousands)	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid	Average Balance	Interest Expense	Average Rate Paid
Interest-bearing checking	$ 333,129	$ 2,476	0.74%	$ 294,712	$ 2,629	0.89%	$ 269,274	$ 4,619	1.72%
Savings	42,346	291	0.69	18,491	90	0.49	14,811	179	1.21
Money market	275,216	2,731	0.99	274,737	3,289	1.20	284,399	5,533	1.95
Time deposits	757,363	20,956	2.77	533,903	16,824	3.15	524,911	20,759	3.95
Total interest-bearing deposits	1,408,054	26,454	1.88	1,121,843	22,832	2.04	1,093,395	31,090	2.84
Noninterest-bearing checking	70,719	--	--	43,295	--	--	29,901	--	--
Total deposits	$ 1,478,773	$ 26,454	1.79%	$ 1,165,138	$ 22,832	1.96%	$ 1,123,296	$ 31,090	2.77%

The following table shows our savings flows during the years indicated:

	Year Ended December 31,		
(Dollars in thousands)	2004	2003	2002
Total deposits	$ 7,843,556	$ 6,835,487	$ 5,402,525
Total withdrawals	(7,217,801)	(6,768,171)	(5,397,347)
Interest credited	22,243	20,567	27,460
Total increase in deposits	$ 647,998	$ 87,883	$ 32,638

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The following table presents, by various interest rate categories and maturities, the amount of time deposits at December 31, 2004:

	Balance at December 31, 2004 Maturing in the 12 Months Ending December 31,				
(Dollars in thousands)	2005	2006	2007	Thereafter	Total
Time deposits:					
0.00% - 0.99%	$ 950	$ --	$ 29	$ --	$ 979
1.00% - 1.99%	245,598	17,396	653	15	263,662
2.00% - 2.99%	263,610	52,448	6,152	2,522	324,732
3.00% - 3.99%	12,326	176,556	13,761	59,226	261,869
4.00% - 4.99%	14,828	70,172	13,079	4,452	102,531
5.00% - 5.99%	6,224	6,048	380	151	12,803

	Balance at December 31, 2004 Maturing in the 12 Months Ending December 31,				
6.00% - 6.99%	1,162	3	54	--	1,219
Total time deposits (1)	$ 544,698	$ 322,623	$ 34,108	$ 66,366	$ 967,795

(1) Includes brokered time deposits.

The following table shows the maturities of our time deposits exceeding $100,000 at December 31, 2004 by the time remaining to maturity. There are no brokered time deposits included in the following table as no individual brokered time deposit exceeded $100,000 at December 31, 2004.

(Dollars in thousands)	Amount	Weighted Average Rate
Quarter ending:		
March 31, 2005	$ 22,940	2.35%
June 30, 2005	43,141	2.66
September 30, 2005	16,362	2.43
December 31, 2005	8,688	2.48
After December 31, 2005	47,659	3.54
Total time deposits exceeding $100,000	$ 138,790	2.87%

Borrowings. We utilize advances from the FHLB as an alternative to retail deposits to fund our operations as part of our operating strategy. These FHLB 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 FHLB. FHLB 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 FHLB will advance to member institutions, including us, fluctuates from time to time in accordance with the policies of the FHLB. At December 31, 2004, we had $779.9 million in outstanding FHLB advances. For additional information see Regulation Federal Home Loan Bank .

On April 26, 2004, the Company formed a trust (TierOne Capital Trust I) 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 junior subordinated debentures (debentures) issued by the Company. The debentures are callable at par in June 2009 and mature in June 2034. The Company s obligation under the debentures constitutes a full and unconditional guarantee by the Company 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.

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In connection with the Company s acquisition of UNFC on August 27, 2004, the Company assumed $7.0 million of variable rate debentures that had been issued on November 28, 2001 by United Nebraska Capital Trust, a trust formed by UNFC. The debentures are callable at par in December 2006, are due December 8, 2031 and are the sole asset of the United Nebraska Capital Trust. The Company s obligation under the debentures constitutes a full and unconditional guarantee by the Company of United Nebraska Capital Trust s obligations under the debentures. In accordance with FIN 46R, United Nebraska Capital Trust is not consolidated and related amounts are treated as debt of the Company.

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)	2004	2003	2002
Federal Home Loan Bank advances:			
Average balance outstanding	$ 625,724	$ 540,192	$ 268,473

	At or For the Year Ended December 31,		
Maximum amount outstanding at any month-end during the period	$ 779,875	$ 709,365	$ 418,082
Balance outstanding at end of period	$ 779,875	$ 641,749	$ 418,082
Average interest rate during period	3.20%	3.34%	4.76%
Weighted average interest rate at end of period	3.19%	3.02%	3.81%
Other borrowings:			
Average balance outstanding	$ 36,185	$ 1,770	$ 6,132
Maximum amount outstanding at any month-end during the period	$ 65,502	$ 3,947	$ 6,855
Balance outstanding at end of period	$ 60,602	$ 3,947	$ 247
Average interest rate during period	3.63%	1.36%	5.77%
Weighted average interest rate at end of period	4.04%	1.24%	1.64%

At December 31, 2004, our overnight line of credit with the FHLB amounted to $261.2 million with a weighted average rate of 2.47%. For more information regarding our borrowings, see Note 15 included in Item 8. Financial Statements and Supplementary Data.

Subsidiary Activities

The Bank is the wholly owned subsidiary of the Company. TMS Corporation of the Americas is the wholly owned subsidiary of the Bank and holds all of the stock of TierOne Investments and Insurance, Inc. and TierOne Reinsurance Company. TierOne Investments and Insurance, Inc. 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 that is sold in conjunction with the origination of consumer loans by the Bank. United Farm & Ranch Management, Inc. (UFARM) is a wholly owned subsidiary of the Bank. UFARM provides farm and ranch real estate management services in the state of Nebraska and in the neighboring states of Iowa, South Dakota, Kansas, Colorado and Wyoming. Fees generated through equity, annuity, mutual fund and insurance sales and commissions and farm and ranch real estate management contributed $3.3 million and $2.1 million in noninterest income during the years ended December 31, 2004 and 2003, respectively.

Personnel

As of December 31, 2004, we had 667 full-time employees and 113 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

Regulation and Supervision

Set forth below is a brief description of certain laws and regulations which are applicable to the Company and the Bank. The description of these laws and regulations, as well as descriptions of laws and regulations contained elsewhere herein, does not purport to be complete and is qualified in its entirety by reference to the applicable laws and regulations.

General

The Bank, as a federally chartered stock savings bank, is subject to federal regulation and oversight by the OTS extending to all aspects of its operations. 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. Federally chartered savings institutions are required to file periodic reports with the OTS and are subject to periodic examinations by the OTS and the FDIC. 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 shareholders.

The OTS regularly examines the Bank and prepares reports for consideration by its 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 Savings Association Insurance Fund (SAIF). 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 savings 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 adverse impact on us and the Bank and our operations.

TierOne Corporation

The Company, a Wisconsin corporation and the holding company for the Bank, is a registered savings and loan holding company under Section 10 of the Home Owners Loan Act (HOLA), as amended, and is subject to OTS examination and supervision as well as certain reporting requirements. In addition, because the Bank s deposits are insured by the SAIF and administered by the FDIC, the Bank is, and will continue to be, subject to certain restrictions in dealing with the Company and with other persons affiliated with the Bank.

We currently operate as a unitary savings and loan holding company. Generally, the HOLA prohibits a savings and loan holding company, such as us, directly or indirectly, from (1) acquiring control (as defined) of a savings institution (or holding company thereof) without prior OTS approval, or (2) acquiring more than 5% of the voting shares of a savings institution (or holding company thereof) which is not a subsidiary, subject to certain exceptions, without prior OTS approval, or (3) acquiring through a merger, consolidation or purchase of assets of another savings institution (or holding company thereof) or acquiring all or substantially all of the assets of another savings institution (or holding company thereof) without prior OTS approval, or (4) acquiring control of an uninsured institution. A savings and loan holding company may not acquire, as a separate subsidiary, a savings institution which has its principal offices outside of the state where the principal offices of its subsidiary institution is located, except (a) in the case of certain emergency acquisitions approved by the FDIC, (b) if the holding company controlled (as defined) such savings institution as of March 5, 1987, or (c) when the laws of the state in which the savings institution to be acquired is located specifically authorize such an acquisition. No director or officer of a savings and loan holding company or person owning or controlling more than 25% of such holding company s voting shares may, except with the prior approval of the OTS, acquire control of any savings institution which is not a subsidiary of such holding company.

TierOne Bank

Insurance of Accounts. The deposits of the Bank are insured to the maximum extent permitted by the SAIF, which is administered by the FDIC, and are backed by the full faith and credit of the U.S. Government. As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the FDIC. The FDIC also has the authority to initiate enforcement actions against savings institutions after giving the OTS an opportunity to take such action.

Under current FDIC regulations, SAIF-insured institutions are assigned one of three capital groups which are based solely on the level of an institution s capital well capitalized, adequately capitalized and undercapitalized which are defined in the same manner as the regulations establishing the prompt corrective action system discussed below. These three groups are then divided into three subgroups which reflect varying levels of supervisory concern, from those which are considered to be healthy to those which are considered to be of substantial supervisory concern.

In addition, all institutions with deposits insured by the FDIC are required to pay assessments to fund interest payments on bonds issued by the Financing Corporation, a mixed-ownership government corporation established to recapitalize the predecessor to the SAIF. The assessment rate for the fourth quarter of 2004 was .0146% of insured deposits and is adjusted quarterly. These assessments will continue until the Financing Corporation bonds mature in 2019.

The FDIC may terminate the deposit insurance of any insured depository institution, including the Bank, if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is aware of no existing circumstances which would result in

termination of the Bank s deposit insurance.

Regulatory Capital Requirements. The OTS capital requirements consist of a tangible capital requirement, a leverage capital requirement and a risk-based capital requirement. The OTS is authorized to impose capital requirements in excess of those standards on individual institutions on a case-by-case basis.

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 (including supervisory goodwill), plus a specified amount of purchased mortgage servicing rights.

Under the leverage capital requirement adopted by the OTS, savings banks must maintain core capital in an amount equal to at least 3.0% of adjusted total assets. Core capital is defined as common shareholders equity (including retained earnings), non-cumulative perpetual preferred stock, and minority interests in the equity accounts of consolidated subsidiaries, plus purchased mortgage servicing rights valued at the lower of 90% of fair market value, 90% of original cost or the current amortized book value as determined under generally accepted accounting principles, and qualifying supervisory 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. Qualifying one-to-four family residential real estate loans and qualifying multi-family residential real estate loans (not more than 90 days delinquent and having an 80% or lower loan-to-value ratio), which at December 31, 2004 represented 23.3% of the total loans receivable of the Bank, are weighted at a 50% risk factor. 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. Such exclusions consist of equity investments (as defined by regulation) and that portion of land loans and non-residential construction loans in excess of an 80% loan-to-value ratio and reciprocal holdings of qualifying capital instruments. 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 generally accepted accounting principles.

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 generally accepted accounting principles purposes. For excludable subsidiaries, the debt and equity investments in such subsidiaries are deducted from assets and capital. At December 31, 2004, the Bank had $1.5 million of investments subject to a deduction from tangible capital.

Under currently applicable 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 debt securities reported as a separate component of capital calculated according to generally accepted accounting principles.

At December 31, 2004, the Bank exceeded all of its regulatory capital requirements. For more information see Note 19 Regulatory Capital Requirements attached hereto in Item 8. Financial Statements and Supplementary Data.

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.

Prompt Corrective Action. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, federal banking regulators are required to take prompt corrective action if an insured depository institution fails to satisfy certain minimum capital requirements including a leverage limit, a risk-based capital requirement and any other measure of capital deemed appropriate by the federal banking regulator for measuring the capital adequacy of an insured depository institution. All institutions, regardless of their capital levels, are restricted from making any capital distribution or paying management fees to controlling persons if the institution would thereafter fail to satisfy the minimum levels for any of its capital requirements.

Under the Federal Deposit Insurance Corporation Improvement Act, an institution is deemed to be (a) well capitalized if it has total risk-based capital of 10.0% or more, has a Tier 1 risk-based capital ratio of 6.0% or more, has a Tier 1 leverage capital ratio of 5.0% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure, (b) adequately capitalized if it has a total risk-based capital ratio of 8.0% or more, a Tier 1 risk-based capital ratio of 4.0% or more and a Tier 1 leverage capital ratio of 4.0% or more (3.0% under certain circumstances) and does not meet the definition of well capitalized, (c) undercapitalized if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a Tier 1 leverage capital ratio that is less than 4.0% (3.0% under certain circumstances), (d) significantly undercapitalized if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a Tier 1 leverage capital ratio that is less than 3.0%, and (e) critically undercapitalized if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%. Under specified circumstances, a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized).

An institution generally must file a written capital restoration plan which meets specified requirements with its appropriate federal banking agency within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. A federal banking agency must provide the institution with written notice of approval or disapproval within 60 days after receiving a capital restoration plan, subject to extensions by the agency. An institution which is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. In addition, undercapitalized institutions are subject to various regulatory restrictions, and the appropriate federal banking agency also may take any number of discretionary supervisory actions.

At December 31, 2004, the Bank was in the well capitalized category for purposes of the above regulations.

Safety and Soundness Guidelines. The OTS and the other federal bank regulatory agencies have established guidelines for safety and soundness, addressing operational and managerial standards, as well as compensation matters for insured financial institutions. Institutions failing to meet these standards may be required to submit compliance plans to their appropriate federal regulators. The OTS and the other agencies have also established guidelines regarding asset quality and earnings standards for insured institutions. The Bank believes that it is in compliance with these guidelines and standards.

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 to make capital distributions. 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: (1) 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, (2) the institution would not be at least adequately capitalized following the distribution, (3) the distribution would violate any applicable statute, regulation, agreement or OTS-imposed condition, or (4) the institution is not eligible for expedited treatment of its filings. If an application is not required to be filed, savings institutions which are a subsidiary of a holding company (as well as certain other institutions) 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. An unsatisfactory Community Reinvestment Act record may be the basis for denial of a branching application.

Community Reinvestment Act and the Fair Lending Laws. Savings institutions have a responsibility under the Community Reinvestment Act and related regulations of the OTS to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. 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 Community Reinvestment Act 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.

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Qualified Thrift Lender Test. All savings institutions are required to meet a qualified thrift lender test to avoid certain restrictions on their operations. Under Section 2303 of the Economic Growth and Regulatory Paperwork Reduction Act of 1996, a savings institution can comply with the qualified thrift lender test by either qualifying as a domestic building and loan bank as defined in Section 7701(a)(19) of the Internal Revenue Code or by meeting the second criteria of the qualified thrift lender test set forth in Section 10(m) of the HOLA. A savings institution that does not meet the qualified thrift lender test must either convert to a bank charter or comply with the following restrictions on its operations: (a) the institution may not engage in any new activity or make any new investment, directly or indirectly, unless such activity or investment is permissible for a national bank; (b) the branching powers of the institution shall be restricted to those of a national bank; (c) the institution shall not be eligible to obtain any new advances from its FHLB other than special liquidity advances with the approval of the OTS; and (d) payment of dividends by the institution shall be subject to the rules regarding payment of dividends by a national bank. Upon the expiration of three years from the date the savings institution ceases to be a qualified thrift lender, it must cease any activity and not retain any investment not permissible for a national bank and immediately repay any outstanding FHLB advances (subject to safety and soundness considerations).

Currently, the portion of the qualified thrift lender test that is based on Section 10(m) of the HOLA rather than the Internal Revenue Code requires that 65% of an institution s portfolio assets (as defined) consist of certain housing and consumer-related assets on a monthly average basis in nine out of every 12 months. Assets that qualify without limit for inclusion as part of the 65% requirement are loans made to purchase, refinance, construct, improve or repair domestic residential housing and manufactured housing; home equity loans; mortgage-backed securities (where the mortgages are secured by domestic residential housing or manufactured housing); stock issued by the FHLB and direct or indirect obligations of the FDIC. Small business loans, credit card loans and student loans are also included without limitation as qualified investments. In addition, the following assets, among others, may be included in meeting the test subject to an overall limit of 20% of the savings institution s portfolio assets: 50% of residential mortgage loans originated and sold within 90 days of origination; 100% of loans for personal, family and household purposes (other than credit card loans and educational loans); and stock issued by FNMA or FHLMC. Portfolio assets consist of total assets minus the sum of (a) goodwill and other intangible assets, (b) property used by the savings institution to conduct its business, and (c) liquid assets up to 20% of the institution s total assets. At December 31, 2004, approximately 74.7% of the portfolio assets of the Bank were qualified thrift investments.

Federal Home Loan Bank. The Bank is a member of the FHLB, which administers the home financing credit function of savings institutions. Each FHLB serves as a reserve or central bank for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by its Board of Directors. At December 31, 2004, the Bank had $781.1 million of FHLB advances. At December 31, 2004, the Bank was required to hold $50.8 million in stock of the FHLB as collateral for the Bank s FHLB advances.

The FHLB is required to provide funds for the resolution of troubled savings institutions and to contribute to affordable housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have adversely affected the level of FHLB dividends paid and could continue to do so in the future and could also result in the FHLB imposing higher interest rates on advances to members. These contributions also could have an adverse effect on the value of FHLB stock in the future.

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Federal Reserve System. Federal Reserve Board (FRB) regulations require all depository institutions to maintain noninterest earning reserves against their transaction accounts (primarily NOW and Super NOW checking accounts) and non-personal time deposits. At December 31, 2004, the Bank was in compliance with these reserve requirements. The balances maintained to meet the reserve requirements imposed by the FRB may be used to satisfy liquidity requirements that may be imposed by the OTS.

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

Affiliate Restrictions. Section 11 of the HOLA 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 and surplus, in the case of covered transactions with any one affiliate, and to an amount equal to 20% of such capital 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 market value ranging from 100% to 130% (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.

Federal Securities Law

The Company s common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (Exchange Act), and under OTS regulations, and generally may not be deregistered for at least three years after the initial public offering which was completed on October 1, 2002. We are subject to the information, proxy solicitation, insider trading restrictions and other requirements of the Exchange Act.

Item 2. Properties

We currently operate 68 banking offices in Nebraska (56), Iowa (9) and Kansas (3) of which 51 were owned by us and 17 were under operating leases. Additionally, we operate three loan production offices located in Colorado, two loan production offices located in North Carolina and one loan production office in Arizona, Florida and Minnesota all of which are under operating leases. We own our corporate headquarters located in Lincoln, Nebraska.

For further information regarding our properties, see Note 20 Lease Commitments which is attached hereto in Item 8. Financial Statements and Supplementary Data.

Item 3. Legal Proceedings

Except litigation relating to certain goodwill claims against the United States (U.S.) 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 the Company s consolidated financial condition or consolidated results of operations.

In August 1995, we commenced litigation against the U.S. in the United States Court of Federal Claims (Claims Court) claiming that the U.S. breached its contract with us and has unlawfully taken our property without just compensation or due process of law. As described below, our claims arose from changes to the rules for computing our regulatory capital that were required by the adoption of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA).

Pursuant to FIRREA, which became effective in August 1989, the OTS was created as the successor to the Federal Home Loan Bank Board (FHLBB) to regulate federally-insured savings institutions. At such time, we had $30.0 million of supervisory goodwill remaining from three

supervisory mergers we completed in 1982. At the time of these mergers, the FHLBB agreed we could include the supervisory goodwill as capital for purposes of meeting our regulatory capital requirements. The regulatory goodwill was to be amortized over a 25-year period. As a result of regulations adopted by the OTS implementing FIRREA, we had to immediately exclude all of our supervisory goodwill from the calculation of our tangible capital and had to phase out the inclusion of this goodwill in the calculation of our core and risk-based capital requirements over a five-year period. We believe that FIRREA and the adoption of the capital regulations by the OTS implementing FIRREA constituted a breach by the U.S. of its contractual commitment regarding the regulatory capital treatment of our supervisory goodwill. As a result, we commenced litigation against the U.S., as discussed below, seeking damages for this breach of contract.

Our case was initially stayed pending resolution on appeal of a series of cases (United States v. Winstar Corporation) (the Winstar Cases). In July 1996, the United States Supreme Court ruled in the Winstar Cases that when the United States Congress changed the accounting for supervisory goodwill specified in FIRREA, it breached FHLBB contractual agreements with these institutions regarding the treatment of supervisory goodwill.

On May 19, 2003, a four-day trial related solely to issues of liability was held. On November 6, 2003, the Claims Court rendered a decision finding the U.S. liable to the Bank for breach of contract with regard to one of three claims and the Court dismissed the breach of contract complaint on the remaining two claims. A Motion For Reconsideration of the Courts Liability Decision with respect to the one claim was filed by the U.S. and was subsequently denied by the Claims Court on April 28, 2004. As of December 31, 2004, the issue of damages and the amount thereof, if any, remains to be determined in subsequent judicial proceedings.

Discovery on the issue of damages has been completed, including the submission of written opinions and depositions of expert witnesses for both the U.S. and us. To conform to the Claims Court s ruling finding the U.S. liable on only one of the three claims, we now seek an amended percentage reduction of our original total damage claim under two alternative theories. First, we are now claiming amended lost profits damages of $29.6 million. Alternatively, we have claimed amended damages of $13.1 million for the value of the lost goodwill adjusted to the future trial date. On January 7, 2005, the U.S. filed a motion for summary judgment contending that we cannot recover on either damage theory as a matter of law. Extensive legal briefs have been filed by both parties, but the matter has not been ruled upon at the present time by the Claims Court.

The U.S. continues its litigation strategy of claiming that no damages have been suffered and therefore it will not settle most of the pending goodwill cases. As a consequence, claimants, including us, plan to proceed to trial to pursue our damage claims. There can be no assurance as to the type or amount of damages, if any, that we may recover or the timing, if we are successful, for receipt by us of any damages from the U.S. Government.

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

Not Applicable.

PART II

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

The Company s common stock trades on the Nasdaq stock market under the symbol TONE. As of December 31, 2004, the Company had 1,722 shareholders of record which does not include those persons or entities holding stock in nominee or street name through brokerage firms or others. The table below shows the high and low bid prices of the Company s common stock during the periods indicated as well as the period end closing sales price and the dividend paid each quarter.

	December 31, 2004				December 31, 2003			
	High	**Low**	**Close**	**Dividend**	**High**	**Low**	**Close**	**Dividend**
First Quarter	$ 23.88	$ 22.05	$ 23.46	$ 0.05	$ 16.44	$ 14.92	$ 16.45	$ --
Second Quarter	23.58	19.75	21.51	0.05	22.02	16.72	19.55	--
Third Quarter	23.34	19.87	23.06	0.05	23.50	19.40	21.11	--
Fourth Quarter	25.94	21.60	24.85	0.05	24.29	21.56	22.96	--

The Company s current stock repurchase plan, announced in July 2004, authorizes the purchase of 1,828,581 shares of the Company s outstanding common stock in open market or privately negotiated transactions. There were no shares repurchased under this plan during the quarter ended December 31, 2004. Unless terminated earlier by the Board of Directors of the Company, the plan will expire when the Company has repurchased all shares authorized for repurchase under the plan. The following table sets forth information in connection with purchases made by, or on the behalf of, the Company of shares of the Company s common stock during the fourth quarter of the fiscal year ended December 31, 2004.

	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 2004				
Beginning Date - October 1, 2004				
Ending Date - October 31, 2004	--	--	--	1,828,581
November 2004				
Beginning Date - November 1, 2004				
Ending Date - November 30, 2004	--	--	--	1,828,581
December 2004				
Beginning Date - December 1, 2004				
Ending Date - December 31, 2004	--	--	--	1,828,581
Total Shares Purchased	--	--	--	1,828,581

Item 6. Selected Financial Data

(Dollars in thousands except per share data)	At December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Selected Financial and Other Data:					
Total assets	$ 3,048,081	$ 2,207,868	$ 1,945,535	$ 1,570,013	$ 1,359,474
Cash and cash equivalents	70,030	34,901	33,037	34,441	30,779
Investment securities:					
Held to maturity	126	142	157	221	195
Available for sale	127,757	43,515	30,546	44,524	84,935
Mortgage-backed securities:					
Held to maturity	--	--	--	--	--
Available for sale	36,175	15,712	30,369	46,287	68,398
Net loans after allowance for loan losses	2,628,155	2,016,596	1,774,248	1,393,439	1,128,074
Deposits	1,864,761	1,216,763	1,128,880	1,096,242	1,047,836
Advances from Federal Home Loan Bank and other borrowings	841,666	645,696	418,329	303,315	172,449
Stockholders' equity	277,023	295,089	339,896	121,755	107,872
Full service offices	68	57	58	58	58

(Dollars in thousands except per share data)	For the Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Selected Operating Data:					
Total interest income	$ 124,980	$ 110,820	$ 104,941	$ 105,145	$ 103,866
Total interest expense	47,769	40,871	44,221	57,185	65,540
Net interest income	77,211	69,949	60,720	47,960	38,326
Provision for loan losses	4,887	4,271	4,695	3,997	1,273
Net interest income after provision for loan losses	72,324	65,678	56,025	43,963	37,053
Total noninterest income	23,905	19,859	13,111	11,286	6,575
Total noninterest expense	58,212	47,520	45,669	34,946	29,529
Income before income taxes	38,017	38,017	23,467	20,303	14,099
Income tax expense	14,152	14,202	8,501	7,261	5,073
Net income	$ 23,865	$ 23,815	$ 14,966	$ 13,042	$ 9,026
Net income per common share, basic	$ 1.42	$ 1.18	$ 0.10 *	$ --	$ --
Net income per common share, diluted	$ 1.39	$ 1.16	$ 0.10 *	$ --	$ --
Dividends declared per common share	$ 0.20	$ --	$ --	$ --	$ --

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

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

Our Management Strategy

In an effort to increase our profitability, we implemented a plan to grow and diversify our operations to become a regional community bank. In our Primary Banking Market Area we have endeavored to position ourselves as a local alternative to national and super-regional competitors. In addition, we have availed ourselves of additional loan opportunities outside our Primary Banking Market Area and have selectively entered into relationships with other financial institutions throughout the United States to purchase whole loans or participation interests in loans, particularly commercial real estate and land, second mortgage residential and construction loans. Additionally, we have opened or acquired loan production offices in high growth cities of the United States in an effort to strategically supplement our loan origination activities. We have also expanded our originations of warehouse mortgage lines of credit to mortgage brokers that primarily serve regions outside of our Primary Lending Market Area.

Highlights of our management strategy are as follows:

Building a Strong Corporate Brand and Identity. Following the introduction of the new TierOne Bank name in early 2002, we have focused our marketing efforts in building equity in our strong corporate brand. We have significantly enhanced our marketing by direct mail and other advertising as part of our program to increase the recognition and positive perception of our corporate identity. We have also continued to develop a strong, focused and innovative employee culture. We have increased the investment in our professional employee base to help ensure that our team of employees has the capability, training and incentives to deliver quality service across our expanded product line.

Continuing Our Controlled Growth and Expanding Our Franchise. We increased our total assets in each of the past five years. During this five-year period, total assets have increased by $1.7 billion to $3.0 billion. In addition, we believe that our conversion from mutual to stock form in October 2002 facilitated our ability to expand our franchise. We have also employed a strategic acquisition strategy designed to strengthen market share in our Primary Banking Market Area as well as to build our lending presence in growing metropolitan areas outside of our Primary Banking Market Area.

Repositioning Our Loan Portfolio to Increase Yields and/or Reduce Interest Rate Risk. We have focused on increasing our holdings of loans with relatively higher yields and/or shorter terms to maturity. At December 31, 2004, our second mortgage residential, multi-family residential, commercial real estate and land, construction, business, agricultural, business, warehouse mortgage lines of credit and consumer loans amounted to $2.7 billion in the aggregate or 86.5% of our total loan portfolio. We generally sell single family fixed-rate residential first mortgage loans into the secondary market, with servicing retained.

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Emphasizing Growth of Our Core Deposits and Reducing Our Cost of Funds. Our core deposits, consisting of checking accounts, money market accounts and savings accounts, have increased from $631.0 million at December 31, 2003 to $897.0 million at December 31, 2004. We continue our emphasis on increasing the number of core checking account relationships, which during the four-year period ended December 31, 2004, have grown by 146.1% from 36,700 to 90,300. Establishment of additional core relationships provide new opportunities to sell other profitable products and services and increase household market share. The combination of the repricing of time deposits as they matured and deposits assumed in the UNFC acquisition resulted in our cost of funds on average interest-bearing deposits declining to 1.88% for the year ended December 31, 2004 from 2.04% for the year ended December 31, 2003.

Increasing Our Fee Income and Expanding Our Products and Services.Our other income, which is noninterest income, increased by $4.0 million, or 20.4%, to $23.9 million for the year ended December 31, 2004 compared to $19.9 million for the year ended December 31, 2003. The increase primarily reflects increased fee income due largely to an increase in the number of core deposit accounts. We have been pro-active in our efforts to increase other income, largely by increasing the number of customers that we serve in our Primary Banking Market Area as well as increasing the number of our financial products that our customers utilize. We expect our employees to cross-sell our financial products and services to customers and we provide them with economic incentives to do so. Our efforts have also included redesigning a number of our banking offices to be retail sales centers, which have a floor plan we believe is more conducive to cross-selling of products. We consistently search for new products and services that serve the needs of our customers. In the past four years, we have introduced on-line banking, a High Performance checking program, indirect automobile lending, business checking and an expanded business loan program.

Maintaining Asset Quality. We believe that superior asset quality is key to long-term financial success. We have sought to maintain a high level of asset quality and moderate credit risk by using underwriting standards which we believe are conservative.

Although we are an active acquirer of mortgage loans and participation interests in loans from outside our Primary Lending Market Area, we apply our own underwriting standards to all such loans. Total nonperforming assets have remained relatively low as our asset base has grown and diversified. Our ratio of nonperforming assets to total assets at December 31, 2004 was 0.35% compared to 0.19% at December 31, 2003.

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Critical Accounting Policies

Allowance for Loan Losses. We have identified the evaluation of the allowance for loan losses as a critical accounting policy where amounts are sensitive to material variation. This policy is significantly affected by our judgment and uncertainties and there is a likelihood that materially different amounts 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 quarterly 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. The evaluation process includes, among other things:

An analysis of delinquency trends;
Nonperforming loan trends;
Levels of charge-offs and recoveries;
Prior loss experience;
Total loans outstanding;
Volume of loan originations;
Type, size, terms and geographic concentration of loans held by us;
Value of collateral securing loans;
Number of loans requiring heightened management oversight; and
General economic conditions.

This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or as future events change.

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:

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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 which 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.

Goodwill and Other Intangible Assets. Goodwill represents the excess price paid by the Company over the fair value of the tangible and intangible assets and liabilities acquired from UNFC on August 27, 2004, the date of the acquisition. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*, goodwill and indefinite-lived intangibles balances are not being amortized, but instead will be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires the intangible assets with estimated useful lives be amortized over their respective estimated useful lives to their residual values, and reviewed for impairment in accordance with SFAS No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*.

The impairment of identifiable intangibles and long-lived assets is assessed whenever events or changes in circumstances indicate their carrying value may not be recoverable through expected future undiscounted cash flows. If the total expected undiscounted cash flows are less than the carrying value of the assets, the asset is written down to its estimated fair value.

The Company s only identifiable intangible asset is the value of the core deposits acquired as part of the UNFC acquisition. 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. The core deposit intangible has been estimated to have a 10-year life, with an accelerated rate of amortization. The Company is not aware of any events or circumstances that indicate carrying value or estimated life has changed since the August 27, 2004 acquisition and measurement date.

The Company s policy is to annually evaluate the carrying value of goodwill and identifiable assets not subject to amortization. Goodwill was established and supported by third-party valuations as of August 27, 2004 as part of the UNFC acquisition. If the carrying value of the goodwill exceeded the implied fair value of the goodwill, an impairment loss would be recorded in an amount equal to that excess. Performing such a discounted cash flow analysis would involve the significant use of estimates and assumptions.

There have been no changes in the carrying amount of goodwill for the year ended December 31, 2004 due to impairment as the Company is not aware of any facts or circumstances that would indicate the Company s carrying value exceeded fair value during the period from the measurement date to December 31, 2004.

Mortgage Servicing Rights. The Bank capitalizes the estimated value of mortgage servicing rights upon the sale of loans. The Bank s 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 present value the cash flow stream. Management evaluates 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 the Bank 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. As interest rates rise, prepayments generally slow, which results in an increase in the fair value. 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.

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* and SFAS No. 149, *Amendment of Statement No. 133 on Derivative Instruments and Hedging Activities*.

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. 105, *Application of Accounting Principles to Loan Commitments*. 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 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 net income during the loan commitment period is generally inconsequential.

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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*.

Investment Securities. The Company evaluates its available for sale and held to maturity investment securities for impairment on a quarterly basis. An impairment charge in the Consolidated Statements of Income is recognized when the decline in the fair value of investment securities below their cost basis is judged to be other-than-temporary. The Company considers various factors in determining whether it 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 market value.

How We Manage Our Risks

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises primarily from the interest rate risk which is inherent in our lending and deposit taking activities. To that end, we actively manage our interest rate risk exposure. Our profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact the Company s earnings to the extent that the interest rates on assets and liabilities do not change at the same speed, to the same extent or on the same basis. To that end, management actively monitors and manages interest rate risk exposure. Additionally, our loan portfolio is subject to credit risk. We manage credit risk primarily through our loan underwriting and oversight policies.

The principal objectives of our interest rate risk management function are to evaluate the interest rate risk inherent in certain balance sheet accounts, determine the level of risk appropriate given our business strategy, operating environment, capital and liquidity requirements and performance objectives, and manage the risk consistent with guidelines approved by our Board of Directors. Through such management, we seek to reduce the vulnerability of our operations to changes in interest rates. The extent of the movement in interest rates is an uncertainty that could have a negative impact on our future earnings. Our Board of Directors has established an Asset/Liability Committee, comprised of executive management, which is responsible for reviewing our asset/liability policies and monitoring our interest rate risk position. The Asset/Liability Committee meets on a monthly basis and reports trends and interest rate risk positions to the Board of Directors on a quarterly basis.

The Company utilizes the following strategies to manage interest rate risk: (1) emphasizing the origination for portfolio retention of loans with adjustable rates and/or shorter terms to maturity; (2) holding shorter term and/or adjustable-rate investment securities; (3) attempting to reduce the overall interest rate sensitivity of liabilities by emphasizing core and longer-term deposits; and (4) extending the maturities on borrowings. Additionally, the Company generally sells originated fixed-rate, single-family residential loans into the secondary market with servicing retained.

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Our interest rate sensitivity is monitored by management through the use of financial modeling software which estimates the change in our net portfolio value (NPV) over a range of interest rate scenarios. NPV is the present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The OTS produces a similar analysis using its own model, based upon data submitted in our quarterly Thrift Financial Reports, the results of which may vary from our internal model primarily due to differences in assumptions utilized, including estimated loan prepayment speeds, reinvestment rates and deposit turnover rates. The following table sets forth our NPV as of December 31, 2004, as calculated by the OTS:

	Net Portfolio Value	NPV as a % of Portfolio Value of Assets

(Dollars in thousands)		**$ Amount**		**$ Change**	**% Change**	**NPV Ratio**	**Change**
Change in Interest Rates in Basis Points (Rate Shock):							
300	$	260,964	$	(72,175)	22.00%	8.61%	(2.07)%
200		289,749		(43,390)	13.00	9.46	(1.22)
100		314,409		(18,729)	6.00	10.17	(0.51)
Static		333,139		--	--	10.68	--
-100		344,377		11,239	3.00	10.97	0.29

Due to our recognition of the need to control our interest rate exposure, we have focused on higher-yielding and shorter term loans which are less subject to interest rate risk and primarily consist of second mortgage residential, multi-family residential, commercial real estate and land, construction, agricultural, business, warehouse mortgage lines of credit and consumer loans.

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in NPV require the making of certain assumptions which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV model presented assumes that the composition of our interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in the interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the NPV measurements and net interest income models provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on our net interest income and will differ from actual results.

Quantitative and Qualitative Disclosures About Market Risk

Derivative financial instruments include futures, forwards, interest rate swaps, option contracts, and other financial instruments with similar characteristics. We currently do not enter into futures, swaps, or options. However, we are party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of our customers. These financial instruments include commitments to extend credit. The commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Statements of Financial Condition. Commitments generally have fixed expiration dates and may require additional collateral from the borrower if deemed necessary.

Table of Market Risk Sensitive Instruments

The following table shows our financial instruments that are sensitive to change in interest rates, categorized by expected maturity, and the instruments fair values at December 31, 2004. Market risk sensitive instruments are generally defined as on- and off-balance sheet derivatives and other financial instruments.

(Dollars in thousands)	Weighted Average Interest Rate	2005	2006	2007	2008	2009	Thereafter	Total	2004 Fair Value
Interest Sensitive Assets:									
Federal funds sold	--%	$ --	$ --	$ --	$ --	$ --	$ --	$ --	$ --
Investment securities	3.70	24,662	27,166	20,014	17,875	4,794	33,716	128,227	127,883
Total loans	5.60	1,235,819	463,129	378,924	442,874	362,351	206,113	3,089,210	3,114,088
Mortgage-backed securities	4.12	13,357	10,596	8,670	1,615	1,321	727	36,286	36,175
Federal Home Loan Bank stock	4.17	54,284	--	--	--	--	--	54,284	54,284
Total		$ 1,328,122	$ 500,891	$ 407,608	$ 462,364	$ 368,466	$ 240,556	$ 3,308,007	$ 3,332,430
Interest Sensitive Liabilities:									
Money market accounts	1.09%	$ 52,836	$ 68,945	$ 68,945	$ 38,729	$ 38,728	$ 22,928	$ 291,111	$ 291,111
Savings accounts	0.65	12,832	17,033	17,03					