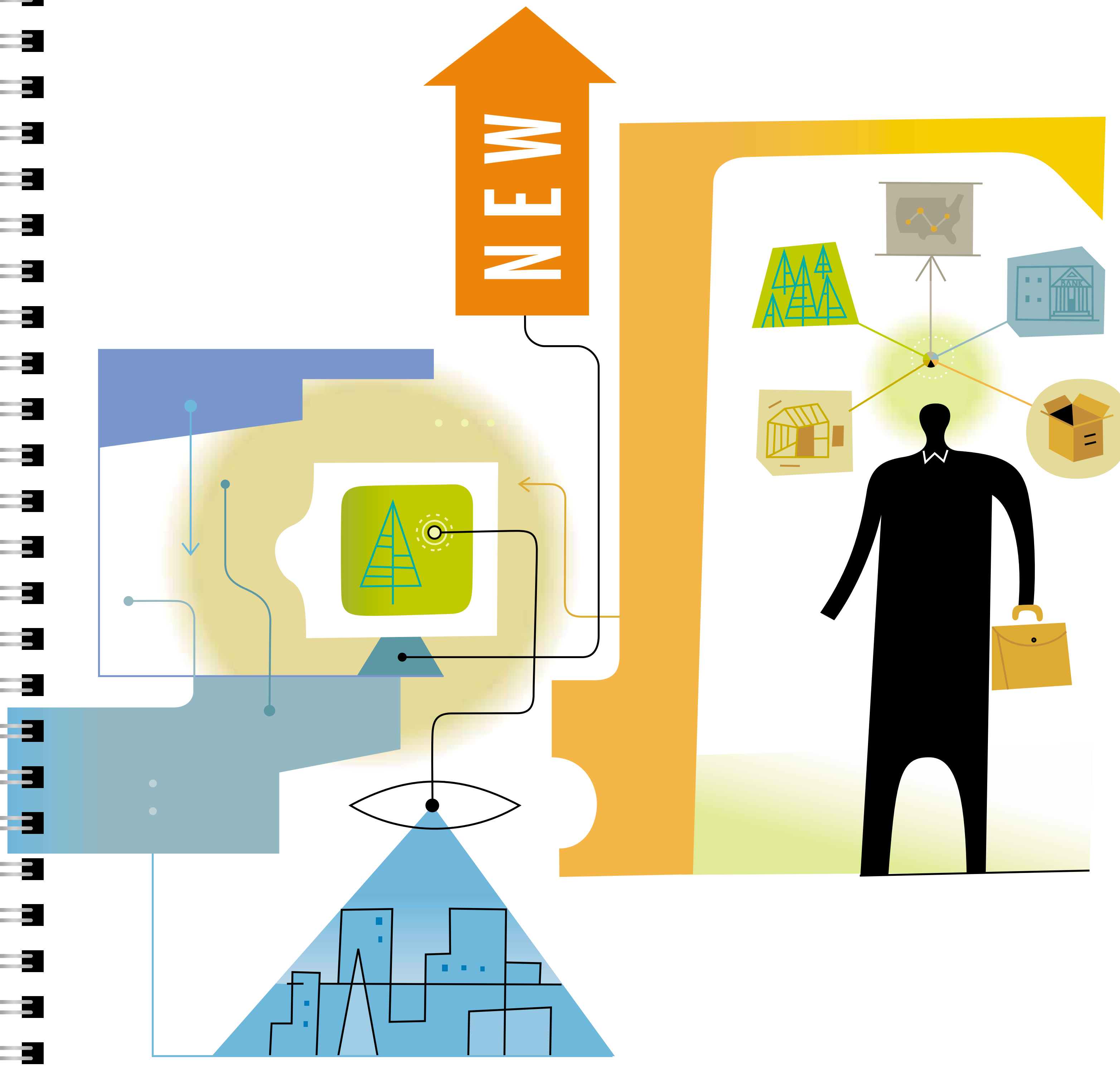
Temple-Inland | 2000 Annual Report

reNEW

In the 1999 Annual Report, Temple-Inland renewed its pledge to stakeholders to focus on customers, provide quality products, position the Company to capitalize on its growing markets and sustain its commitment to the quality of the environment and the quality of life for Temple-Inland employees and communities.

This 2000 Annual Report is dedicated to the progress on that renewed promise and provides insight to the **new products, services, markets and technology that will power Temple-Inland in the future.**



Temple-Inland is a holding company with operations in paper, building products and financial services.

The Paper Group produces containerboard and a complete line of corrugated containers, including shipping boxes, retail packaging and point-of-purchase displays

The Building Products Group manufactures a wide range of building products including lumber, particleboard, medium density fiberboard, gypsum wallboard and fiberboard products.

Forest resources include approximately 2.2 million acres of timberland located in Texas, Louisiana, Georgia and Alabama.

The Financial Services Group includes a full service bank, a mortgage banking company, an insurance agency and a real estate development firm.

Temple-Inland Inc. is a Delaware corporation that was organized in 1983 Its principal subsidiaries include Inland Paperboard and Packaging, Inc. Temple-Inland Forest Products Corporation; Temple-Inland Financial Services Inc.; Guaranty Bank; and Temple-Inland Mortgage Corporation.

Temple-Inland's common stock is listed on the New York Stock Exchange and the Pacific Exchange under the ticker symbol TIN.

This annual report contains forward-looking statements that involve risks and uncertainties. The actual results achieved by Temple-Inland may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include general economic, market or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by Temple-Inland and its subsidiaries; the availability and price of raw materials used by Temple-Inland and its subsidiaries; competitive actions by other companies; changes in laws or regulations; and other circumstances, many of which are beyond the control of Temple-Inland and its subsidiaries.

FINANCIAL HIGHLIGHTS

(in millions, except per share data)	2000	*1999*	*Percent Change*
Revenues	$ 4,286	$ 3,808	13 %
Income from continuing operations *(before special charge)*	$ 204 (a)	$ 191	7 %
Net income	$ 195	$ 99	97 %
Income from continuing operations per diluted share *(before special charge)*	$ 4.01 (a)	$ 3.43	17 %
Net income per diluted share	$ 3.83	$ 1.78	115 %
Dividends per share	$ 1.28	$ 1.28	– %
Book value per share	$ 37.25	$ 35.55	5 %
Weighted average diluted shares outstanding	50.9	55.8	(9)%
Common shares outstanding at year end	49.2	54.2	(9)%

(a) *Excludes after-tax special charge of $9 million or $0.18 per diluted share.*

SELECTED BUSINESS SEGMENT DATA

(in millions)	2000	*1999*	*Percent Change*
Revenues			
Paper	$ 2,089	$ 1,869	12 %
Building Products	$ 828	$ 823	1 %
Financial Services	$ 1,369	$ 1,116	23 %
Operating Income			
Paper	$ 205	$ 103	99 %
Building Products	$ 68	$ 174	(61)%
Financial Services	$ 189	$ 138	37 %

To our Shareholders,

At Temple-Inland, we are committed to creating shareholder value by focusing on customers and providing quality products. In 2000, we realized benefits from these initiatives, and our financial performance improved over 1999. Looking to the future, we renew our commitment to create value by remaining focused on customers and products, which are the cornerstone principles of a market-driven company.

2000 Financial Performance

Income for 2000 before special charges was $204 million, or $4.01 per diluted share, compared with income from continuing operations of $191 million, or $3.43 per diluted share in 1999. Revenues for 2000 were $4.3 billion, compared with 1999 revenues from continuing operations of $3.8 billion. Results improved in 2000 despite a significant decline in the earnings contribution from the Building Products Group, which experienced a record year in 1999.

2000 Initiatives

While we made progress in improving earnings and returns in 2000, we took a number of steps during the year that will continue to drive earning power and returns in 2001 and beyond.

Implement technology and e-commerce. Each of our three operating groups is implementing new information technology systems that will provide a foundation for better managing relationships and interactions with customers, lower costs and facilitate our ability to take full advantage of e-commerce initiatives. Integrated Package and Point Solutions (IPPS) provides state-of-the-art capabilities for our Paper Group, including product configuration, finite scheduling, real time production data collection and product delivery. This system also provides the foundation for making available, via the Internet, customer self-service, collaborative product design and information exchange with customer systems. Through a project called Update, the Building Products Group is upgrading its proprietary, real-time Order-to-Cash customer interface system. Update will provide on-line order entry, order status, invoicing, pricing and real time product availability, helping customers manage their inventory more efficiently. As part of Customer First, the Financial Services Group has developed a technology enhanced customer relationship management system that will provide a comprehensive profile of each customer, including financial needs and cross-selling opportunities. It will help ensure that each customer receives high-touch, high-quality service through multiple delivery channels.

Lower capital investment. The improvement in return on investment in 2000 resulted, in part, from lower capital investment as working capital levels declined due primarily to reductions in inventory. For example, at year-end 2000, our containerboard inventories were more than 60,000 tons lower than at year-end 1999 as we improved our inventory management and forecasting capabilities. Throughout our company, compensation is based on return on capital. This has resulted in lower capital investment levels.

Maintain low cost operations. Although we are a market-driven company, we are also committed to having low-cost operations. For example, despite the fact that our businesses have grown substantially over the past four years, our number of employees has remained constant.

Modify Newport mill. In mid-2000, the Newport, Indiana, joint venture mill was modified to enable it to produce lightweight gypsum facing paper. This will improve the Paper Group's integration level, diversify its product line and ultimately lower industry containerboard capacity.

Dispose of Fortra Fiber-Cement. Our fiber-cement operation did not meet our return requirements. Therefore, we elected to exit this business and entered into a long-term agreement to lease the Fortra Fiber-Cement LLC venture's fiber-cement operation to James Hardie Building Products, Inc.

Modernize Pineland complex. We are modernizing our Pineland, Texas, complex by adding a sawmill and closing a plywood facility. Each of our sawmills has now been modernized and utilizes new generation technology.

Increase forest growth. We continue to focus on growing more fiber through improved silviculture practices. In 2000, our nursery produced larger diameter and more uniform seedlings. Specific seedlings were then matched with certain sites to create optimum growth. This resulted in an average tree growth of 2.5 feet in the first year, a 50 percent increase compared with growth rates experienced before we began an intensive planting program in 1997.

Launch Guaranty Financial Services. Late in 2000, we decided to link the banking, mortgage and insurance operations under a common banner, Guaranty Financial Services. This will increase awareness of the broad spectrum of financial services offered to individuals and businesses and provide opportunities to jointly market services. Additionally, the bank acquired American Finance Group, Inc., an equipment leasing and financing company, and more than doubled the size of its asset based lending portfolio. These transactions further the bank's diversification strategy and provide additional earnings capabilities.

Repurchase shares. During the third quarter 2000, the Company completed its authorized share repurchase of 6 million shares, and the Board of Directors authorized the repurchase of an additional 2.5 million shares. Since November 1999, the Company has repurchased 6.75 million shares under these authorizations.

Outlook

Although the slowdown in the domestic economy and the strength of the dollar have had an adverse effect on the demand for corrugated containers and building products, we are encouraged about the long-term outlook for all three of our businesses.

In paper, very little new containerboard capacity is expected within the next three years, and growth in demand for corrugated containers is anticipated to return to trendline levels.

The demand for building products is driven by new housing and repair and remodeling markets, both of which slowed in 2000. However, these markets are projected to grow in the future due to an increase in home ownership resulting from certain demographic trends, including aging of the baby boomers, a fast growing minority population and an increase in immigrants. The steady growth in the number of homeowners, together with the shift toward older, larger and more expensive homes, should support increases in remodeling spending in years ahead. Building products markets are currently oversupplied, resulting in a challenging operating environment. However, several older, inefficient sawmills and gypsum mills within the industry have been shut down, and more closures are anticipated.

The Financial Services Group had record earnings in 2000. The bank's high-touch strategy should ensure continued growth of a low-cost deposit base. We continue to grow and diversify the loan portfolio by geography and product. By growing its targeted customer base, diversifying its assets and capitalizing on cross-sell opportunities, the Financial Services Group is positioned to continue to provide steadily growing earnings in the future.

The long-term outlook for all our markets is positive, and we have positioned Temple-Inland to take advantage of future growth. At Temple-Inland, we believe our unique combination of assets gives us significant earning capability over an economic cycle.

Our focus on ROI-based compensation will ensure that we use capital prudently and maintain efficient, low-cost operations. We will continue to actively look for opportunities to grow each of our businesses, but only if such growth helps us drive earning power and returns.

Respect for the environment and responsible environmental practices are core values at Temple-Inland. We are committed to continuously improving and expanding our environmental programs.

We thank the Board of Directors for their leadership and welcome James A. Johnson, W. Allen Reed and James T. Hackett to our Board. Their backgrounds and experiences bring unique and valuable perspectives to our company.

We also welcome Dale E. Stahl as president and chief operating officer of the Paper Group. Dale's more than 20 years of experience in the paper industry, understanding of markets and focus on customers will be crucial as we continue to implement and expand our market-driven strategy.

Thank you to all our employees for your commitment to provide quality products and service to our customers. Each one of us makes a difference, and our collective effort is key to creating shareholder value. We also appreciate the significant amount of individual volunteer work performed by our employees, which helps strengthen the communities where we live and work.

Finally, we thank our shareholders for your confidence in Temple-Inland. We are focused on creating value for you.

Sincerely,

Kenneth M. Jastrow, II
Chairman and Chief Executive Officer

Temple-Inland measures success in terms of customer satisfaction. To deliver total solutions to its customers, the Company has initiated new processes, programs and technologies throughout its businesses. Temple-Inland is now able to align itself with customers on a shared knowledge basis and become integrated into their overall business activities.

"We don't just sell what we make. We make what you need." This customer-focused philosophy of Temple-Inland's Paper Group extends throughout the Company, driving the success of new products and services and ensuring continued expansion in Temple-Inland's markets.

During 2000, the Temple-Inland Paper Group's customer focus was a key element in its 12 percent revenue growth. The Paper Group's network of mills, converting plants and service locations brings customers total solutions for moving their products to market safely, efficiently and with maximum selling impact. The Paper Group's new, technology-based Integrated Package and Point Solutions, or IPPS, complements this system of physical facilities. IPPS results from the initiative to streamline processes, lower costs, enhance responsiveness and improve returns for all company stakeholders. This combination of facilities and technology creates a unified solution of strategically located production capacity able to meet each individual customer's unique packaging needs.

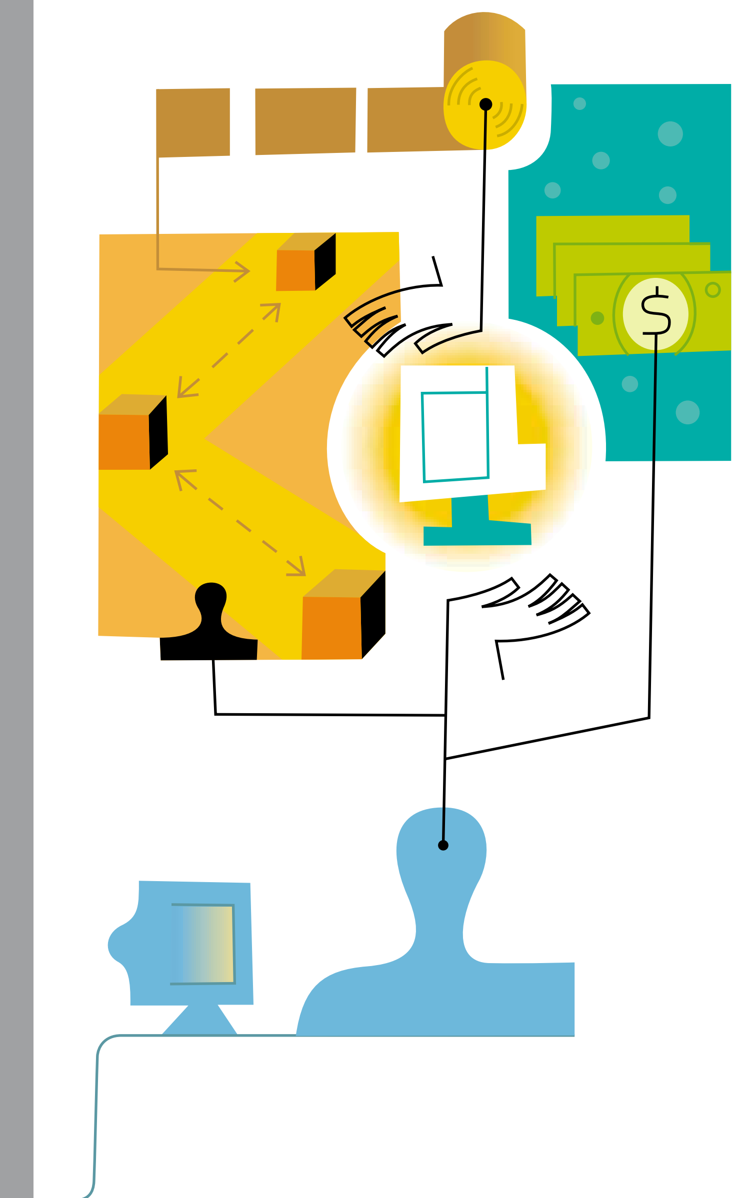
The future demands of the Paper Group's customers will be significantly driven by technology, with e-business expected to have dramatic growth over the next ten years. This growth will increase the number and complexity of innovative packaging solutions needed by Temple-Inland's customers. Through its continuing investments in technology, the Company will be well positioned to meet these expanding customer requirements and capitalize on the future benefits of e-commerce.

Benefiting from market trends means anticipating customers' needs and proactively taking steps to meet those needs. This axiom has led the Building Products Group through an intensive effort to develop a system that ensures the right tree goes to the right mill to produce products based on specific customer needs. This system is referred to as the Value Web and achieves improved integration of customer requirements with manufacturing capabilities and forest resources. The power of the Value Web will make it possible to match customers' needs to specific trees in the forest.

Another tool the Building Products Group has implemented to bring value to its customers is Update, an upgrade to its proprietary Order-to-Cash interface system. Update is a 24 hour per day, seven days a week online customer service system that provides customers with real-time product availability and information on order status, inventories and pricing.

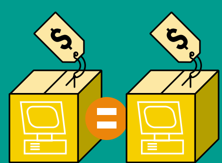
The Financial Services Group's Customer First relationship management system is designed to enhance customer service at every point of interaction. Extensive research confirms that the largest segment of the deposit market values high-touch service. This is Guaranty Bank's target customer, and the people, processes and technology needed to serve these customers are in place. The Customer First initiative will enable the bank to grow its customer base by delivering a broad range of products through superior, personalized service at all levels of the organization.

CUSTOMer

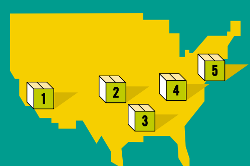


Clearly understanding customers' unique needs and converting them into innovative solutions is key to Temple-Inland's success. The end result is providing market leading customer service. By providing value to its customers, Temple-Inland brings value to its stakeholders.

The Paper Group excels at developing innovative solutions for customers' packaging needs. When Compaq Computer Corporation required specialized packaging that ensured fragile electronic products safely reach the market and also met corporate identity guidelines, Temple-Inland's network of mills and converting plants operated collectively to formulate a service and delivery solution.



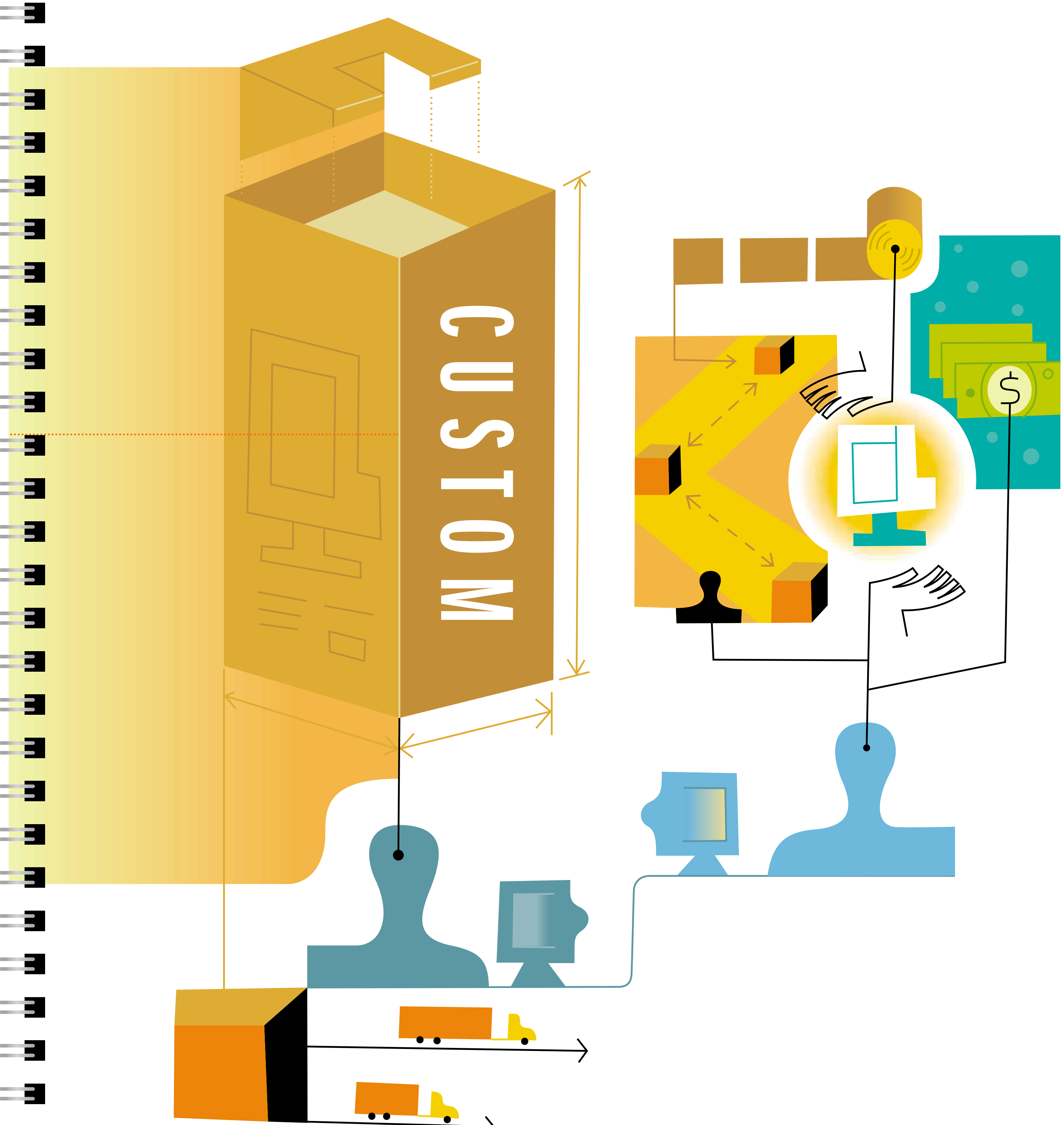
Compaq needed its packaging to be produced in different regions of the country; however, Compaq also requires that each box be identical in appearance and price.



Temple-Inland's network of mills and converting plants operated collectively to meet Compaq's criteria and went into production in five different locations to provide efficient, low cost delivery to the customer's locations.

From initial concept and design to final production and delivery, the Paper Group is equipped to deliver turnkey packaging solutions.

Success is a happy customer. Customers benefit from Temple-Inland's ability to deliver the right packaging solution.



Temple-Inland is committed to producing quality products that meet the changing needs of its customers. An important part of Temple-Inland's commitment to product innovation is the Building Products Group's in-house Applied Research Center dedicated to developing and testing new products. For example, in 2000, the Applied Research Center developed a unique water resistant medium density fiberboard (MDF) panel for a customer in the fast growing laminate flooring market.

Temple-Inland is the nation's largest producer of MDF and has a 20 percent capacity share of the North American market. Three of the Company's four MDF plants utilize a continuous press process. This process allows the plants to efficiently produce high-value MDF, including a premium thin product.

The Company is also committed to maintaining efficient, low-cost production facilities. The Building Products Group has one of the most efficient sawmill systems in the nation, and technology plays a significant role in each sawmill's production process. For example, scanned imaging data is obtained from logs entering the sawing process and 160,000 possible product fits are immediately analyzed to select the cutting solution that optimizes the value of the log.

The Building Products Group is a leader in the use of low-cost synthetic gypsum in its wallboard plants. Synthetic gypsum is a by-product of the energy generation process. Using synthetic gypsum recycles waste previously destined for landfills into a reliable resource for producing consistent, high-quality wallboard. Today, the Company uses synthetic gypsum for 66 percent of its gypsum raw material requirements. During 2000, Temple-Inland completed a low-cost, joint-venture gypsum wallboard plant in Cumberland City, Tennessee, that utilizes 100 percent synthetic gypsum.

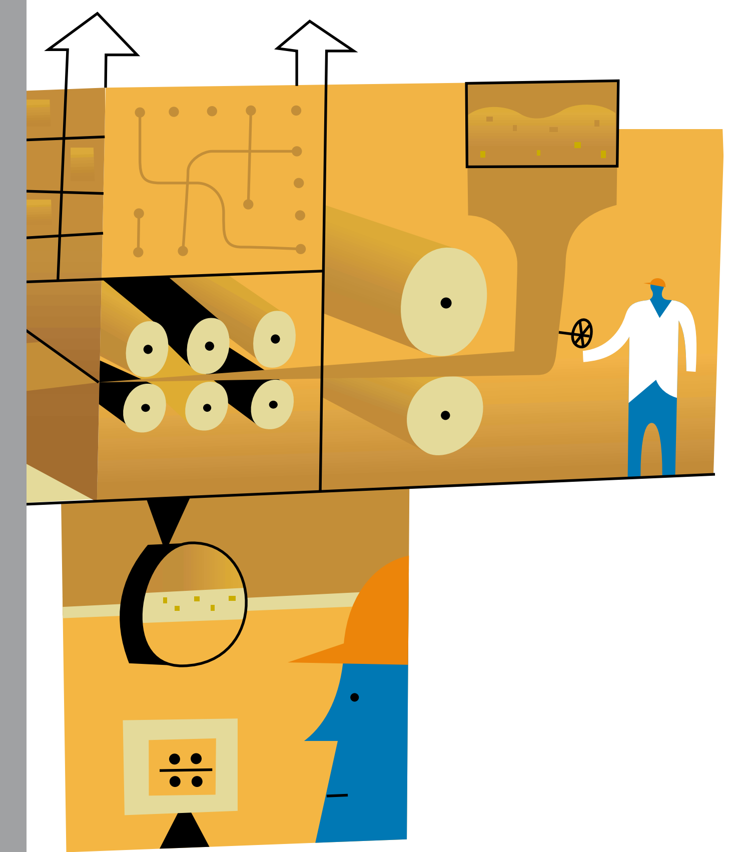
The Paper Group produces an outstanding line of high-quality products meeting the rigors of shipping, warehousing and merchandise display. Many of the Paper Group's customers' products – everything from fresh produce to household items – are delivered to retail outlets. The packages for these products must meet the requirements of the retail outlet – ranging from the "big box" club stores to the neighborhood grocer. Additionally, new products, seasonal offerings and promotions require innovative packaging solutions. The Paper Group provides end-to-end solutions for these ever-changing requirements, and the Company's customers realize bottom-line benefits from effective packaging that maximizes the marketability of their products.

Temple-Inland has an industry-respected history of producing innovative products. The Company is committed to creating products that bring value to its customers, and have the potential for high growth and excellent rates of return.

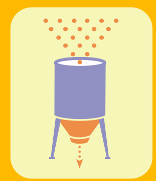
During 2000, the Financial Services Group introduced a number of new banking products. As an example, the bank's new FlexRate Fund money market account pays a competitive index-based interest rate, while providing the customer with extensive withdrawal capability. Similarly, MarketRate checking pays higher rates of interest based on larger balances while providing the full access of traditional checking accounts. The bank also introduced a number of new products targeted to businesses. One such product, Guaranty Select, allows companies to offer discounted banking, insurance and mortgage services to their employees.

Early in 2001, the bank began offering AirMiles Checking℠, an innovative product appealing to the millions of frequent flyers program members. Additionally, the Company's banking products became more available to customers with the initiation of on-line Internet access and the opening of branches in selected grocery stores.

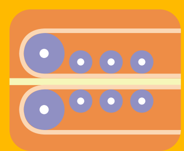
PRODUCTion



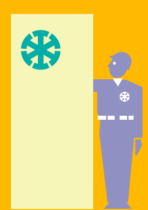
Delivering high-quality products to meet the needs of the changing market is an integral part of Temple-Inland's history. At the center of new product development is the Company's commitment to the environment and its promise to provide value to its customers and shareholders.



Temple-Inland has a long history of making useful products out of wood fiber. Medium-density fiberboard (MDF) begins as chips, wood shavings and sawdust from sawmill operations.

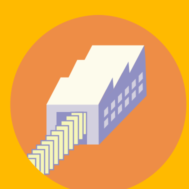


Thin MDF is most efficiently produced through a process similar to papermaking in which the fiber is pulped, run through a continuous press and cut into finished panels.

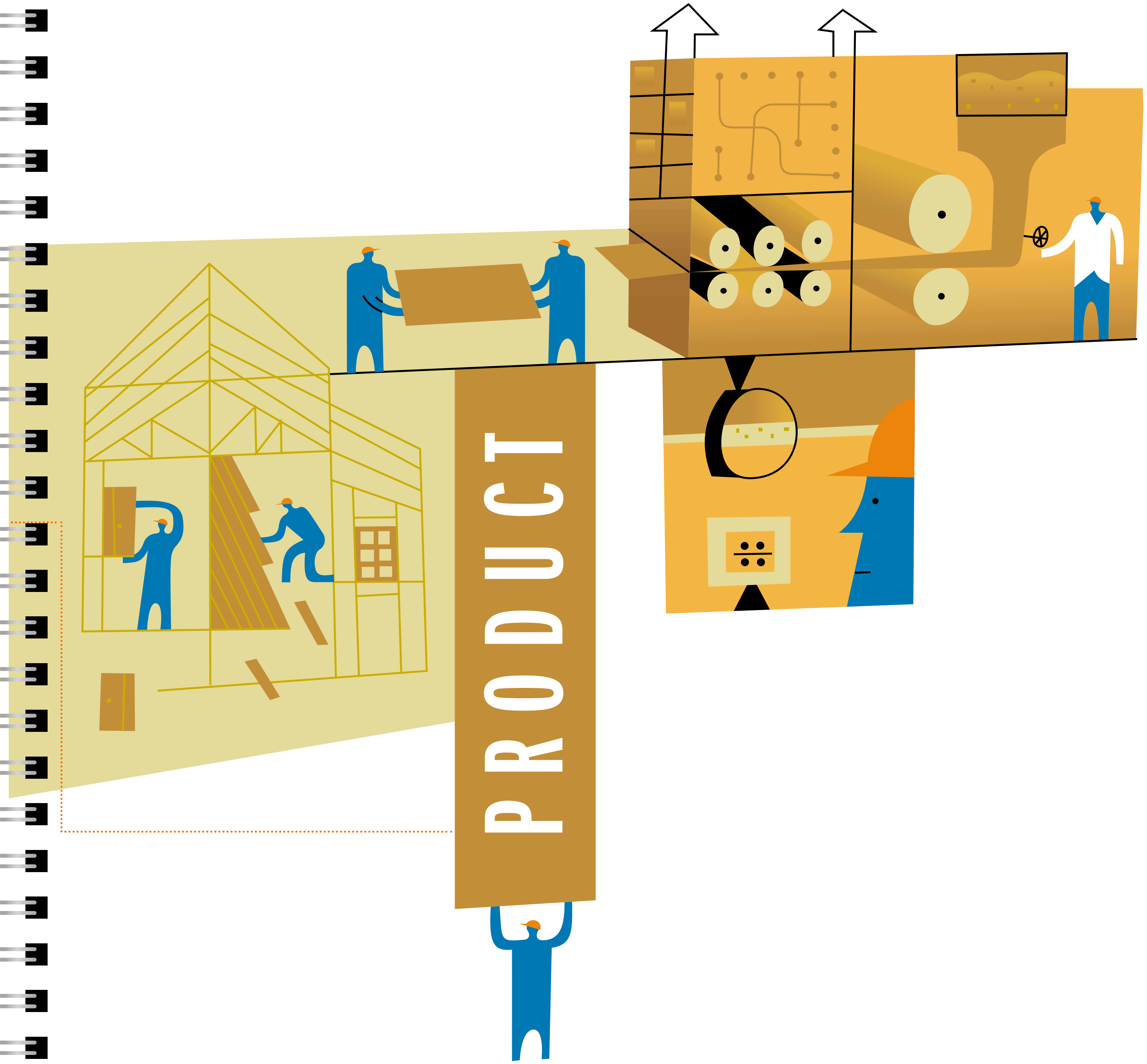


MDF currently enjoys one of the fastest growing building products markets in the U.S.

MDF is appreciated for its versatility, machinability, and consistent quality. It represents a low-cost alternative for solid wood in a variety of products, including moulding, flooring, cabinet doors and furniture.



With four plants, Temple-Inland is the largest producer of MDF in North America with a 20 percent capacity share.



Temple-Inland's primary focus is on customers in the United States, Mexico and Canada. The Company delivers its products in large and growing markets where customer focus and product quality are important values. Additionally, Temple-Inland's 2.2 million acres of forestland are strategically located near fast growing major markets and the Company's manufacturing facilities.

Guaranty Bank, the primary component of the Financial Services Group, is positioned to serve the high-touch, high-service consumer market. Guaranty gathers deposits through 110 banking centers in Texas and 44 banking centers in California, the two most populous states in the country. In addition, the commercial and residential construction lending operations have expanded into more than 50 major metropolitan areas across the nation. The effectiveness of this marketplace strategy was demonstrated in the year 2000 with increased penetration into markets and record earnings for the Financial Services Group.

Temple-Inland's technology advances will help expand its market presence by bringing the Company closer to its customers, providing greater visibility to industry trends and enabling highly-effective responses to growing market demands.

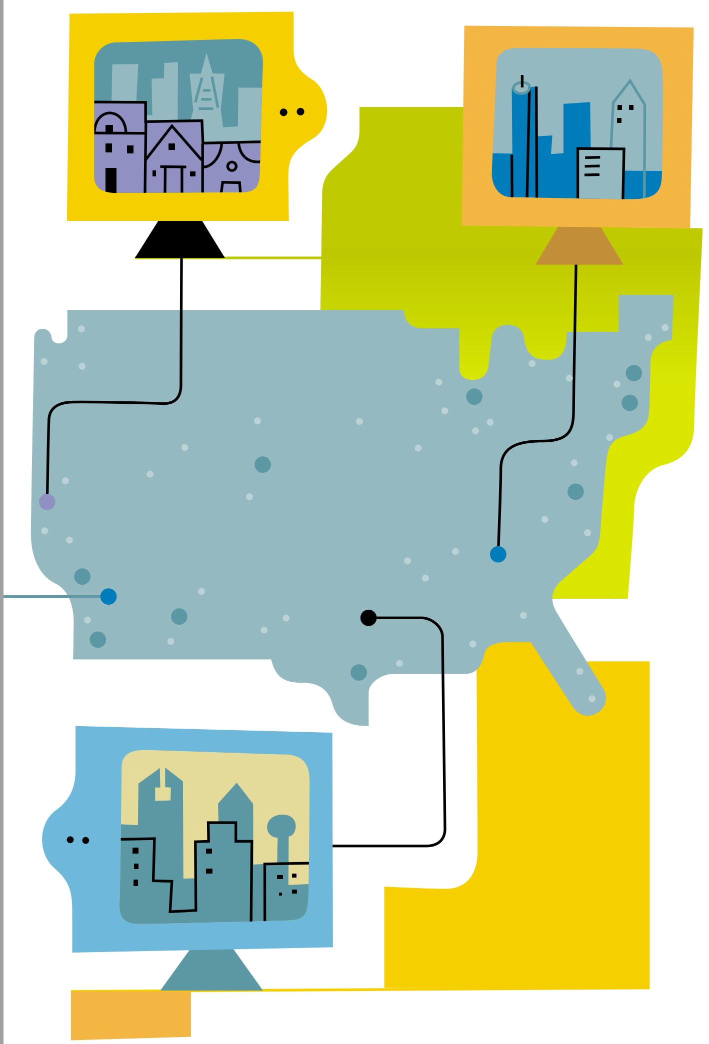
Market knowledge is essential to the Financial Services Group. The lending group employs a sophisticated, proprietary analysis system that provides comprehensive insight to real estate market cycles by geographic area and property type. This Early Warning System scores a complex array of supply, vacancy and economic factors to project market conditions. Utilizing this system, Guaranty committed more than $5 billion in loans across all product lines in 2000. This was an increase of about $444 million over 1999, and marked the tenth consecutive year of record growth.

The Financial Services Group also expanded into new geographic markets during 2000, including Boston, Washington, D.C., and major markets throughout California. The group completed the acquisition of American Finance Group, Inc., which provides leasing and financing of essential business equipment to Fortune 1000 and select middle-market companies. Trust services and cash management programs were also initiated in 2000.

Temple-Inland is different from most other paper companies because it produces only one grade of paper, containerboard. The Company believes that containerboard is the best-positioned paper grade for a number of reasons. First, it is made from softwood fiber from pine trees. This allows Temple-Inland to leverage its major resource of 2.2 million acres of well-stocked pine forestland and avoid international competitive pricing pressures facing paper grades made from hardwood fiber. Secondly, industry containerboard capacity has declined in recent years, and very little new domestic capacity is anticipated for the foreseeable future. U.S. corrugated shipments have enjoyed a steady trendline growth of approximately 2.5 percent over the past 20 years. Finally, e-commerce is anticipated to drive demand for corrugated packaging more than any other grade. A critical part of the burgeoning e-commerce industry will be the shipment of products, and the brown box is the most cost-effective and widely-used shipping container.

Two key markets drive the demand for Temple-Inland's Building Products Group: new housing and repair and remodeling. These markets each represent approximately $150 billion in sales annually and, for a number of reasons, both are expected to continue to grow. Demographic trends, including aging of the U.S. baby boom population entering prime home-owning years, the fast growing minority population and the increase in immigrants, will continue to fuel future housing starts. The Building Products Group will also benefit as houses continue to get larger and the nation's housing stock ages, requiring more homes to be improved or replaced. Over the past five years, the Company has more than doubled its investment in the Building Products Group to diversify mix of products, better serve customers and lower costs.

MARKETplace

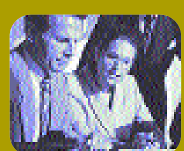


Temple-Inland has made strategic marketplace decisions in each of its businesses. These markets have significant opportunities for growth, and Temple-Inland has invested in technology and resources to ensure that it can serve these markets into the future.

Extensive research has identified that the largest segment of the bank customer market is the high-touch, high-service population. This research is the foundation for the Customer First initiative.

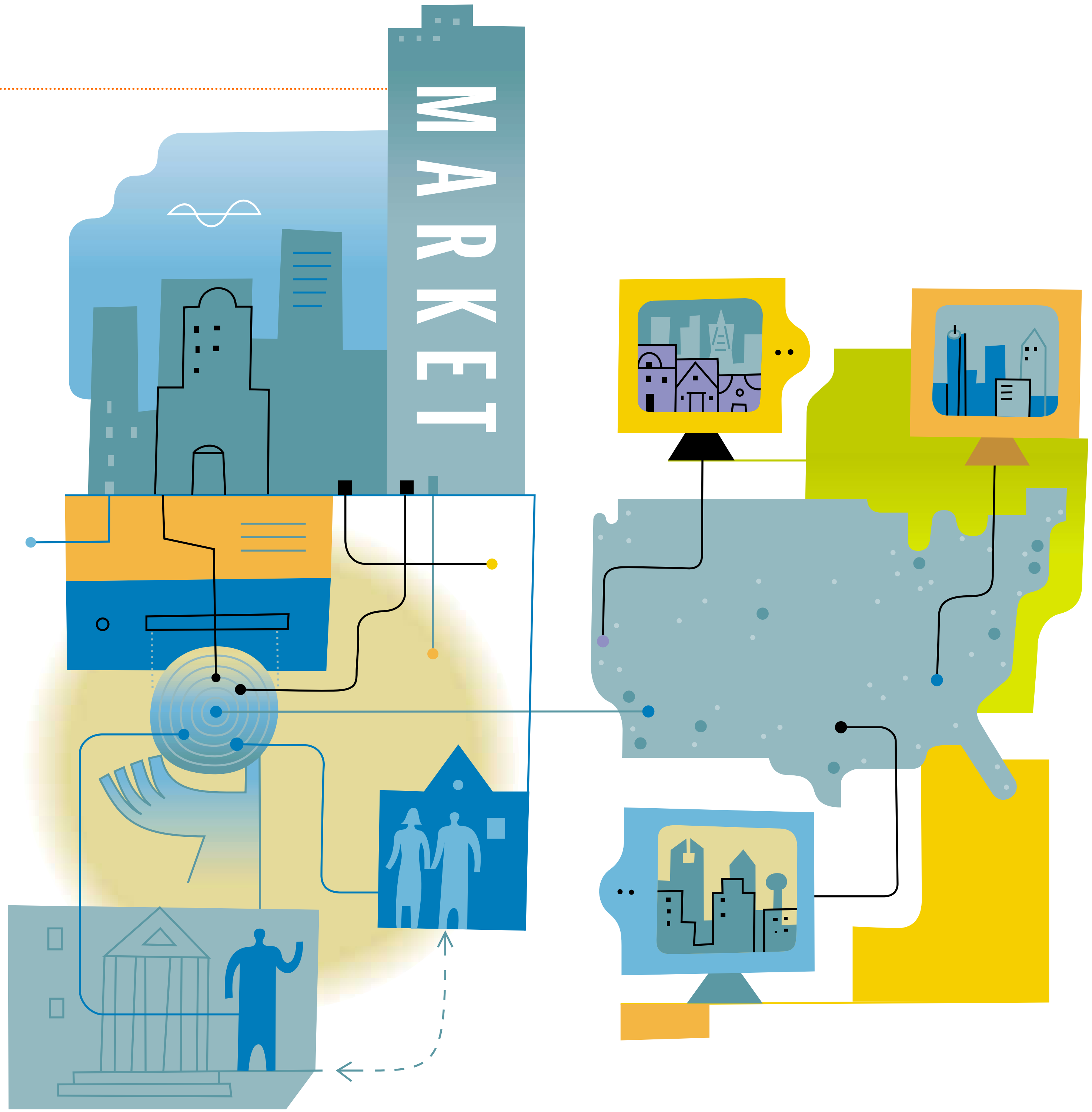
The Customer First initiative was put in place in 2000 to deliver high levels of personalized service to people who are attracted to this market segment. This initiative combines enhanced processes, extended services and employee training with a sophisticated customer relationship management system–all designed to deliver unparalleled high-touch service.

Customer First supports the promise of “First time, every time, every touch point” when customers or prospective customers have contact with the bank.



A deeper understanding of a customer’s needs helps bank representatives provide advice and offer additional Guaranty products or services that will help the customer meet financial goals.

The overarching goal of Temple-Inland’s Financial Services Group is to become “Trusted Advisors for Customers.”



Temple-Inland's core values include environmental stewardship, sustaining and renewing its forest and community involvement.

At Temple-Inland, environmental stewardship is part of each employee's job responsibility. The Company has developed an Environmental Policy and Guidance Manual that defines and documents the framework of its Environmental Management System. It provides detailed guidance, processes and procedures whereby obligations and expectations of the Company's environmental commitment are fulfilled. This Manual was patterned after the voluntary standards of the International Standard Organization's (ISO) 14000 series on environmental management. Temple-Inland has now undertaken a further step and has started the formal ISO 14001 Environmental Management System certification process on its forest operations. This process is a natural result of the Company's strong history of stewardship and underscores the commitment to sound environmental practices in the future. Eligibility for ISO 14001 certification is anticipated in 2001. Temple-Inland also manages its forestland in accordance with the Sustainable Forestry Initiative (SFI)℠ program of the American Forest & Paper Association to ensure that its forest management is conducted in a scientifically sound and environmentally sensitive manner.

Forestry is more than growing and managing trees. It requires a careful balance of ecology by considering biological diversity of the forest, sustainability by assuring a perpetual and productive forest, and value by providing the cost-effective delivery of wood fiber to Temple-Inland's manufacturing facilities.

Temple-Inland has received numerous prestigious awards recognizing its commitment to sustain the environment and has achieved certification for products meeting environmental standards. For instance, during 2000, Scientific Certification Systems certified that wallboard manufactured at the Company's Tennessee and Arkansas facilities is produced with recycled content using a by-product of pollution control technology. Additionally, in July 2000, Temple-Inland shipped its first load of MDF certified by the Forest Stewardship Council (FSC). Temple-Inland is one of a few North American wood products manufacturers to produce MDF according to the international environmental standards of the FSC.

Temple-Inland is committed to being a leader in environmental stewardship and service to its communities.

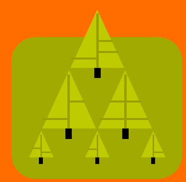
Optimizing resources is a cornerstone of environmental practices. As an example, Temple-Inland uses industry-leading technology to utilize 98 percent of each sawlog. The Company's Paper Group recycles used corrugated boxes as raw material for new product. Three of the Company's mills operate exclusively with 100 percent recycled fiber.

Temple-Inland's social responsibility extends into the communities in which it operates and where employees live. Temple-Inland's foundations contributed approximately $6 million last year in educational scholarships, matching gifts and special grants providing funding to colleges, universities, independent secondary schools, art, cultural and health programs and organizations. The Financial Services Group offers affordable mortgage products to low and moderate-income families that participate in government lending programs, commercial loans for constructing affordable housing units and loans to minority and small-business owners located in underserved areas. In addition, the volunteer activities of thousands of individual Temple-Inland employees have made immeasurable contributions to their communities.

Temple-Inland believes that its environmental stewardship and community involvement yield positive results to shareholders, communities, customers and employees.

conSERVE

Temple-Inland's commitment to environmental stewardship and social responsibility are core values of the Company. Environmental stewardship and community awareness are part of every employee's job and this responsibility extends throughout the organization.



The responsibility to renew and sustain Temple-Inland's 2.2 million acres of forest holdings is a bedrock principle of the Company's environmental practices.

During 2000, Temple-Inland undertook a significant step as it began implementing the ISO 14001 Environmental Management System certification process for its forest operations.

Because of Temple-Inland's advanced recycling technology and its commitment to the environment, it is a leader in the industry with recycled boxes accounting for almost 40 percent of the Paper Group's annual fiber consumption.

Temple-Inland has more than 35,000 acres of its forest designated as wildlife management areas, distinctive sites or conservation areas. The Company's combination of ecosystem and landscape management benefits many sensitive plant and animal species, such as the Red-Cockaded Woodpecker.

Temple-Inland proudly assumes its responsibility as a corporate citizen, dedicated to serving its communities. The Financial Services Group is an excellent example. It has never been rated less than "Outstanding" in conjunction with the Community Reinvestment Act, supporting home ownership as a foundation to strong, vibrant neighborhoods.

Temple-Inland renews its commitment to stakeholders to provide excellent customer service; create innovative, quality products; identify new markets with high growth potential; and continue the Company's history of environmental stewardship and community support.

At Temple-Inland, we are focused on creating value for our shareholders.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SUMMARY

Consolidated revenues were $4.3 billion in 2000, $3.8 billion in 1999 and $3.4 billion in 1998. Segment operating income was $462 million in 2000, $415 million in 1999 and $305 million in 1998. Income from continuing operations was $195 million in 2000, $191 million in 1999 and $88 million in 1998. Income from continuing operations per diluted share was $3.83 in 2000, $3.43 in 1999 and $1.59 in 1998. The year 2000 results include a $15 million special charge related to the decision to exit the fiber-cement business. The year 1998 results include a $47 million special charge related to work force reductions and asset impairment.

BUSINESS SEGMENTS

The company manages its operations through three business segments: Paper, Building Products and Financial Services. A summary of the results of operations by business segment follows.

For the year *(in millions)*	***2000***	*1999*	*1998*
Revenues			
Paper	**$ 2,089**	$ 1,869	$ 1,707
Building Products	**828**	823	660
Financial Services	**1,369**	1,116	1,036
Total revenues	**$ 4,286**	$ 3,808	$ 3,403
Income Before Taxes			
Paper	**$ 205**	$ 103	$ 39
Building Products	**68**	174	112
Financial Services	**189**	138	154
Segment operating income	**462**	415	305
Corporate expense	**(33)**	(30)	(28)
Special charge	**(15)**	–	(47)
Parent company interest	**(104)**	(95)	(78)
Other	**10**	16	6
Income from continuing operations before taxes	**320**	306	158
Income taxes	**(125)**	(115)	(70)
Income from continuing operations	**$ 195**	$ 191	$ 88

Each of these business segments is affected by the factors of supply and demand and changes in domestic and global economic conditions. These conditions include, but are not limited to, changes in interest rates, new housing starts, home repair and remodeling activities, and the strength of the U.S. dollar, some or all of which may have varying degrees of impact on the business segments.

The Paper Group

The Paper Group manufactures containerboard that it converts into a complete line of corrugated packaging and point of purchase displays. The Paper Group operations consist of four linerboard mills, one corrugating medium mill, 41 box plants, eight specialty-converting plants and an interest in a gypsum facing paper joint venture, which for some time also may continue to produce corrugating medium. The Paper Group's facilities are located throughout the United States and in Chile, Mexico and Puerto Rico.

The Paper Group's revenues were $2.1 billion in 2000, $1.9 billion in 1999 and $1.7 billion in 1998. Compared with the preceding year, average domestic box prices were up 17 percent in 2000, 3 percent in 1999 and 7 percent in 1998. Domestic box shipments were 2.0 million tons in 2000, 2.1 million tons in 1999 and 2.0 million tons in 1998. The increases in prices in 2000 and 1999 and the decrease in shipments in 2000 were due in part to an upgrading and realignment of the customer base as part of the Paper Group's ongoing revenue enhancement initiatives. A slowing of demand beginning in the second quarter 2000 and continuing throughout the year also contributed to the decrease in box shipments in 2000. Compared with the preceding year, average linerboard prices were up 20 percent in 2000, 6 percent in 1999 and 12 percent in 1998.

Compared with the third quarter 2000, fourth quarter 2000 revenues were down slightly with average box prices and linerboard prices about even and box and linerboard shipments down slightly. During the first quarter 2001, this trend of lower box and linerboard shipments continued. This trend, coupled with a decrease in the published price for linerboard during January 2001, may result in downward pressure on box prices.

Production, distribution and administrative costs were $1.9 billion in 2000, $1.8 billion in 1999 and $1.7 billion in 1998. Costs for 2000 were up due to higher energy and old corrugated containers (OCC) costs coupled with increased outside purchases of corrugating medium. Energy costs, principally natural gas, began to rise during the second quarter 2000 and continued to rise throughout the year. During 2000, energy costs were up $10 million compared with 1999. OCC accounted for about 41 percent of the Paper Group's fiber requirements in 2000 and 46 percent in 1999 and 1998. OCC costs rose dramatically during the first quarter 2000, but began to decline near the end of the second quarter 2000 and continued to decline throughout the year. OCC costs averaged $107 per ton in 2000, $89 per ton in 1999 and $85 per ton in 1998. OCC costs averaged $139 per ton in second quarter 2000, $91 per ton in third quarter 2000 and $74 per ton in fourth quarter 2000. Year-end OCC prices were $67 per ton in 2000, $99 per ton in 1999 and $85 per ton in 1998. OCC costs remained at these levels early in 2001. However, OCC costs traditionally rise as box demand improves. Outside purchases of corrugating medium increased in 2000 due to the conversion of the Newport, Indiana, joint venture corrugating medium mill.

Mill production was 2.3 million tons in 2000, 2.7 million tons in 1999 and 2.5 million tons in 1998. Of the mill production, 20 percent in 2000, 20 percent in 1999 and 13 percent in 1998 was sold in the domestic and export markets. The Paper Group's converting operations used the remainder of the mill production. The decrease in production was due to curtailments throughout the year and the conversion of the Newport, Indiana, corrugating medium mill during the third quarter 2000. Production was curtailed by 315,000 tons in 2000 due to market, maintenance and operational factors. During the fourth quarter 2000, production was curtailed by 135,000 tons including a shut down of the Ontario, California, mill for most of December 2000. The Ontario mill was shut down due to higher energy prices and weaker box demand. The mill resumed production in January 2001. Year-end 2000 inventories were down about 60,000 tons compared with year-end 1999, as the Paper Group continues to improve the balance between its supply and the demand of its customers. Production curtailments were minimal during 1999 and 1998.

The Paper Group's joint venture conversion of its Newport, Indiana, mill to enable it to produce lightweight gypsum facing paper was completed during the third quarter 2000 with start-up efforts continuing through fourth quarter 2000. For both start-up and market reasons, the venture did not produce significant volumes of gypsum facing paper during fourth quarter 2000. This conversion reduced the Paper Group's annualized productive capacity by 285,000 tons. The mill remains capable of producing corrugating medium, and for a period of twelve months after the conversion of the mill, the Paper Group is obligated to purchase, at market rates, the medium produced by the venture that meets the Paper Group's specifications. During the third and fourth quarters 2000, the Paper Group purchased 72,000 tons of medium from the venture.

The Paper Group has undertaken a number of initiatives to enhance return on investment. An important and ongoing initiative is the design and installation of new information systems, portions of which were installed during the fourth quarter 2000. It is anticipated that the remainder will be installed during 2001 and 2002. Other initiatives include the December 1999 sale of the discontinued bleached paperboard operation, which resulted in a $71 million loss; the 1998 closing and dismantling of the Newark, California, mill and the subsequent sale of the land, which resulted in a $13 million gain; and the sale of the Argentine operation and domestic workforce reductions, which resulted in a $37 million special charge in 1998.

Operating income was $205 million in 2000, $103 million in 1999 and $39 million, excluding the $37 million special charge, in 1998.

The Building Products Group

The Building Products Group produces a variety of building products including lumber, plywood, particleboard, fiberboard, medium density fiberboard (MDF) and gypsum wallboard. The Building Products Group operations consist of 19 facilities, including interests in a gypsum joint venture and an MDF joint venture, and two facilities, a particleboard plant and a medium density fiberboard plant, operated under long-term lease agreements that began during December 1999. The Building Products Group operates throughout the United States and in Canada and manages the company's 2.2 million acres of owned and leased forestlands located in Texas, Louisiana, Georgia and Alabama.

The Building Products Group's revenues were $828 million in 2000, $823 million in 1999 and $660 million in 1998. Average prices for lumber, plywood, particleboard and gypsum began to decline during the first quarter 2000 and continued to fall throughout the year. Average MDF prices rose slightly during 2000 due to improved product mix. Average prices for all products manufactured by the Building Products Group were higher during 1999 compared with 1998. For the year 2000, shipments of lumber, particleboard and MDF were up compared with 1999 due to a full year's operation of the Diboll sawmill and the Mt. Jewett particleboard and MDF facilities. Other revenues were up in 2000 due to deliveries under the long-term fiber supply agreement entered into in connection with the sale of the bleached paperboard mill in December 1999. Compared with the third quarter 2000, fourth quarter 2000 revenues were down 20 percent with average prices and shipments down for all products. During the first quarter 2001, these trends of lower prices and shipments continued.

Production, distribution and administrative costs were $760 million in 2000, $649 million in 1999 and $548 million in 1998. Cost of sales for 2000 were up due to additional manufacturing facilities, higher energy costs, and $13 million of operating losses from the fiber-cement joint venture, which the group exited in the third quarter 2000. Energy costs, principally natural gas, began to rise during the second quarter 2000 and continued to rise throughout the year. During 2000, energy costs were up approximately $7 million compared with 1999. During the third quarter 2000, the Building Products Group completed the assessment of its fiber-cement joint venture and decided to exit this business by assuming control of the joint venture and leasing most of its production assets to a third party. As a result, a $15 million special charge was recognized that included $11 million for assets excluded from the lease agreement that will be disposed of and $4 million for other costs. Following a six-month rental ramp-up period, the lease agreement provides for payments of $3.4 million per year over the balance of the 19½ year lease term.

Beginning in the third quarter 2000 and continuing through the balance of the year, production was curtailed in all product lines due to market conditions. For the fourth quarter 2000, production averaged from a low of 54 percent to a high of 76 percent of capacity in the various product lines. In early 2001, further production curtailments were announced including a temporary shut down of the MDF joint venture plant in El Dorado, Arkansas, due to market conditions, higher energy prices and reconstruction of the plant's heat energy system. The plant is anticipated to resume production in June 2001 following completion of the reconstruction project. Production levels in 2001 will depend on demand levels for the various products. Production curtailments were minimal during 1999 and 1998.

Operating income was $68 million, excluding the $15 million special charge, in 2000, $174 million in 1999 and $112 million, excluding a $10 million special charge for asset impairment, in 1998.

The Financial Services Group

The Financial Services Group operates a savings bank and engages in mortgage banking, insurance brokerage and real estate activities.

The savings bank, Guaranty Bank (Guaranty), conducts business through banking centers in Texas and California. The primary business of Guaranty includes providing deposit products to the general public, investing in single-family adjustable-rate mortgages, lending for the construction of real estate projects and the financing of business operations, and providing a variety of other financial products to consumers and businesses. During 2000, Guaranty acquired American Finance Group, Inc. (AFG), a commercial finance company engaged in leasing and secured financing of a variety of types of equipment. During 1999, Guaranty acquired Hemet Federal Savings and Loan Association (Hemet) and also acquired the assets of Fidelity Funding Inc. (Fidelity), an asset based lending company. Hemet operated 18 branches in the Southern California markets of Riverside County, Palm Springs and northern San Diego County. During February 2001, Guaranty acquired an asset based loan portfolio and two production offices for approximately $300 million in cash.

The mortgage banking operation arranges mortgage financing of single-family homes, securitizes the mortgage loans, sells the resulting securities in the secondary market and services mortgage loans for Guaranty and unrelated third parties. The insurance brokerage operation sells a full range of insurance products. The real estate operations include the development of residential subdivisions and multi-family housing and the management and sale of income producing properties. The real estate operations are principally located in Texas, Colorado, Florida, Tennessee and California.

The Financial Services Group revenues, consisting of interest and noninterest income, were $1.4 billion in 2000, $1.1 billion in 1999 and $1.0 billion in 1998. Selected financial information for the Financial Services Group follows:

For the year (in millions)	*2000*	*1999*	*1998*
Operating Income			
Net interest income	**$ 389**	$ 299	$ 244
Provision for loan losses	**(39)**	(38)	(1)
Noninterest income	**280**	280	298
Noninterest expense	**(423)**	(388)	(373)
Minority interest	**(18)**	(15)	(14)
Total	**$ 189**	$ 138	$ 154
By Activity			
Savings Bank	**$ 168**	$ 109	$ 113
Mortgage Banking	**11**	19	22
Real Estate	**3**	4	13
Insurance Brokerage	**7**	6	6
Total	**$ 189**	$ 138	$ 154

Operations

Net interest income was $389 million in 2000, $299 million in 1999 and $244 million in 1998. The increases in net interest income in each successive year were primarily the result of growth in average earning assets and a change in the mix of earning assets. Average earning assets were $13.5 billion in 2000, compared with $11.9 billion in 1999 and $10.4 billion in 1998.

The provision for loan losses was $39 million in 2000, $38 million in 1999 and $1 million in 1998. The increase in the provision in 1999 compared with 1998 was the result of growth, a change in the mix of the loan portfolio and a decline in asset quality related to several mortgage warehouse loans.

Noninterest income, which consists primarily of income from real estate and insurance activities, loan related fees and service charges on deposits, was $280 million in 2000, unchanged from 1999, and was $298 million in 1998. The 2000 noninterest income was affected by increases in real estate and insurance activities and the savings bank's focus on fee-based products such as operating leases through the AFG acquisition, alternative investments and cash management services. However, these increases were offset by a decline in noninterest income from mortgage banking activities due to the impact of the higher interest rate environment on mortgage financing and refinancing activities. The decrease in noninterest income in 1999 compared with 1998 was primarily the result of the sale of a large commercial property in 1998.

Noninterest expense, which consists primarily of compensation and benefits, occupancy and data processing was $423 million in 2000, $388 million in 1999 and $373 million in 1998. Approximately $25 million of the increase in noninterest expense in 2000 compared with 1999 was the result of the Hemet, Fidelity and AFG acquisitions. After adjusting for the impact of these acquisitions, noninterest expense increased $10 million, or 3 percent, in 2000 compared with 1999. Approximately $9 million of the increase in noninterest expense in 1999 compared with 1998 was the result of the Hemet and Fidelity acquisitions.

Earning Assets

Interest income from earning assets is the main source of income for the Financial Services Group. Average earning assets totaled $13.5 billion in 2000, $11.9 billion in 1999 and $10.4 billion in 1998. A portion of the increase in average earning assets was the result of the Hemet and Fidelity acquisitions, which occurred in mid-1999. In addition, the AFG acquisition in 2000 increased average earning assets. The remainder of the increases in earning assets was due to internally generated growth, primarily in construction and development loans and in commercial and business loans, resulting in a change in the mix of average loans and improved spreads.

Loan demand remained strong throughout 2000. Average loans receivable and mortgage loans held for sale totaled $10.4 billion in 2000, $9.5 billion in 1999 and $7.7 billion in 1998. Average loans receivable and mortgage loans held for sale as a percentage of average earning assets were 77 percent in 2000, compared with 79 percent in 1999 and 74 percent in 1998.

During 2000, the Financial Services Group continued to securitize portions of the mortgage loans held in its portfolio, ending the year with $689 million in securitized mortgage loans. Average loans receivable, mortgage loans held for sale and securitized mortgage loans as a percentage of average earning assets were 82 percent in 2000, 85 percent in 1999 and 81 percent in 1998.

The Financial Services Group's lending activities are subject to underwriting standards and liquidity considerations. The Financial Services Group continued to increase the size and alter the mix of the loan portfolio through increased construction and development lending, and commercial and business loans and the introduction of new products. These changes to the loan portfolio provide further product and geographic diversification.

Specific underwriting criteria for each type of loan are outlined in a credit policy approved by the Board of Directors of Guaranty. In general, commercial loans are evaluated based on cash flow, collateral, market conditions, prevailing economic trends, leverage capacity of the borrower and capital and investment in a particular property, if applicable. Most small business and consumer loans are underwritten using credit-scoring models that consider factors including payment capacity, credit history and collateral. In addition, market conditions and economic trends are considered. The credit policy, including the underwriting criteria for loan categories, is reviewed on a regular basis and adjusted when warranted.

Average mortgage-backed and other securities totaled $3.0 billion in 2000, $2.3 billion in 1999 and $2.6 billion in 1998. The increase in average mortgage-backed and other securities in 2000 was the result of purchases of $1.0 billion offset by maturities and prepayments. The decrease in average mortgage-backed and other securities in 1999 was primarily the result of maturities and prepayments on mortgage-backed securities.

Asset Quality

Several key measures are used to evaluate and monitor the asset quality of the Financial Services Group. These measures include the level of loan delinquencies, nonperforming loans, nonperforming assets and net loan charge-offs compared to average loans and are summarized in the following table.

At year end (in millions)	*2000*	*1999*	*1998*
Accruing loans past due 30-89 days	**$ 170**	$ 95	$ 131
Accruing loans past due 90 days or more	**6**	6	9
Accruing loans past due 30 days or more	**$ 176**	$ 101	$ 140
Nonaccrual loans	**$ 65**	$ 85	$ 48
Restructured loans	**–**	–	–
Nonperforming loans	**65**	85	48
Foreclosed property	**3**	8	15
Nonperforming assets	**$ 68**	$ 93	$ 63
Allowance for loan losses	**$ 118**	$ 113	$ 87
Net charge-offs	**$ 36**	$ 24	$ 5
Nonperforming loan ratio	**0.62%**	0.90%	0.58%
Nonperforming asset ratio	**0.65%**	0.99%	0.77%
Allowance for loan losses/total loans	**1.12%**	1.20%	1.06%
Allowance for loan losses/nonperforming loans	**179.73%**	133.52%	180.79%
Net loans charged off/average loans	**0.35%**	0.26%	0.07%

Accruing delinquent loans past due 30 days or more were 1.67 percent of total loans at year-end 2000, 1.07 percent at year-end 1999 and 1.71 percent at year-end 1998. Accruing delinquent loans past due 90 days or more were 0.06 percent of total loans at year-end 2000, 0.07 percent at year-end 1999 and 0.10 percent at year-end 1998.

Nonperforming loans consist of nonaccrual loans (loans on which interest income is not currently recognized) and restructured loans (loans with below market interest rates or other concessions due to deteriorated financial condition of the borrower). Interest payments received on nonperforming loans are applied to reduce principal if there is doubt as to the collectibility of contractually due principal and interest. The level of nonperforming loans declined in both dollars and as a percent of total loans in 2000 compared with 1999, while the allowance for loan losses as a percent of nonperforming loans increased.

Allowance for Loan Losses

The allowance for loan losses is comprised of specific allowances (assessed for loans that have known credit weaknesses), general allowances and an unallocated allowance. Management continuously evaluates the allowance for loan losses to ensure the level is adequate to absorb losses inherent in the loan portfolio. The allowance is increased by charges to income and by the portion of the purchase price related to credit risk on bulk purchases of loans and by acquisitions, and decreased by charge-offs, net of recoveries.

Specific allowances are established based on a thorough review of the financial condition of the borrower, general economic conditions affecting the borrower, collateral values and other factors. General allowances are established based on historical loss trends and management's judgment concerning those trends and other relevant factors, including delinquency rates, current economic conditions, loan size, industry competition and consolidation, and the effect of government regulation. The unallocated allowance is established for inherent loss exposures that are not yet specifically identified in the loan and lease portfolio. The evaluation of the appropriate level of unallocated allowance considers current risk factors that may not be reflected in historical factors used to determine the specific and general allowances. These factors include inherent delays in obtaining information and the volatility of economic conditions.

The allowance for loan losses by loan type and related loan balance follows:

	2000		*1999*		*1998*	
At year end *(in millions)*	***Loan Balance***	***Allowance for Loan Losses***	*Loan Balance*	*Allowance for Loan Losses*	*Loan Balance*	*Allowance for Loan Losses*
Real estate mortgage	**$ 3,618**	**$ 26**	$ 3,763	$ 60	$ 4,105	$ 36
Construction and development (including residential)	**4,007**	**30**	3,253	24	2,210	17
Commercial and business	**1,681**	**31**	1,265	12	1,031	14
Consumer and other	**1,215**	**5**	1,121	5	827	3
Premiums, discounts and deferred fees, net	**8**	**–**	7	–	15	–
Unallocated	**–**	**26**	–	12	–	17
Total	**$ 10,529**	**$ 118**	$ 9,409	$ 113	$ 8,188	$ 87

The decrease in allowance for loan losses during 2000 was primarily the result of net charge-offs. The increase during 1999 was the result of the change in the mix of the loan portfolio, the Hemet acquisition and a decline in asset quality.

The allowance allocated to the real estate mortgage portfolio decreased $34 million in 2000, primarily due to the charge-off of mortgage warehouse loans for which provision had previously been made. The allowance allocated to the commercial and business portfolio increased $19 million in 2000 due to provisions recorded relating to several large syndicated commercial loans. The increase in the unallocated allowance in 2000 is reflective of the slowing economic activity and an increase in the size of the loan portfolio.

While the Financial Services Group considers the allowance for loan losses to be adequate based on information currently available, adjustments to the allowance may be necessary due to changes in economic conditions, assumptions as to future delinquencies or loss rates and intent with regard to asset disposition options. In addition, regulatory authorities periodically review the allowance for loan losses as a part of their examination process. Based on their review, the regulatory authorities may require adjustments to the allowance for loan losses based on their judgment about the information available to them at the time of their review.

Funding Sources

Deposits are the Financial Services Group's primary funding source. Guaranty offers a variety of deposit products designed to attract and retain customers. Average deposits totaled $9.6 billion in 2000, $8.2 billion in 1999 and $7.3 billion in 1998. Growth in average deposits totaled $1.4 billion or 17 percent in 2000 and $908 million or 12 percent in 1999. A portion of the increase in both 2000 and 1999 was the result of the Hemet acquisition, which occurred in mid-1999. The remainder of the increase was the result of internally generated growth through new products and marketing campaigns.

Borrowings are another source of funding. The Financial Services Group's borrowings consist primarily of advances from the Federal Home Loan Bank and securities sold under repurchase agreements. Average borrowings were $3.2 billion in 2000, $3.0 billion in 1999 and $2.4 billion in 1998. The increase in average borrowings in both 2000 and 1999 resulted from funding needs as average earning asset growth outpaced average deposit growth.

Mortgage Bank Activities

Higher interest rates during 2000 resulted in a significant industry wide reduction in mortgage refinancing activity, contributing to a reduction in both mortgage loan origination volume and prepayments. Mortgage origination volume was $2.1 billion in 2000, $3.7 billion in 1999 and $6.1 billion in 1998. Mortgage servicing portfolio runoff was 13.9 percent in 2000, 21.0 percent in 1999 and 28.9 percent in 1998. The mortgage servicing portfolio was $19.5 billion at year-end 2000 and $22.2 billion at year-end 1999. The decline in mortgage origination volume and servicing has necessitated staff reductions, branch closures and consolidations. The workforce engaged in mortgage bank activities was reduced by about 200 during 2000.

CORPORATE, INTEREST AND OTHER

Parent company interest expense was $104 million in 2000, $95 million in 1999 and $78 million in 1998. Parent company interest expense for 1999 and 1998 was reduced by $28 million each year to reflect an allocation of parent company debt to the bleached paperboard operation, which was sold at year-end 1999. The changes in parent company interest expense were due to fluctuating debt levels and interest rates.

PENSION CREDITS

Non-cash pension credits were $9 million in 2000, $1 million in 1999 and $9 million in 1998. The increase in 2000 reflects cumulative performance of the pension plan assets in 1999 that resulted in an excess of plan assets over liabilities at year-end 1999. Based upon the actuarial valuation as of year-end 2000, the pension credit for 2001 will approximate $19 million, due mainly to continued better than expected performance of the pension plan assets in 2000.

INCOME TAXES

The effective tax rate was 39 percent in 2000, 38 percent in 1999 and 44 percent in 1998. The difference between the effective tax rate and the statutory rate is due to state income taxes, nondeductible goodwill amortization and losses in certain foreign operations for which no financial benefit was recognized. The 1999 effective tax rate reflects a one time, two percent financial benefit realized as the result of the sale of the Argentine operation. The 1998 effective tax rate reflects the effects of lower overall earnings and larger losses in foreign operations for which no financial benefit was recognized.

AVERAGE SHARES OUTSTANDING

Average diluted shares outstanding were 50.9 million in 2000, down nine percent due mainly to the effects of share repurchases under the stock repurchase programs authorized during the fourth quarter 1999 and the third quarter 2000. Average diluted shares outstanding were 55.8 million in 1999 and 55.9 million in 1998.

CAPITAL RESOURCES AND LIQUIDITY FOR THE YEAR 2000

The consolidated net assets invested in the Financial Services Group are subject, in varying degrees, to regulatory rules and regulations. Accordingly, Parent Company and the Financial Services Group capital resources and liquidity are discussed separately.

Parent Company

Operating Activities

Cash from operations was $372 million, up 17 percent. The increase was due to more efficient use of working capital and an increase in the dividends received from the Financial Services Group.

Depreciation and amortization was $201 million, about equal to last year.

Investing Activities

Capital expenditures were $223 million, up 25 percent. About half of this increase was due to a $20 million increase in expenditures for information technology and systems. Capital expenditures are expected to approximate $200 million for 2001.

Capital contributions to the Financial Services Group were $10 million. Dividends received from the Financial Services Group were $110 million.

Financing Activities

In the fourth quarter 1999, the Board of Directors authorized the repurchase of up to 6.0 million shares of the company's common stock. This repurchase was completed during the third quarter 2000. In August 2000, the Board of Directors authorized the repurchase of an additional 2.5 million shares. During the year, 5.1 million shares were repurchased at a cost of $250 million. At year-end 2000, an aggregate of 6.75 million shares had been repurchased since the inception of these programs at a cost of $350 million.

In the third quarter 2000, new bank credit facilities were arranged including a three year revolving credit agreement and a five year term loan. These facilities may be used to refund the $202 million of long-term debt scheduled to mature in 2001 or to fund other needs. Dividends paid were $65 million or $1.28 per share.

As required by its joint venture agreement, the company contributed its Newport, Indiana, medium mill and associated debt of $50 million to the venture to maintain its 50 percent ownership interest. In connection with assuming control of the fiber-cement joint venture, the company obtained control over $53 million of assets that were subject to $53 million of debt. A majority of these assets were subsequently leased to a third party.

Cash Equivalents

At year-end 1999, $50 million of the proceeds from the sale of the bleached paperboard operation was temporarily invested in cash equivalents. These were used during the year in investing and financing activities.

Other

The parent company has sufficient liquidity and capital resources to meet its anticipated needs.

The Financial Services Group

The principal sources of cash for the Financial Services Group are operating cash flows, deposits and borrowings. The Financial Services Group uses these funds to invest in earning assets, generally loans and securities.

Operating Activities

Cash provided by operations was $217 million, down 43 percent. The decrease in the change in mortgage loans held for sale was partially offset by an increase in earnings and a decrease in the change in cash for mortgage loans serviced for others.

Investing Activities

Loans and securities increased $1.8 billion. The increase in loans and securities was primarily attributable to increased construction and development and commercial and business lending activities and purchases of securities.

Capital expenditures were $34 million, and cash paid for acquisitions was $20 million.

Financing Activities

Deposits increased $857 million, and borrowings increased $1.1 billion. Borrowings consist primarily of advances from the Federal Home Loan Bank and securities sold under repurchase agreements and resulted from funding needs as the growth in earning assets outpaced the growth in deposits.

A subsidiary of the savings bank that qualifies as a real estate investment trust (REIT) sold $80 million of preferred stock during December 2000 in a private placement. At year-end 2000, an aggregate of $305 million of subsidiary preferred stock was outstanding.

Dividends, net of capital contributions, paid to the parent company totaled $100 million.

Cash Equivalents

Cash equivalents increased $87 million to $320 million.

Other

The Financial Services Group has sufficient liquidity and capital resources to meet its anticipated needs. At year end, the savings bank exceeded all applicable regulatory capital requirements. The parent company expects to maintain the savings bank's capital at a level that exceeds the minimum required for designation as "well capitalized" under the capital adequacy regulations of the Office of Thrift Supervision. From time to time, the parent company may make capital contributions to the savings bank or receive dividends from the savings bank. During the year, the parent company contributed $10 million to the savings bank and received $110 million in dividends from the savings bank.

Selected financial and regulatory capital data for the savings bank follows:

At year end (in millions)	***2000***	*1999*
Balance sheet data		
Total assets	**$ 14,885**	$ 12,892
Total deposits	**10,088**	9,329
Shareholder's equity	**931**	857
	Savings Bank Actual	*Regulatory Minimum*
Regulatory capital ratios		
Tangible capital	7.8%	2.0%
Leverage capital	7.8%	4.0%
Risk-based capital	10.3%	8.0%

Of the $305 million in subsidiary preferred stock outstanding at year-end 2000, $288 million qualifies as regulatory capital. The remaining $17 million is available for inclusion in regulatory capital as the savings bank increases its total non-preferred core capital.

ENVIRONMENTAL MATTERS

The company is committed to protecting the health and welfare of its employees, the public and the environment, and strives to maintain compliance with all state and federal environmental regulations. When constructing new facilities or modernizing existing facilities, the company uses state of the art technology for controlling air and water emissions. These forward-looking programs should minimize the effect that changing regulations have on capital expenditures for environmental compliance.

The company has been designated as a potentially responsible party at nine Superfund sites, excluding sites as to which the company's records disclose no involvement or as to which the company's potential liability has been finally determined. In addition, other claims and proceedings have been asserted against the company seeking remediation of alleged environmental impairments at four facilities. At year end 2000, the company estimated that the undiscounted total costs it could probably incur for the remediation and toxic tort actions at Superfund sites and other sites to be about $4 million, which has been accrued.

The company utilized landfill operations to dispose of non-hazardous waste at three paperboard and two building product mill operations. At year-end 2000, the company estimated that the undiscounted total costs it could probably incur to ensure proper closure of these landfills over the next twenty-five years to be about $15 million, which is being accrued over the estimated lives of the landfills.

On April 15, 1998, the U.S. Environmental Protection Agency (EPA) issued the Cluster Rule regulations governing air and water emissions from the pulp and paper industry. The company has spent approximately $11 million toward Cluster Rule compliance through 2000, and will expend an additional $2 million to satisfy requirements relating to the initial compliance deadline of April 15, 2001. Future expenditures for environmental control facilities will depend on additional Maximum Available Control Technology (MACT) II regulations for hazardous air pollutants relating to pulp mill combustion sources and the upcoming plywood and composite wood products MACT proposal, as well as changing laws and regulations and technological advances. Given these uncertainties, the company estimates that capital expenditures for environmental purposes during the period 2001 through 2003 will average approximately $9 million each year.

EFFECTS OF INFLATION

Inflation has had minimal effects on operating results the last three years, except for the increase in energy costs during 2000. During 2000, energy costs were up approximately $17 million compared with 1999. Energy costs began rising during the second quarter 2000 and have continued to rise throughout the year. In some instances, the company elected to curtail production at certain of its manufacturing facilities rather than pay significantly higher energy prices. The company expects this trend of higher energy costs to continue. The company is exploring alternative arrangements and fuel sources in an effort to contain energy costs.

The parent company's fixed assets, including timber and timberlands, are reflected at their historical costs. At current replacement costs, depreciation expense and the cost of timber harvested would be significantly higher than amounts reported.

NEW ACCOUNTING PRONOUNCEMENTS AND PROSPECTIVE CHANGES IN ESTIMATES

During 2000, the company adopted the consensus of the Emerging Issues Task Force Issue 00-10, *Accounting for Shipping and Handling Fees and Costs*. This consensus stated that shipping and handling costs could not be offset against related revenues. Shipping and handling costs have been reclassified and are now included as a component of cost of sales instead of as a reduction of revenue. This reclassification had no effect on net income.

Beginning January 2001, the company adopted Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*. This statement requires that derivative instruments be recognized on the balance sheet at fair value with the changes in their fair value reflected in net income or other comprehensive income, depending upon the classification of the derivative instrument. The company uses derivative instruments to hedge risks, including those associated with changes in product pricing, manufacturing cost and interest rates. The company does not use derivatives for trading purposes. The cumulative effect of adoption will be to reduce first quarter 2001 net income by $2 million. Additionally, as permitted by this Statement, the Financial Services Group changed the designation of its portfolio of held-to-maturity securities, which are carried at unamortized cost, to available-for-sale, which are carried at fair value. As a result, the carrying value of these securities was adjusted to their fair value with a corresponding after tax reduction of $16 million in other comprehensive income, a component of shareholders' equity.

Beginning January 2001, the company began computing depreciation of certain production equipment using revised useful lives. These revisions ranged from a reduction of several years to a lengthening of up to five years and were based on an assessment performed by the manufacturing groups, which indicated that revisions of the estimated useful lives of certain production equipment were warranted. The maximum estimated useful lives for production equipment is 25 years. As a result of this change in the estimated useful lives, the company expects to reduce its annual depreciation expense between $25 million to $30 million per year beginning in 2001 and continuing for several years thereafter.

COMMON STOCK PRICES AND DIVIDEND INFORMATION

	2000			1999		
		Price Range			Price Range	
	High	Low	Dividends	High	Low	Dividends
First quarter	**$ 67 11/16**	**$ 43 3/4**	**$ 0.32**	$ 67 3/4	$ 56 7/16	$ 0.32
Second quarter	**57 1/2**	**40 15/16**	**0.32**	77 1/2	61 3/8	0.32
Third quarter	**47 5/8**	**37 1/16**	**0.32**	73 7/16	58	0.32
Fourth quarter	**55 1/2**	**34 5/8**	**0.32**	66 1/16	53 5/8	0.32
For the year	**$ 67 11/16**	**$ 34 5/8**	**$ 1.28**	$ 77 1/2	$ 53 5/8	$ 1.28

STATISTICAL AND OTHER DATA *(a)*

For the year *(in millions)*	*2000*	*1999*	*1998*
Revenues			
Paper Group	**$ 2,089**	$ 1,869	$ 1,707
Building Products Group			
Pine lumber	**$ 218**	$ 239	$ 219
Plywood	**52**	70	63
Particleboard	**230**	189	158
Medium density fiberboard	**90**	66	10
Gypsum wallboard	**98**	162	130
Fiberboard	**67**	75	69
Other	**73**	22	11
Total Building Products	**$ 828**	$ 823	$ 660
Financial Services Group			
Savings bank	**$ 1,121**	$ 841	$ 743
Mortgage banking	**92**	131	153
Real estate	**117**	111	107
Insurance brokerage	**39**	33	33
Total Financial Services	**$ 1,369**	$ 1,116	$ 1,036
Unit Sales			
Paper Group			
Corrugated packaging, thousands of tons *(b)*	**2,685**	2,802	2,519
Building Products Group			
Pine lumber, mbf	**666**	618	603
Plywood, msf	**258**	296	289
Particleboard, msf	**676**	574	518
Medium density fiberboard, msf	**244**	187	35
Gypsum wallboard, msf	**678**	890	858
Fiberboard, msf	**368**	439	423
Financial Services Group			
Assets at year end			
Savings bank	**$ 14,885**	$ 12,892	$ 11,947
Mortgage banking	**319**	363	442
Real estate	**321**	313	295
Insurance brokerage	**42**	33	32
Eliminations	**(243)**	(280)	(340)
Total Financial Services assets	**$ 15,324**	$ 13,321	$ 12,376
Equity at year end			
Savings bank	**$ 931**	$ 857	$ 559
Mortgage banking	**78**	90	84
Real estate	**56**	54	48
Insurance brokerage	**28**	22	17
Total Financial Services equity	**$ 1,093**	$ 1,023	$ 708

(a) Revenues and unit sales do not include joint venture operations.
(b) Includes boxes sold and open market sales of linerboard.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The company is subject to interest rate risk from the utilization of financial instruments such as adjustable-rate debt and other borrowings, as well as the lending and deposit-gathering activities of the Financial Services Group. The following table illustrates the estimated effect on pre-tax income of immediate, parallel and sustained shifts in interest rates for the subsequent 12-month period at year-end 2000, with comparative information at year-end 1999:

Change in Interest Rates	*Increase (Decrease) in Income Before Taxes* **2000**	*1999*
	(in millions)	
+2%	**$ (7)**	$ (1)
+1%	**$ (1)**	$ –
0%	**$ –**	$ –
-1%	**$ (1)**	$ (1)
-2%	**$ (13)**	$ (16)

The change in exposure to interest rate risk from year end 1999 is primarily due to increases in the company's adjustable-rate debt obligations and growth in the Financial Services Group loan and mortgage-backed securities portfolios, funded by short-term borrowings and growth in deposits.

The operations of the Financial Services Group's savings bank are subject to interest rate risk to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. Because approximately 89 percent of the savings bank's assets at year-end 2000 have adjustable rates, this risk is significantly mitigated. However, the savings bank is also subject to prepayment risk inherent in a portion of its single-family adjustable-rate mortgage-backed assets. A substantial portion of the savings bank's investment in adjustable-rate mortgage-backed assets have annual and lifetime caps that subject the savings bank to interest rate risk should rates rise above certain levels. From time to time, to optimize net interest income while maintaining acceptable levels of interest rate and liquidity risk, the savings bank may enter into various interest rate contracts to better match assets and liabilities.

Additionally, the fair value of the Financial Services Group's mortgage servicing rights (estimated at $305 million at year-end 2000) is also affected by changes in interest rates. The company estimates that a 1 percent decline in interest rates from current levels would decrease the fair value of the mortgage servicing rights by approximately $48 million.

Foreign Currency Risk

The company's exposure to foreign currency fluctuations on its financial instruments is not material because most of these instruments are denominated in U.S. dollars.

Commodity Price Risk

From time to time, the company uses commodity derivative instruments to mitigate its exposure to changes in product pricing and manufacturing costs. These instruments cover a small portion of the company's volume and range in duration from three months to three years. Based on the fair value of these instruments at year-end 2000, the potential loss in fair value resulting from a hypothetical 10 percent change in the underlying commodity prices would not be significant.

SELECTED FINANCIAL DATA

For the year	***2000***	*1999*	*1998*	*1997*	*1996*
Revenues *(a)*					
Paper	**$ 2,089**	$ 1,869	$ 1,707	$ 1,768	$ 1,830
Building Products	**828**	823	660	662	604
Financial Services	**1,369**	1,116	1,036	923	800
Total revenues	**$ 4,286**	$ 3,808	$ 3,403	$ 3,353	$ 3,234
Segment Operating Income					
Paper	**$ 205**	$ 103	$ 39	$ (54)	$ 120
Building Products	**68**	174	112	131	102
Financial Services	**189**	138	154	132	63 *(b)*
Segment operating income	**$ 462**	$ 415	$ 305	$ 209	$ 285
Income from continuing operations	**$ 195** *(c)*	$ 191	$ 88 *(d)*	$ 59	$ 155
Discontinued operations	**–**	(92)	(21)	(8)	(22)
Cumulative effect of accounting change	**–**	–	(3)	–	–
Net income	**$ 195**	$ 99	$ 64	$ 51	$ 133
Capital expenditures:					
Manufacturing	**$ 223**	$ 178	$ 157	$ 213	$ 250
Financial Services	**34**	26	39	18	15
Depreciation and depletion:					
Manufacturing	**198**	200	192	187	178
Financial Services	**18**	17	14	13	12
Earnings per share–continuing operations:					
Basic	**3.83**	3.45	1.60	1.05	2.79
Diluted	**3.83**	3.43	1.59	1.04	2.79
Earnings per share–net income *(e)*:					
Basic	**3.83**	1.79	1.16	0.91	2.39
Diluted	**3.83**	1.78	1.15	0.90	2.39
Dividends per common share	**1.28**	1.28	1.28	1.28	1.24
Weighted average shares outstanding:					
Basic	**50.9**	55.6	55.8	56.0	55.5
Diluted	**50.9**	55.8	55.9	56.2	55.6
Common shares outstanding at year end	**49.2**	54.2	55.6	56.3	55.4
At year end					
Total assets	**$ 18,142**	$ 16,186	$ 15,868	$ 14,257	$ 12,858
Long-term debt:					
Parent company	**1,381**	1,253	1,501	1,356	1,440
Financial Services	**210**	212	210	167	133
Stock issued by subsidiaries	**306**	226	225	150	–
Shareholders' equity	**1,833**	1,927	1,998	2,045	2,015
Ratio of total debt to total capitalization–Parent company	**43%**	39%	43%	40%	42%

(a) Restated to reflect the reclassification of shipping and handling costs from revenues to cost of sales. (b) 1996 includes a one-time assessment of $44 million to recapitalize the Savings Association Insurance Fund. (c) 2000 includes a pre-tax special charge of $15 million. (d) 1998 includes a pre-tax special charge of $47 million. (e) 1998 includes $.06 per share charge from cumulative effect of accounting change. 1999, 1998, 1997 and 1996 include a loss from discontinued operation of $1.65, $.38, $.14 and $.40 per share, respectively.

SUMMARIZED STATEMENTS OF INCOME

Parent Company (Temple-Inland Inc.)

For the year (in millions)	*2000*	*1999*	*1998*
Net Revenues	**$ 2,917**	$ 2,692	$ 2,367
Costs and Expenses			
Cost of sales	**2,441**	2,180	1,982
Selling and administrative	**236**	265	262
Special charge	**15**	–	47
	2,692	2,445	2,291
	225	247	76
Financial Services Earnings	**189**	138	154
Operating Income	**414**	385	230
Interest–net	**(104)**	(95)	(78)
Other	**10**	16	6
Income From Continuing Operations Before Taxes	**320**	306	158
Income taxes	**(125)**	(115)	(70)
Income From Continuing Operations	**195**	191	88
Discontinued operations	**–**	(92)	(21)
Income Before Accounting Change	**195**	99	67
Effect of accounting change	**–**	–	(3)
Net Income	**$ 195**	$ 99	$ 64

See the notes to the parent company summarized financial statements.

SUMMARIZED BALANCE SHEETS

Parent Company (Temple-Inland Inc.)

At year end (in millions)	*2000*	*1999*
Assets		
Current Assets		
Cash	**$ 2**	$ 51
Receivables, less allowances of $10 in 2000 and $9 in 1999	**320**	328
Inventories:		
Work in process and finished goods	**61**	71
Raw material	**192**	216
	253	287
Prepaid expenses and other	**25**	16
Total current assets	**600**	682
Investment in Temple-Inland Financial Services	**1,093**	1,023
Property and Equipment		
Land and buildings	**452**	464
Machinery and equipment	**2,734**	2,743
Construction in progress	**160**	102
Less allowances for depreciation	**(1,822)**	(1,759)
	1,524	1,550
Timber and timberlands–less depletion	**503**	502
Total property and equipment	**2,027**	2,052
Other Assets	**227**	184
Total Assets	**$ 3,947**	$ 3,941
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	**$ 112**	$ 156
Accrued expenses and other	**127**	186
Employee compensation and benefits	**62**	38
Current portion of long-term debt	**2**	1
Total current liabilities	**303**	381
Long-Term Debt	**1,381**	1,253
Deferred Income Taxes	**276**	226
Postretirement Benefits	**142**	143
Other Liabilities	**12**	11
Shareholders' Equity	**1,833**	1,927
Total Liabilities and Shareholders' Equity	**$ 3,947**	$ 3,941

See the notes to the parent company summarized financial statements.

SUMMARIZED STATEMENTS OF CASH FLOWS

Parent Company (Temple-Inland Inc.)

For the year *(in millions)*	*2000*	*1999*	*1998*
Cash Provided By (Used For) Operations			
Net income	**$ 195**	$ 99	$ 64
Adjustments:			
Loss on disposal of discontinued operation	**–**	77	–
Cumulative effect of accounting change	**–**	–	3
Special charge	**15**	–	47
Depreciation and depletion	**198**	200	192
Deferred taxes	**52**	10	17
Unremitted earnings from financial services	**(147)**	(121)	(127)
Dividends from financial services	**110**	70	44
Receivables	**9**	(74)	(11)
Inventories	**16**	(4)	2
Accounts payable and accrued expenses	**(84)**	42	(16)
Change in net assets of discontinued operation	**–**	23	63
Other	**8**	(4)	14
	372	318	292
Cash Provided By (Used For) Investments			
Capital expenditures	**(223)**	(178)	(157)
Proceeds from sale of discontinued operations	**–**	576	–
Proceeds from sale of property and equipment	**17**	55	6
Acquisitions, net of cash acquired, and joint ventures	**(18)**	(49)	(123)
Capital contributions to financial services	**(10)**	(279)	(44)
	(234)	125	(318)
Cash Provided By (Used For) Financing			
Additions to debt	**260**	312	319
Payments of debt	**(134)**	(560)	(175)
Purchase of stock for treasury	**(250)**	(100)	(48)
Cash dividends paid to shareholders	**(65)**	(71)	(71)
Other	**2**	12	3
	(187)	(407)	28
Net increase (decrease) in cash and cash equivalents	**(49)**	36	2
Cash and cash equivalents at beginning of year	**51**	15	13
Cash and cash equivalents at end of year	**$ 2**	$ 51	$ 15

See the notes to the parent company summarized financial statements.

NOTES TO THE PARENT COMPANY (TEMPLE-INLAND INC.) SUMMARIZED FINANCIAL STATEMENTS

NOTE A | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The summarized financial statements include the accounts of Temple-Inland Inc. and its manufacturing subsidiaries (the parent company). The net assets invested in Temple-Inland Financial Services are subject, in varying degrees, to regulatory rules and restrictions. Accordingly, the investment in Temple-Inland Financial Services is reflected in the summarized financial statements on the equity basis. Related earnings, however, are presented before tax to be consistent with the consolidated financial statements. All material intercompany amounts and transactions have been eliminated. These financial statements should be read in conjunction with the Temple-Inland Inc. consolidated financial statements and the Temple-Inland Financial Services summarized financial statements.

Certain amounts have been reclassified to conform to the current year's classifications.

Inventories

Inventories are stated at the lower of cost or market.

The cost of inventories amounting to $93 million at year-end 2000 and $85 million at year-end 1999 was determined by the last-in, first-out method (LIFO). The cost of the remaining inventories was determined principally by the average cost method, which approximates the first-in, first-out method (FIFO).

If the FIFO method of accounting had been applied to those inventories that were determined by the LIFO method, inventories would have been $28 million and $21 million more than reported at year-end 2000 and 1999, respectively.

Property and Equipment

Property and equipment are stated at cost minus allowances for depreciation and depletion. Depreciation is generally provided on the straight-line method based on estimated useful lives as follows:

Classification	*Estimated Useful Lives*
Buildings	15 to 40 yrs
Machinery and equipment:	
Manufacturing and production equipment	3 to 25 yrs
Transportation equipment	3 to 10 yrs
Office and other equipment	2 to 10 yrs

Certain machinery and production equipment is depreciated based on operating hours or units of production because depreciation occurs primarily through use rather than through elapsed time.

The parent company has completed an assessment of the estimated useful lives of certain production equipment and believes that a revision of these estimated useful lives is warranted. Accordingly, beginning January 2001, the parent company will begin computing depreciation of certain production equipment using revised estimated useful lives. These revisions ranged from a reduction of several years to a lengthening of up to five years. As a result of this change in estimated useful lives, the parent company expects to reduce its annual depreciation expense between $25 million to $30 million per year for the next several years.

Timber and timberlands are stated at cost, minus accumulated cost of timber harvested. Cost attributed to standing timber is charged against income as timber is harvested at rates determined annually, based on the relationship of unamortized timber costs to the estimated volume of recoverable timber. The costs of seedlings and reforestation of timberlands are capitalized.

The cost of additions and betterments is capitalized, and the cost of maintenance and repairs is expensed.

Start-up Costs and Cumulative Effect of Accounting Change

Effective with the beginning of the year 1998, start-up costs are expensed as incurred, instead of being deferred and amortized over a five-year period. The cumulative effect of applying this change was a charge of $3 million, net of tax benefit of $2 million, and was recognized as of the beginning of the year 1998.

Environmental Liabilities

When environmental assessments or cleanups are probable and the costs can be reasonably estimated, remediation liabilities are recorded on an undiscounted basis and are adjusted as further information develops or circumstances change. The estimated undiscounted cost to close and remediate company-operated landfills are accrued over the estimated useful life of the landfill.

Revenue Recognition

Revenue is recognized upon passage of title to the customer.

New Accounting Pronouncements
During the fourth quarter 2000, the parent company adopted the consensus of the Emerging Issues Task Force Issue 00-10, *Accounting for Shipping and Handling Fees and Costs*, that shipping and handling costs cannot be netted against revenues. Accordingly, for all periods presented, shipping and handling costs have been reclassified and are now included as a component of costs of sales instead of as a reduction of revenues. This reclassification had no effect on net income.

NOTE B | LONG-TERM DEBT

Long-term debt consists of the following:

At year end (in millions)	*2000*	*1999*
Commercial paper, other short-term borrowings, and borrowing under bank credit agreements		
—average interest rate was 6.55% in 2000 and 5.71% in 1999	**$ 90**	$ –
9.0% Notes payable due 2001	**200**	200
8.125% to 8.38% Notes payable due 2006	**100**	100
7.25% Notes payable due 2004	**100**	100
8.25% Debentures due 2022	**150**	150
6.75% Notes payable due 2009	**300**	300
Private placement debt		
—6.59% to 7.02% notes due 2000 through 2007	**118**	188
Revenue bonds due 2007 through 2028		
—average interest rate was 4.77% in 2000 and 4.58% in 1999	**114**	119
Term note due 2005		
—average interest rate was 7.89% in 2000	**100**	–
Other indebtedness due through 2006		
—average interest rate was 7.11% in 2000 and 5.96% in 1999	**111**	97
	1,383	1,254
Less:		
Current portion of long-term debt	**(2)**	(1)
	$ 1,381	$ 1,253

At year-end 2000, the parent company had credit agreements with banks totaling $738 million with final maturities at various dates in 2002 and 2003 that support commercial paper and other short-term borrowings. Commercial paper and other short-term borrowings totaling $90 million and current maturities of medium-term notes totaling $200 million are classified as long-term debt in accordance with the parent company's intent and ability to refinance such obligations on a long-term basis.

Stated maturities of the parent company's long-term debt during the next five years are as follows (in millions): 2001–$202; 2002–$68; 2003–$159; 2004–$101; 2005–$139; 2006 and thereafter–$714.

Capitalized construction period interest in 2000, 1999 and 1998 was $4 million, $2 million and $1 million, respectively, and is deducted from interest expense. Parent company interest paid during 2000, 1999 and 1998 was $108 million, $117 million and $101 million, respectively.

NOTE C | JOINT VENTURES

The parent company's significant joint venture investments at year-end 2000 are:

Del-Tin Fiber LLC–a 50 percent owned venture that produces medium density fiberboard in El Dorado, Arkansas.

Standard Gypsum LP–a 50 percent owned venture that produces gypsum wallboard at facilities in McQueeny, Texas, and Cumberland City, Tennessee.

Premier Boxboard Ltd.–a 50 percent owned venture that produces corrugating medium and gypsum facing paper in Newport, Indiana.

Combined summarized financial information for these joint ventures follows:

At year end (in millions)	*2000*	*1999*
Current assets	**$ 35**	$ 33
Total assets	**379**	213
Current liabilities	**16**	20
Long-term debt	**225**	145
Equity	**138**	48

For the year (in millions)	*2000*	*1999*	*1998*
Net revenues	**$ 152**	$ 86	$ 46
Operating income	**4**	9	1
Net income (loss)	**(9)**	1	(2)
Parent company's equity in net income (loss)	**(2)**	(1)	1

The parent company provides marketing and management services to these ventures. Fees for such services aggregated $5 million, $3 million, and $2 million during 2000, 1999 and 1998, respectively, and are reported as a reduction of cost of sales and selling expense. The parent company purchases, at market rates, finished products from these joint ventures. These purchases aggregated $29 million during 2000.

In connection with the operations of these joint ventures, the parent company has guaranteed certain obligations and letters of credit aggregating $94 million at year-end 2000.

Near the end of second quarter 2000, the parent company transferred ownership of its corrugating medium mill in Newport, Indiana, and associated debt of $50 million to Premier Boxboard Ltd. This was done as part of its agreement to maintain a 50 percent interest in the venture. The fair value of the assets contributed exceeded their carrying value. This difference will be recognized in earnings over the life of the venture. In the third quarter 2000, the venture completed its conversion of the mill so that it could produce lightweight gypsum facing paper as well as corrugating medium. For a period of twelve months after the transfer, the parent company is obligated to purchase, at market rates, all of the corrugating medium produced by the venture that meets the parent company's specifications.

During the third quarter 2000, the parent company decided to exit its fiber-cement joint venture. See Note D for information about this transaction and a related special charge. Operating losses of this venture were $13 million for the nine months ended September 2000 and $14 million for the year 1999.

NOTE D | SPECIAL CHARGES AND DISCONTINUED OPERATIONS

During the third quarter 2000, the parent company decided to exit its fiber-cement joint venture by assuming control and leasing most of the venture's assets to a third party. As a result, the parent company obtained control over $53 million of assets, which were subject to $53 million of liabilities, and recorded a $15 million special charge that includes $11 million for assets excluded from the lease agreement that will be disposed of and $4 million of other costs. Following a six-month ramp-up period, the lease agreement provides for payments of $3.4 million per year over the balance of the 19½ year lease term.

During the third quarter 1999, the parent company decided to discontinue its bleached paperboard operation. Accordingly, the results of the bleached paperboard operation have been classified as discontinued operations, and prior periods have been restated. The bleached paperboard mill was sold in December 1999 for approximately $576 million in cash and the assumption of $82 million of debt. The eucalyptus fiber project in Mexico, which was to be a source of hardwood fiber for the bleached paperboard mill, is expected to be sold during 2001 at a price that approximates its carrying value.

Information related to the discontinued operations follows:

For the year (in millions)	*1999*	*1998*
Revenues	$ 381	$ 376
Loss from operations	(21)	(21)
Loss on disposal	(71)	–

Interest expense of $28 million per year was allocated to the discontinued operations, based on debt allocated to the operations. The loss from operations is net of income tax benefits of $13 million in both 1999 and 1998. The loss on disposal is net of income tax benefits of $44 million. Included in the loss on disposal are estimated operating losses of the eucalyptus fiber project through the anticipated date of disposal of $2 million.

In connection with the sale of the bleached paperboard mill, the parent company has agreed, subject to certain limitations, to indemnify the purchaser from certain liabilities and contingencies associated with the company's operation and ownership of the mill. The parent company does not believe that the resolution of these matters will have a material adverse effect on its operations or financial position.

During the fourth quarter of 1998, the parent company recorded a special charge of $47 million. The charge included $13 million related to work force reductions in the Paper Group, $24 million related to asset impairments principally related to the Paper Group's Argentine operation, and $10 million of asset impairments related to the Building Products Group. Substantially all of the charge for work force reductions was utilized or paid in 1999. The Argentine operation was sold during the second quarter of 1999, for its carrying value. The sale proceeds included $1 million in cash and $11 million in promissory notes. The promissory notes were subsequently sold with recourse. Of the remaining $14 million in asset impairments, $8 million was for manufacturing assets abandoned in 1998, and $6 million was for property and equipment still in use.

NOTE E | COMMITMENTS

The parent company leases timberlands, equipment and facilities under operating lease agreements. Future minimum rental commitments under non-cancelable operating leases having a remaining term in excess of one year, exclusive of related expenses are as follows (in millions): 2001–$29; 2002–$24; 2003–$21; 2004–$19; 2005–$17; 2006 and thereafter–$272.

Total rent expense was $46 million, $34 million and $30 million during 2000, 1999 and 1998, respectively.

In connection with its joint venture operations, the parent company has guaranteed certain obligations and letters of credit aggregating $94 million at year-end 2000.

The parent company has unconditional purchase obligations, principally for gypsum and timber, aggregating $36 million at year-end 2000.

SUMMARIZED STATEMENTS OF INCOME

Financial Services Group

For the year (in millions)	***2000***	*1999*	*1998*
Interest Income			
Loans receivable and mortgage loans held for sale	**$ 884**	$ 705	$ 583
Mortgage-backed and other securities available-for-sale	**143**	64	62
Mortgage-backed and other securities held-to-maturity	**54**	62	88
Other earning assets	**8**	5	5
Total interest income	**1,089**	836	738
Interest Expense			
Deposits	**493**	379	357
Borrowed funds	**207**	158	137
Total interest expense	**700**	537	494
Net Interest Income	**389**	299	244
Provision for loan losses	**(39)**	(38)	(1)
Net Interest Income After Provision for Loan Losses	**350**	261	243
Noninterest Income			
Loan origination, marketing and servicing fees, net	**84**	115	135
Other	**196**	165	163
Total noninterest income	**280**	280	298
Noninterest Expense			
Compensation and benefits	**177**	166	174
Other	**246**	222	199
Total noninterest expense	**423**	388	373
Income Before Taxes And Minority Interest	**207**	153	168
Minority interest in income of consolidated subsidiaries	**(18)**	(15)	(14)
Income Before Taxes	**189**	138	154
Income taxes	**(42)**	(17)	(27)
Net Income	**$ 147**	$ 121	$ 127

See the notes to Financial Services Group summarized financial statements.

SUMMARIZED BALANCE SHEETS

Financial Services Group

At year end (in millions)	**2000**	1999
Assets		
Cash and cash equivalents	**$ 320**	$ 233
Mortgage loans held for sale	**232**	252
Loans receivable, net of allowance for loan losses of $118 in 2000 and $113 in 1999	**10,411**	9,296
Mortgage-backed and other securities available-for-sale	**2,415**	1,431
Mortgage-backed and other securities held-to-maturity	**864**	1,061
Other assets	**1,082**	1,048
Total Assets	**$ 15,324**	$ 13,321
Liabilities		
Deposits	**$ 9,828**	$ 9,027
Federal Home Loan Bank advances	**2,869**	2,403
Securities sold under repurchase agreements	**595**	–
Other borrowings	**210**	212
Other liabilities	**423**	430
Stock issued by subsidiaries	**306**	226
Total Liabilities	**14,231**	12,298
Shareholder's Equity	**1,093**	1,023
Total Liabilities and Shareholder's Equity	**$ 15,324**	$ 13,321

See the notes to the Financial Services Group summarized financial statements.

SUMMARIZED STATEMENTS OF CASH FLOWS

Financial Services Group

For the year (in millions)	**2000**	1999	1998
Cash Provided By (Used For) Operations			
Net income	**$ 147**	$ 121	$ 127
Adjustments:			
Amortization, depreciation and accretion	**52**	62	108
Mortgage loans held for sale	**20**	369	(183)
Collections and remittances on loans serviced for others, net	**(32)**	(251)	129
Other	**30**	82	(86)
	217	383	95
Cash Provided By (Used For) Investments			
Purchases of securities available-for-sale	**(1,036)**	(294)	(208)
Maturities of securities available-for-sale	**338**	279	300
Sales of securities available-for-sale	**–**	145	53
Maturities and redemptions of securities held-to-maturity	**192**	351	349
Loans originated or acquired, net of principal collected	**(1,506)**	(1,163)	(1,852)
Sales of loans	**253**	299	16
Acquisitions, net of cash acquired of $10 in 2000 and $29 in 1999	**(20)**	(108)	–
Capital expenditures	**(34)**	(26)	(39)
Other	**(59)**	(17)	12
	(1,872)	(534)	(1,369)
Cash Provided By (Used For) Financing			
Net increase (decrease) in deposits	**857**	808	(36)
Securities sold under repurchase agreements and short-term borrowings, net	**1,071**	(121)	788
Additions to debt	**37**	35	770
Payments of debt	**(178)**	(775)	(251)
Sale of stock by subsidiaries	**80**	1	75
Capital contributions from parent company	**10**	279	44
Dividends paid to parent company	**(110)**	(70)	(44)
Other	**(25)**	(2)	(18)
	1,742	155	1,328
Net increase in cash and cash equivalents	**87**	4	54
Cash and cash equivalents at beginning of year	**233**	229	175
Cash and cash equivalents at end of year	**$ 320**	$ 233	$ 229

See the notes to Financial Services Group summarized financial statements.

NOTES TO SUMMARIZED FINANCIAL STATEMENTS FINANCIAL SERVICES GROUP

NOTE A | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Temple-Inland Financial Services Group (group) summarized financial statements include savings bank, mortgage banking, real estate and insurance brokerage operations. All material intercompany amounts and transactions have been eliminated. Certain amounts have been reclassified to conform to the current year's classification. These financial statements should be read in conjunction with the Temple-Inland Inc. (the company) consolidated financial statements.

Mortgage Loans Held for Sale

Mortgage loans originated and held for sale are carried at the lower of cost or estimated market value in the aggregate. Net unrealized losses are recognized in a valuation allowance by charges to income.

Loans Receivable and Allowance for Loan Losses

Loans receivable are stated at unpaid net principal balances minus any allowance for loan losses. Interest on loans receivable is credited to income as earned. The accrual of interest ceases when collection of principal or interest becomes doubtful. When interest accrual ceases, uncollected interest previously credited to income is reversed. Certain loan fees and direct loan origination costs are deferred. These net fees or costs, as well as premiums and discounts on loans, are amortized to income using the interest method over the remaining period to contractual maturity and adjusted for anticipated prepayments. Any unamortized loan fees or costs, premiums, or discounts are taken to income in the event a loan is sold or repaid.

The allowance for loan losses is increased by charges to income and by the portion of the purchase price related to credit risk on bulk purchases of loans and on acquisitions. The allowance is decreased by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the group's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers' ability to repay, estimated value of any underlying collateral, and current economic conditions.

Loans receivable are assigned a rating to distinguish levels of credit risk and loan quality. These risk ratings are categorized as pass or criticized grade with the resultant allowance for loan losses based on this distinction. Certain loan portfolios are considered to be performance based and are graded by analyzing performance through assessment of delinquency status. The allowance for loan losses is comprised of specific allowances for criticized graded loans, general allowances for pass graded loans and an unallocated allowance based on analysis of other economic factors.

Specific allowances established on the outstanding principal balance of criticized graded loans range from 5 percent to 40 percent on Substandard classified loans, 35 percent to 70 percent on Doubtful classified loans and 100 percent on Loss classified loans. These allowance percentages are based in part on estimated cash flows to be received on the loans or estimated market values of the underlying collateral. The group uses general allowances for pools of loans with relatively similar risks based on management's assessment of homogenous attributes, such as product types, markets, aging and collateral. The group uses information on historic trends in delinquencies, charge-offs and recoveries to identify unfavorable trends. The analysis considers adverse trends in the migration of classifications to be an early warning of potential problems that would indicate a need to increase loss allowances over historic levels.

The unallocated allowance for loan losses is determined based on management's assessment of general economic conditions as well as specific economic factors in individual markets. The evaluation of the appropriate level of unallocated allowance considers current risk factors that may not be reflected in the historical trends used to determine the allowance on criticized and pass graded loans. These factors may include inherent delays in obtaining information regarding a borrower's financial condition or changes in their unique business conditions; the judgmental nature of individual loan evaluations, collateral assessments and the interpretation of economic trends; volatility of economic conditions affecting the identification and estimation of losses for larger non-homogeneous loans; and the sensitivity of assumptions used to establish general allowances for homogenous groups of loans. In addition, the unallocated allowance recognizes that ultimate knowledge of the loan portfolios may be incomplete.

Mortgage-Backed and Other Securities

The group determines the appropriate classification of mortgage-backed and other securities at the time of purchase and confirms the designation of these debt securities as of each balance sheet date. Debt securities are classified as held-to-maturity and stated at amortized cost when the group has both the intent and ability to hold the securities to maturity. Otherwise, debt securities and marketable equity securities are classified as available-for-sale and are stated at fair value with any unrealized gains and losses, net of tax, reported as a component of shareholder's equity.

The cost of securities classified as held-to-maturity or available-for-sale is adjusted for amortization of premiums and accretion of discounts by a method that approximates the interest method over the estimated lives of the securities. Should any such assets be sold, gains and losses are recognized based on the specific-identification method.

Derivative Financial Instruments

The operations of Guaranty Bank (Guaranty) are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. To maintain acceptable levels of interest rate and liquidity risk, Guaranty from time to time enters into various types of interest rate contracts for purposes other than trading.

The net amount payable or receivable on interest rate contracts is recorded as an adjustment to interest income or expense. Premiums paid for interest rate contracts, net of premiums received for those sold, are included in the carrying value of the related interest-earning assets or interest-bearing liabilities, and amortized as an adjustment to the yield of the designated assets or liabilities over the contract periods.

Real Estate

Real estate consists primarily of land and commercial properties held for development and sale, although certain properties are held for the production of income. Interest on indebtedness and property taxes during the development period, as well as improvements and other development costs, are generally capitalized. The cost of land sales is determined using the relative sales value method. Real estate also includes properties acquired through loan foreclosure.

Real estate held for future development and real estate projects being developed are evaluated for impairment in accordance with the recognition and measurement provisions governing long-lived assets to be held and used in operations. Real estate projects that are substantially completed and ready for their intended use are measured at the lower of carrying amount or estimated fair value minus the cost to sell in accordance with the provisions governing long-lived assets that are to be disposed of.

Mortgage Loan Servicing Rights

The group allocates a portion of the cost of originating a mortgage loan to the mortgage servicing right based on its fair value relative to the loan as a whole. Capitalized mortgage loan servicing rights are amortized in proportion to, and over the period of, estimated net servicing revenues. The fair market value of originated mortgage servicing rights is estimated using buyers' quoted prices for servicing rights with similar attributes, such as loan type, size, escrow and geographic location. Purchased mortgage servicing rights are recorded at cost.

To evaluate possible impairment of mortgage servicing rights, the portfolio is periodically stratified based on the predominant risk characteristics and the capitalized basis of each stratum is compared to fair value. Predominant risk characteristics considered include loan type and interest rate. Should the net capitalized mortgage servicing rights exceed fair value, impairment is recognized through a valuation allowance.

Amortization expense and changes to the valuation allowance are included in loan origination, marketing and servicing fees, net, in the summarized statements of income.

Income Taxes

The group is included in the consolidated income tax return filed by the parent company. Under an agreement with the parent company, the group provides a current income tax provision that takes into account the separate taxable income of the group. Deferred income taxes are recorded by the group.

NOTE B | ACQUISITIONS

On March 1, 2000, the group acquired all of the outstanding stock of American Finance Group, Inc. (AFG) for $32 million cash. AFG, an industrial and commercial equipment leasing and financing operation, had total assets (primarily financing leases, loans, and equipment under operating leases) of $161 million and total liabilities (primarily debt) of $132 million, of which $128 million was repaid after acquisition. The excess of the purchase price over the fair value of the identifiable net assets acquired of $1 million is being amortized on the straight-line method over 10 years.

On June 29, 1999, the group acquired all of the outstanding stock of HF Bancorp, Inc., the parent company of Hemet Federal Savings & Loan Association (Hemet) for $119 million cash. Hemet had total assets of $1.2 billion (primarily loans and securities) and total liabilities of $1.1 billion (primarily deposits). The excess of the purchase price over the fair value of the identifiable net assets acquired of $40 million is being amortized on the straight-line method over 25 years.

On June 11, 1999, the group acquired the assets of Fidelity Funding, Inc. (Fidelity) for $18 million in cash. Fidelity, an asset based lending operation, had assets (primarily loans) of $111 million. The excess of the purchase price over the fair value of the identifiable net assets acquired of $18 million is being amortized on the straight-line method over 10 years.

The acquisitions were accounted for under the purchase method of accounting and, accordingly, the acquired assets and liabilities were adjusted to their estimated fair values at the date of the acquisitions. The operating results of the acquisitions are included in the accompanying summarized financial statements from the acquisition dates. The unaudited pro forma results of operations, assuming the acquisitions had been effected as of the beginning of the applicable fiscal year, would not have been materially different from those reported.

NOTE C | LOANS RECEIVABLE

The outstanding principle balances of loans receivable consists of the following:

At year end (*in millions*)	**2000**	1999
Real estate mortgage	**$ 3,618**	$ 3,763
Construction and development	**4,007**	3,253
Commercial and business	**1,681**	1,265
Consumer and other	**1,215**	1,121
Premiums, discounts and deferred fees, net	**8**	7
	10,529	9,409
Less: Allowance for loan losses	**(118)**	(113)
	$ 10,411	$ 9,296

Real estate mortgages are primarily single-family adjustable-rate loans secured by properties located throughout the United States, primarily in California and Texas. Construction and development loans consist primarily of office, multi-family, retail, industrial and assisted living properties and are predominantly located in Texas, California, Florida, Georgia, Colorado, Illinois and Arizona. Commercial and business loans include working capital, equipment financing and other business loans primarily in Texas. Consumer and other loans include a variety of products and are primarily secured by real estate and automobiles.

At year-end 2000, the group had unfunded commitments on outstanding loans totaling approximately $4.7 billion. In addition, at year-end 2000, the group had issued letters of credit totaling approximately $148 million. The portion of these amounts to be ultimately funded is uncertain.

Activity in the allowance for loan losses was as follows:

For the year (*in millions*)	**2000**	1999	1998
Balance, beginning of year	**$ 113**	$ 87	$ 91
Provision for loan losses	**39**	38	1
Additions related to acquisitions and bulk purchases of loans	**2**	12	–
Charge-offs, net of recoveries	**(36)**	(24)	(5)
Balance, end of year	**$ 118**	$ 113	$ 87

NOTE D | MORTGAGE-BACKED AND OTHER SECURITIES

The amortized cost and fair values of mortgage-backed and other securities consists of the following:

(*in millions*)	*Amortized Cost*	*Gross Unrealized Gains*	*Gross Unrealized Losses*	*Fair Value*
At year end 2000				
Available-for-sale				
Mortgage-backed securities:				
FNMA certificates	**$ 1,876**	**$ 19**	**$ (2)**	**$ 1,893**
FHLMC certificates	**89**	**2**	**–**	**91**
GNMA certificates	**133**	**–**	**–**	**133**
Collateralized mortgage obligations	**112**	**–**	**(2)**	**110**
Private issuer pass-through securities	**10**	**–**	**–**	**10**
	2,220	**21**	**(4)**	**2,237**
Debt securities:				
Corporate securities	**3**	**–**	**–**	**3**
Equity securities, primarily Federal Home Loan Bank stock	**175**	**–**	**–**	**175**
	$ 2,398	**$ 21**	**$ (4)**	**$ 2,415**
Held-to-maturity				
Mortgage-backed securities:				
FNMA certificates	**$ 555**	**$ –**	**$ (17)**	**$ 538**
FHLMC certificates	**105**	**–**	**(3)**	**102**
Collateralized mortgage obligations	**104**	**–**	**(3)**	**101**
Private issuer pass-through securities	**100**	**–**	**(3)**	**97**
	$ 864	**$ –**	**$ (26)**	**$ 838**
At year end 1999				
Available-for-sale				
Mortgage-backed securities:				
FNMA certificates	$ 963	$ 2	$ (15)	$ 950
FHLMC certificates	84	–	(1)	83
GNMA certificates	96	–	–	96
Collateralized mortgage obligations	120	–	(3)	117
Private issuer pass-through securities	12	–	(2)	10
	1,275	2	(21)	1,256
Debt securities:				
US Government	7	–	–	7
Corporate securities	2	–	–	2
Equity securities, primarily Federal Home Loan Bank stock	166	–	–	166
	$ 1,450	$ 2	$ (21)	$ 1,431
Held-to-maturity				
Mortgage-backed securities:				
FNMA certificates	$ 647	$ –	$ (31)	$ 616
FHLMC certificates	125	–	(6)	119
Collateralized mortgage obligations	131	–	(6)	125
Private issuer pass-through securities	158	–	(9)	149
	$ 1,061	$ –	$ (52)	$ 1,009

The amortized cost and estimated fair value by maturity of mortgage-backed and other securities are shown in the following table. Securities are classified according to their contractual maturities without consideration of principal amortization, potential prepayments or call options. Accordingly, actual maturities may differ from contractual maturities.

At year end 2000 *(in millions)*	*Amortized Cost*	*Fair Value*
Due in 1 year or less	$ –	$ –
Due after 1 year through 5 years	3	1
Due after 5 years through 10 years	118	116
Due after 10 years	3,141	3,136
Total mortgage-backed and other securities	$ 3,262	$ 3,253

The mortgage loans underlying mortgage-backed securities have adjustable interest rates and generally have contractual maturities ranging from 15 to 40 years with principal and interest installments due monthly. The actual maturities of mortgage-backed securities may differ from the contractual maturities of the underlying loans because issuers or mortgagors may have the right to call or prepay their securities or loans.

Certain mortgage-backed and other securities are guaranteed directly or indirectly by the U.S. government or its agencies. Other mortgage-backed securities not guaranteed by the U.S. government or its agencies are senior subordinated securities considered investment grade quality by third-party rating agencies. The collateral underlying these securities is primarily residential properties located in California.

The group securitized and continued to hold $297 million and $217 million of mortgage loans previously held in the loan portfolio during 2000 and 1999, respectively. The transfer to mortgage-backed securities was recorded at the carrying value of the mortgage loans at the time of securitization. The market value of the securities generated through these securitization activities are obtained through active market quotes. The group held $689 million and $601 million in such securities at year-end 2000 and 1999, respectively.

NOTE E | DEPOSITS

Deposits consists of the following:

(in millions)	**2000** Stated Rate	**2000** Average Amount	*1999* Stated Rate	*1999* Average Amount
Noninterest bearing demand	–	$ 302	–	$ 329
Interest bearing demand	4.36%	2,504	3.46%	2,035
Savings deposits	1.83%	167	1.96%	214
Time deposits	6.13%	6,855	5.36%	6,449
		$ 9,828		$ 9,027

Scheduled maturities of time deposits at year-end 2000 are as follows:

(in millions)	*$100,000 or More*	*Less than $100,000*	*Total*
3 months or less	$ 547	$ 1,651	$ 2,198
Over 3 through 6 months	307	1,485	1,792
Over 6 through 12 months	344	1,549	1,893
Over 12 months	175	797	972
	$ 1,373	$ 5,482	$ 6,855

At year-end 2000, time deposits maturity dates were as follows (in millions): 2001–$5,883; 2002–$619; 2003–$182; 2004–$83; 2005–$86; 2006 and thereafter–$2.

NOTE F | SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements were delivered to brokers/dealers who retained such securities as collateral for the borrowings and have agreed to resell the same securities back to Guaranty at the maturities of the agreements. The agreements generally mature within 30 days.

Information concerning borrowings under repurchase agreements is summarized as follows:

For the year *(in millions)*	**2000**	*1999*
Average daily balance	$ 484	$ 112
Maximum month-end balance	$ 898	$ 223

There were $595 million of securities sold under repurchase agreements outstanding at year-end 2000 and no securities sold under repurchase agreements at year-end 1999. At year-end 2000, the fair value of securities sold under repurchase agreements was $623 million of FNMA certificates and $19 million of FHLMC certificates.

NOTE G | FEDERAL HOME LOAN BANK ADVANCES

Pursuant to collateral agreements with the Federal Home Loan Bank of Dallas (FHLB), advances are secured by a blanket floating lien on Guaranty's assets and by securities on deposit at the FHLB. The weighted average interest rate of FHLB advances was 6.37 percent and 5.75 percent at year-end 2000 and 1999, respectively. At year-end 2000, the advances had maturity dates as follows (in millions): 2001–$2,857 and 2003–$12.

NOTE H | OTHER BORROWINGS

Other borrowings, which represent borrowings of non-savings bank entities, consists of the following:

At year end *(in millions)*	**2000**	*1999*
Long-term debt with an average rate of 7.91% and 6.75% during 2000 and 1999, respectively, due through 2001	$ 168	$ 175
Long-term debt at various rates which approximate prime, secured primarily by real estate	42	37
	$ 210	212

At year-end 2000, a non-savings bank subsidiary had a $210 million credit facility, which expires in 2001, with $42 million remaining unused.

At year-end 2000, maturities of other borrowings are as follows (in millions): 2001–$170; 2002–$2; 2003–$2; 2004–$2; 2005–$2; 2006 and thereafter–$32.

NOTE I | PREFERRED STOCK ISSUED BY SUBSIDIARIES

Guaranty has two subsidiaries that qualify as real estate investment trusts, Guaranty Preferred Capital Corporation (GPCC) and Guaranty Preferred Capital Corporation II (GPCC II). Both are authorized to issue floating rate and fixed rate preferred stock. These preferred stocks have a liquidation preference of $1,000 per share, dividends that are non-cumulative and payable when declared, and are convertible into Guaranty preferred stock upon the occurrence of certain regulatory events.

In 1997, GPCC issued an aggregate of 150,000 shares of floating rate preferred stock for an aggregate consideration of $150 million cash. GPCC issued an additional 75,000 shares in 1998 for an aggregate consideration of $75 million cash. Within ten years of issuance, at the option of GPCC, these shares may be redeemed in whole or in part for $1,000 per share cash.

At inception in December 2000, GPCC II issued 35,000 shares of floating rate preferred stock and 45,000 shares of 9.15 percent fixed rate preferred stock for an aggregate consideration of $80 million cash. Prior to May 2007, at the option of GPCC II, these shares may be redeemed in whole or in part for $1,000 per share cash plus, under certain circumstances, a make-whole premium.

NOTE J | MORTGAGE LOAN SERVICING

The group services mortgage loans that are owned primarily by independent investors. The group serviced approximately 209,600 and 241,400 mortgage loans aggregating $19.5 billion and $22.2 billion as of year-end 2000 and 1999, respectively.

The group is required to advance, from group funds, escrow and foreclosure costs on loans it services. The majority of these advances are recoverable, except for certain amounts for loans serviced for GNMA. A reserve has been established for unrecoverable advances. Market risk is assumed related to the disposal of certain foreclosed VA loans. No significant losses were incurred during 2000, 1999 or 1998 in connection with this risk.

Capitalized mortgage loan servicing rights, net of accumulated amortization, were as follows:

For the year 2000 *(in millions)*	*Purchased Loan Servicing Rights*	*Originated Loan Servicing Rights*	*Total*
Balance, beginning of year	**$ 155**	**$ 113**	**$ 268**
Additions	**4**	**12**	**16**
Amortization expense	**(20)**	**(14)**	**(34)**
Sales	**(1)**	**(3)**	**(4)**
Subtotal	**$ 138**	**$ 108**	**$ 246**
Valuation allowance			**–**
Balance, end of year			**$ 246**

For the year 1999 *(in millions)*	Purchased Loan Servicing Rights	Originated Loan Servicing Rights	Total
Balance, beginning of year	$ 142	$ 89	$ 231
Additions	42	55	97
Amortization expense	(29)	(20)	(49)
Sales	–	(11)	(11)
Subtotal	$ 155	$ 113	$ 268
Valuation allowance			(1)
Balance, end of year			$ 267

Amortization expense related to mortgage loan servicing rights totaled $34 million, $49 million and $56 million for 2000, 1999 and 1998, respectively. The valuation allowance was reduced $1 million in 2000 and $16 million in 1999 by a credit to operations and increased $17 million in 1998 by a charge to operations.

The estimated fair value of the capitalized mortgage servicing rights at year-end 2000 was approximately $305 million. Fair value was determined utilizing market-driven assumptions for prepayment speeds, discount rates and other variables.

NOTE K | INTEREST RATE RISK MANAGEMENT

Guaranty is a party to various interest rate corridor agreements, which reduce the impact of increases in interest rates on its investments in adjustable-rate mortgage-backed securities that have lifetime interest rate caps. Under these agreements with notional amounts totaling $213 million and $291 million at year-end 2000 and 1999, respectively, Guaranty simultaneously purchased and sold caps whereby it receives interest if the variable rate based on FHLB Eleventh District Cost of Funds (EDCOF) Index (5.61 percent at year end 2000) exceeds an average strike rate of 8.81 percent and pays interest if the same variable rate exceeds a strike rate of 11.75 percent. These agreements mature through 2003.

Guaranty is also a party to an interest rate cap agreement to reduce the impact of interest rate increases on certain adjustable rate investments with lifetime caps. Under this agreement, with a notional amount of $29 million, Guaranty would receive payments if the EDCOF exceeds the strike rate of 10 percent. This agreement matures in 2004.

The amounts subject to credit risk are the streams of payments receivable by Guaranty under the terms of the contracts not the notional amounts used to express the volumes of these transactions. Guaranty minimizes its exposure to credit risk by entering into contracts with major U.S. securities firms.

The mortgage banking operation enters into forward sales commitments to deliver mortgage loans to third parties. These forward sales commitments hedge volatility of interest rates between the time a mortgage loan commitment is made and the subsequent funding and sale of the loan to a third party.

NOTE L | COMMITMENTS

The group leases equipment and facilities under various operating lease agreements. Future minimum rental payments, net of related sublease income and exclusive of related expenses, under non-cancelable operating leases with a remaining term in excess of one year are as follows (in millions): 2001–$11; 2002–$9; 2003–$8; 2004–$6; 2005–$5; 2006 and thereafter–$6.

Total rent expense under these lease agreements was $15 million, $14 million and $15 million for 2000, 1999 and 1998, respectively.

At year-end 2000, the group had commitments to originate or purchase loans totaling approximately $1.0 billion and commitments to sell mortgage loans of approximately $251 million. To the extent mortgage loans at the appropriate rates are not available to fulfill the sales commitments, the group is subject to market risk resulting from interest rate fluctuations.

NOTE M | REGULATORY CAPITAL MATTERS

Guaranty is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Guaranty's financial statements. The payment of dividends from Guaranty is subject to proper regulatory notification.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Guaranty must meet specific capital guidelines that involve quantitative measures of Guaranty's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. At year-end 2000, Guaranty met all of its capital adequacy requirements.

At year-end 2000, the most recent notification from regulators categorized Guaranty as "well capitalized." The following table sets forth Guaranty's actual capital amounts and ratios along with the minimum capital amounts and ratios Guaranty must maintain in order to meet capital adequacy requirements and to be categorized as "well capitalized." No amounts were deducted from capital for interest-rate risk at year-end 2000 or 1999.

	Actual		*For Capital Adequacy Requirements*		*For Categorization as "Well Capitalized"*	
	Amount	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
(dollars in millions)						
At year end 2000:						
Total Risk-Based Ratio (Risk-based capital / Total risk-weight assets)	**$ 1,283**	**10.29%**	**≥ $ 998**	**≥ 8.00%**	**≥ $ 1,247**	**≥ 10.00%**
Tier 1 (Core) Risk-Based Ratio (Core capital / Total risk-weight assets)	**$ 1,153**	**9.24%**	**≥ $ 499**	**≥ 4.00%**	**≥ $ 748**	**≥ 6.00%**
Tier 1 (Core) Leverage Ratio (Core capital / Adjusted tangible assets)	**$ 1,153**	**7.77%**	**≥ $ 593**	**≥ 4.00%**	**≥ $ 742**	**≥ 5.00%**
Tangible Ratio (Tangible equity / Tangible assets)	**$ 1,153**	**7.77%**	**≥ $ 297**	**≥ 2.00%**	**N/A**	**N/A**
At year end 1999:						
Total Risk-Based Ratio (Risk-based capital / Total risk-weight assets)	$ 1,139	10.33%	≥ $ 882	≥8.00%	≥ $ 1,102	≥ 10.00%
Tier 1 (Core) Risk-Based Ratio (Core capital / Total risk-weight assets)	$ 1,058	9.60%	≥ $ 441	≥4.00%	≥ $ 661	≥ 6.00%
Tier 1 (Core) Leverage Ratio (Core capital / Adjusted tangible assets)	$ 1,058	8.22%	≥ $ 515	≥4.00%	≥ $ 643	≥ 5.00%
Tangible Ratio (Tangible equity / Tangible assets)	$ 1,058	8.22%	≥ $ 257	≥2.00%	N/A	N/A

CONSOLIDATED STATEMENTS OF INCOME

Temple-Inland Inc. and Subsidiaries

For the year	***2000***	*1999*	*1998*
Revenues			
Manufacturing	**$ 2,917**	$ 2,692	$ 2,367
Financial Services	**1,369**	1,116	1,036
	4,286	3,808	3,403
Costs and Expenses			
Manufacturing	**2,677**	2,445	2,244
Special charge	**15**	–	47
Financial Services	**1,180**	978	882
	3,872	3,423	3,173
Operating Income	**414**	385	230
Parent Company interest	**(104)**	(95)	(78)
Other	**10**	16	6
Income From Continuing Operations Before Taxes	**320**	306	158
Income taxes	**(125)**	(115)	(70)
Income From Continuing Operations	**195**	191	88
Discontinued operation	–	(92)	(21)
Income Before Accounting Change	**195**	99	67
Effect of accounting change	–	–	(3)
Net Income	**$ 195**	$ 99	$ 64
Earnings Per Share			
Basic:			
Income from continuing operations	**$ 3.83**	$ 3.45	$ 1.60
Discontinued operation	–	(1.66)	(.38)
Effect of accounting change	–	–	(.06)
Net income	**$ 3.83**	$ 1.79	$ 1.16
Diluted:			
Income from continuing operations	**$ 3.83**	$ 3.43	$ 1.59
Discontinued operation	–	(1.65)	(.38)
Effect of accounting change	–	–	(.06)
Net income	**$ 3.83**	$ 1.78	$ 1.15

See the notes to the consolidated financial statements.

CONSOLIDATING BALANCE SHEETS

Temple-Inland Inc. and Subsidiaries

At year end 2000 (in millions)	Parent Company	Financial Services	Consolidated
Assets			
Cash and cash equivalents	$ 2	$ 320	$ 322
Mortgage loans held for sale	–	232	232
Loans receivable, net	–	10,411	10,411
Mortgage-backed and other securities available-for-sale	–	2,415	2,415
Mortgage-backed and other securities held-to-maturity	–	864	864
Trade and other receivables	320	–	309
Inventories	253	–	253
Property and equipment	2,027	157	2,184
Other assets	252	925	1,152
Investment in Financial Services	1,093	–	–
Total Assets	$ 3,947	$ 15,324	$ 18,142
Liabilities			
Deposits	$ –	$ 9,828	$ 9,828
Federal Home Loan Bank advances	–	2,869	2,869
Securities sold under repurchase agreements	–	595	595
Other liabilities	315	423	706
Long-term debt	1,381	210	1,591
Deferred income taxes	276	–	272
Postretirement benefits	142	–	142
Stock issued by subsidiaries	–	306	306
Total Liabilities	$ 2,114	$ 14,231	$ 16,309
Shareholders' Equity			
Preferred stock – par value $1 per share: authorized 25,000,000 shares; none issued			–
Common stock – par value $1 per share: authorized 200,000,000 shares; issued 61,389,552 shares including shares held in the treasury			61
Additional paid-in capital			365
Accumulated other comprehensive income (loss)			(8)
Retained earnings			1,968
			2,386
Cost of shares held in the treasury: 12,215,499 shares			(553)
Total Shareholders' Equity			1,833
Total Liabilities and Shareholders' Equity			$ 18,142

See the notes to the consolidated financial statements.

CONSOLIDATING BALANCE SHEETS

Temple-Inland Inc. and Subsidiaries

At year end 1999 (in millions)	Parent Company	Financial Services	Consolidated
Assets			
Cash and cash equivalents	$ 51	$ 233	$ 284
Mortgage loans held for sale	–	252	252
Loans receivable, net	–	9,296	9,296
Mortgage-backed and other securities available-for-sale	–	1,431	1,431
Mortgage-backed and other securities held-to-maturity	–	1,061	1,061
Trade and other receivables	328	–	319
Inventories	287	–	287
Property and equipment	2,052	145	2,197
Other assets	200	903	1,059
Investment in Financial Services	1,023	–	–
Total Assets	$ 3,941	$ 13,321	$ 16,186
Liabilities			
Deposits	$ –	$ 9,027	$ 9,027
Federal Home Loan Bank advances	–	2,403	2,403
Other liabilities	392	430	799
Long-term debt	1,253	212	1,465
Deferred income taxes	226	–	196
Postretirement benefits	143	–	143
Stock issued by subsidiaries	–	226	226
Total Liabilities	$ 2,014	$ 12,298	$ 14,259
Shareholders' Equity			
Preferred stock – par value $1 per share: authorized 25,000,000 shares; none issued			–
Common stock – par value $1 per share: authorized 200,000,000 shares; issued 61,389,552 shares including shares held in the treasury			61
Additional paid-in capital			364
Accumulated other comprehensive income (loss)			(31)
Retained earnings			1,838
			2,232
Cost of shares held in the treasury: 7,177,592 shares			(305)
Total Shareholders' Equity			1,927
Total Liabilities and Shareholders' Equity			$ 16,186

See the notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Temple-Inland Inc. and Subsidiaries

For the year *(in millions)*	2000	1999	1998
Cash Provided By (Used For) Operations			
Net income	**$ 195**	$ 99	$ 64
Adjustments:			
Loss on disposal of discontinued operations	**–**	77	–
Cumulative effect of accounting change	**–**	–	3
Special charge	**15**	–	47
Depreciation and depletion	**216**	217	206
Amortization of goodwill	**9**	8	7
Deferred taxes	**57**	14	18
Amortization and accretion on financial instruments	**28**	40	90
Mortgage loans held for sale	**20**	369	(183)
Receivables	**9**	(74)	(11)
Inventories	**16**	(4)	2
Accounts payable and accrued expenses	**(84)**	42	(16)
Collections and remittances on loans serviced for others, net	**(32)**	(251)	129
Change in net assets of discontinued operations	**–**	23	63
Other	**30**	71	(76)
	479	631	343
Cash Provided By (Used For) Investments			
Capital expenditures	**(257)**	(204)	(196)
Proceeds from sale of discontinued operations	**–**	576	–
Proceeds from sale of property and equipment	**22**	55	28
Purchase of securities available-for-sale	**(1,036)**	(294)	(208)
Maturities of securities available-for-sale	**338**	279	300
Proceeds from sale of securities available-for-sale	**–**	145	53
Maturities and redemptions of securities held-to-maturity	**192**	351	349
Loans originated or acquired, net of principal collected on loans	**(1,506)**	(1,163)	(1,852)
Proceeds from sale of loans	**253**	299	16
Acquisitions, net of cash acquired, and joint ventures	**(38)**	(157)	(123)
Other	**(64)**	(17)	(10)
	(2,096)	(130)	(1,643)
Cash Provided By (Used For) Financing			
Additions to debt	**297**	347	1,089
Payments of debt	**(312)**	(1,335)	(426)
Securities sold under repurchase agreements and short-term borrowings, net	**1,071**	(121)	788
Net increase (decrease) in deposits	**717**	808	(36)
Purchase of deposits	**140**	–	–
Purchase of stock for treasury	**(250)**	(100)	(48)
Cash dividends paid to shareholders	**(65)**	(71)	(71)
Proceeds from sale of subsidiaries stock	**80**	1	75
Other	**(23)**	10	(15)
	1,655	(461)	1,356
Net increase in cash and cash equivalents	**38**	40	56
Cash and cash equivalents at beginning of year	**284**	244	188
Cash and cash equivalents at end of year	**$ 322**	$ 284	$ 244

See the notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Temple-Inland Inc. and Subsidiaries

(in millions)	*Common Stock*	*Paid-in Capital*	*Accumulated Other Comprehensive Income (Loss)*	*Retained Earnings*	*Treasury Stock*	*Total*
Balance at year end 1997	$ 61	$ 356	$ (20)	$ 1,817	$ (169)	$ 2,045
Comprehensive income						
Net income	–	–	–	64	–	64
Other comprehensive income						
Unrealized gains on securities	–	–	5	–	–	5
Minimum pension liability	–	–	(2)	–	–	(2)
Total comprehensive income	–	–	–	–	–	67
Dividends paid on common stock – $1.28 per share	–	–	–	(71)	–	(71)
Stock issued for stock plans – 134,430 shares	–	1	–	–	4	5
Stock acquired for treasury – 850,558 shares	–	–	–	–	(48)	(48)
Balance at year end 1998	$ 61	$ 357	$ (17)	$ 1,810	$ (213)	$ 1,998
Comprehensive income						
Net income	–	–	–	99	–	99
Other comprehensive income						
Unrealized losses on securities	–	–	(15)	–	–	(15)
Foreign currency translation adjustment	–	–	1	–	–	1
Total comprehensive income	–	–	–	–	–	85
Dividends paid on common stock – $1.28 per share	–	–	–	(71)	–	(71)
Stock issued for stock plans – 256,599 shares	–	7	–	–	8	15
Stock acquired for treasury – 1,649,052 shares	–	–	–	–	(100)	(100)
Balance at year end 1999	$ 61	$ 364	$ (31)	$ 1,838	$ (305)	$ 1,927
Comprehensive income						
Net income	–	–	–	195	–	195
Other comprehensive income						
Unrealized gains on securities	–	–	23	–	–	23
Minimum pension liability	–	–	(2)	–	–	(2)
Foreign currency translation adjustment	–	–	2	–	–	2
Total comprehensive income	–	–	–	–	–	218
Dividends paid on common stock – $1.28 per share	–	–	–	(65)	–	(65)
Stock issued for stock plans – 57,999 shares	–	1	–	–	2	3
Stock acquired for treasury – 5,095,906 shares	–	–	–	–	(250)	(250)
Balance at year end 2000	**$ 61**	**$ 365**	**$ (8)**	**$ 1,968**	**$ (553)**	**$ 1,833**

See the notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 | SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation
The consolidated financial statements include the accounts of Temple-Inland Inc. and its manufacturing and financial services subsidiaries (the company). Investments in joint ventures and other subsidiaries in which the company has between a 20 percent and 50 percent equity ownership are reflected using the equity method. All material inter-company amounts and transactions have been eliminated. Certain amounts have been reclassified to conform to current year's classifications.

The consolidated net assets invested in financial services activities are subject, in varying degrees, to regulatory rules and restrictions. Accordingly, included as an integral part of the consolidated financial statements are separate summarized financial statements and notes for the company's manufacturing and financial services groups, as well as the significant accounting policies unique to each group.

The preparation of the consolidated financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the amounts reported in the financial statements and accompanying notes, including disclosures related to contingencies. Actual results could differ from these estimates.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand and other short-term liquid instruments with original maturities of three months or less.

Translation of International Currencies
Balance sheets of the company's international operations where the functional currency is other than the U.S. dollar are translated into U.S. dollars at year-end exchange rates. Adjustments resulting from financial statement translation are reported as a component of shareholders' equity. For other international operations where the functional currency is the U.S. dollar, inventories and property, plant and equipment values are translated at the historical rate of exchange, while other assets and liabilities are translated at year-end exchange rates. Translation adjustments for these operations are included in earnings and are not material.

Income and expense items are translated into U.S. dollars at average rates of exchange prevailing during the year. Gains and losses resulting from foreign currency transactions are included in earnings and are not material.

Income Taxes
Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes computed using current tax rates.

Stock Based Compensation
The company uses the intrinsic value method in accounting for its stock based employee compensation plans.

Long-Lived Assets
Impairment losses are recognized on assets held for use when indicators of impairment are present and the estimated undiscounted cash flows are not sufficient to recover the assets' carrying amount. Assets held for disposal are recorded at the lower of carrying value or estimated fair value less costs to sell.

Capitalized Software
The company capitalizes purchased software costs as well as the direct costs, both internal and external, associated with software developed for internal use. Such costs are amortized using the straight-line method over estimated useful lives of three to seven years. Costs capitalized were $58 million in 2000, $31 million in 1999 and $10 million in 1998. Amortization of these costs was $8 million in 2000, $6 million in 1999 and $3 million in 1998.

New Accounting Pronouncements
The company will be required to adopt Statement of Financial Accounting Standards No. 133, *Accounting for Derivatives Instruments and Hedging Activities*, beginning 2001. This statement will require derivative positions to be recognized in the balance sheet at fair value. The effect of adopting this statement will not materially affect the company's earnings or financial position. As permitted by this statement, the company will change the designation of its portfolio of held-to-maturity securities, which are carried at unamortized cost, to available-for-sale, which are carried at fair value. As a result, the carrying value of these securities will be adjusted to their fair value with a corresponding after tax reduction of $16 million in other comprehensive income, a component of shareholders' equity.

NOTE 2 | TAXES ON INCOME

Taxes on income from continuing operations consisted of the following:

For the year (in millions)	**2000**	1999	1998
Current tax provision:			
U.S. Federal	**$ 44**	$ 89	$ 38
State and other	**14**	12	10
	58	101	48
Deferred tax provision:			
U.S. Federal	**66**	14	21
State and other	**1**	-	1
	67	14	22
Provision for income taxes	**$ 125**	$ 115	$ 70

Earnings or losses from operations consisted of the following:

For the year (in millions)	**2000**	1999	1998
Earnings (Losses):			
U.S.	**$ 319**	$ 311	$ 189
Non-U.S.	**1**	(5)	(31)
	$ 320	$ 306	$ 158

The difference between the consolidated effective income tax rate and the federal statutory income tax rate include the following:

For the year (in millions)	**2000**	1999	1998
Taxes on income at statutory rate	**$ 112**	$ 107	$ 56
State net of federal benefit	**9**	8	6
Foreign operations	**1**	3	6
Sale of foreign subsidiary	**–**	(7)	–
Goodwill	**2**	2	1
Other	**1**	2	1
	$ 125	$ 115	$ 70

Significant components of the company's consolidated deferred tax assets and liabilities are as follows:

At year end *(in millions)*	*2000*	*1999*
Deferred Tax Liabilities:		
Depreciation	**$ 270**	$ 254
Timber and timberlands	**37**	37
Pensions	**33**	26
Originated mortage servicing rights	**36**	38
Other	**32**	34
Total deferred tax liabilities	**408**	389
Deferred Tax Assets:		
Alternative minimum tax credits	**142**	185
Net operating loss carryforwards	**20**	12
OPEB obligations	**55**	56
Bad debt reserve	**33**	27
Other	**46**	67
Total deferred tax assets	**296**	347
Valuation Allowance	**(160)**	(154)
Net deferred tax liability	**$ 272**	$ 196

The valuation allowance represents accruals for deductions and credits that are uncertain and, accordingly, have not been recognized for financial reporting purposes. The change in the valuation allowance is primarily the result of increased foreign net operating losses, the future realization of which is not assured.

The company has domestic net operating loss carryforwards of $1 million that expire in 2005. In addition, the company has foreign net operating loss carryforwards of $39 million that will expire from the year 2005 through the year 2011 and $16 million that may be carried forward indefinitely. Alternative minimum tax credits may be carried forward indefinitely. In accordance with generally accepted accounting principles, the company has not provided deferred taxes on approximately $31 million of pre-1988 tax bad debt reserves.

In 1999, the Internal Revenue Service (IRS) concluded its examination of the company's consolidated tax returns for the years 1987 through 1992. As a result of this examination, the company agreed to pay approximately $36 million in taxes and interest for those years, of which $19 million was paid in 1999 and the remainder in 2000. The IRS is currently examining the company's consolidated tax returns for the years 1993 through 1996. The resolution of these examinations is not expected to have a material adverse impact on the company's financial condition or results of operations.

Cash income tax payments, net of refunds received, including the payments related to the IRS exam were $88 million, $72 million and $39 million during 2000, 1999 and 1998, respectively.

NOTE 3 | FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and the estimated fair values of financial instruments were as follows:

At year end *(in millions)*	*2000* Carrying Amount	*2000* Fair Value	*1999* Carrying Amount	*1999* Fair Value
Financial Assets				
Loans receivable	**$ 10,411**	**$ 10,414**	$ 9,296	$ 9,248
Mortgage-backed and other securities	**3,279**	**3,253**	2,492	2,440
Financial Liabilities				
Deposits	**9,828**	**9,835**	9,027	8,987
FHLB advances	**2,869**	**2,869**	2,403	2,403
Total debt	**1,593**	**1,577**	1,466	1,443
Off-Balance-Sheet Instruments				
Interest rate contracts	–	**(2)**	–	2
Commodity futures contracts	–	**(3)**	–	–
Commitments to extend credit	–	**3**	–	2

Differences between fair value and carrying amounts are primarily due to instruments that provide fixed interest rates or contain fixed interest rate elements. Inherently, such instruments are subject to fluctuations in fair value due to subsequent movements in interest rates. The fair value of cash and cash equivalents, trade and other receivables, trade payables, securities sold under agreements to repurchase and mortgage loans held for sale consistently approximate the carrying amount due to their short-term nature and are excluded from the above table. The fair value of mortgage-backed and other securities and off-balance-sheet instruments are based on quoted market prices. Other financial instruments are valued using discounted cash flows. The discount rates used represent current rates for similar instruments.

The company has guaranteed certain joint venture obligations principally related to variable-rate debt instruments at year-end 2000. It is not practicable to estimate the fair value of these guarantees.

NOTE 4 | SHAREHOLDER RIGHTS PLAN

The company has a Shareholder Rights Plan in which one-half of a preferred stock purchase right (Right) was declared as a dividend for each common share outstanding. Each Right entitles shareholders to purchase, under certain conditions, one one-hundredth of a share of newly issued Series A Junior Participating Preferred Stock at an exercise price of $200. Rights will be exercisable only if a person or group acquires beneficial ownership of 20 percent or more of the company's common shares or commences a tender or exchange offer, upon consummation of which such person or group would beneficially own 25 percent or more of the company's common shares. The company will generally be entitled to redeem the Rights at $.01 per Right at any time until the 10th business day following public announcement that a 20 percent position has been acquired. The Rights will expire on February 20, 2009.

NOTE 5 | EMPLOYEE BENEFIT PLANS

The company has pension plans covering substantially all employees. Plans covering salaried and nonunion hourly employees provide benefits based on compensation and years of service, while union hourly plans are based on negotiated benefits and years of service. The company's policy is to fund amounts on an actuarial basis in order to accumulate assets sufficient to meet the benefits to be paid in accordance with the requirements of ERISA. Contributions to the plans are made to trusts for the benefit of plan participants.

The company provides, as a postretirement benefit, medical and insurance coverage to eligible salaried and hourly employees who reach retirement age while employed by the company.

The change in benefit obligation, plan assets and the funded status of employee benefit plans follows:

At year end	*Pension Benefits* **2000**	*1999*	*Postretirement Benefits* **2000**	*1999*
(in millions)				
Benefit obligation at beginning of year	**$ 582**	$ 597	**$ 111**	$ 133
Service cost	**15**	17	**3**	3
Interest cost	**42**	39	**8**	8
Change in assumptions	**–**	(50)	**-**	–
Plan amendments	**6**	3	**-**	(2)
Actuarial (gain)/loss	**4**	4	**30**	(21)
Termination benefits	**–**	–	**-**	–
Benefits paid	**(35)**	(28)	**(12)**	(11)
Retiree contributions	**–**	–	**1**	1
Benefit obligation at end of the year	**$ 614**	$ 582	**$ 141**	$ 111
Fair value of plan assets at beginning of year	**$ 711**	$ 616	**$ –**	$ –
Actual return	**158**	122	**–**	–
Benefits paid	**(35)**	(28)	**–**	–
Contributions	**4**	1	**–**	–
Fair value of plan assets at end of year	**$ 838**	$ 711	**$ –**	$ –
Funded status	**$ 224**	$ 129	**$ (141)**	$ (111)
Unrecognized net loss/(gain)	**(160)**	(69)	**6**	(24)
Prior service costs not yet recognized	**11**	5	**(7)**	(8)
Unrecognized net transition obligation/(asset)	**–**	(4)	**–**	–
Additional minimum liability	**(7)**	(4)	**–**	–
Prepaid (accrued) benefit cost	**$ 68**	$ 57	**$ (142)**	$ (143)

The net prepaid benefit cost of $68 million at year-end 2000 is comprised of pension plans with prepaid benefit cost totaling $90 million and accrued benefit liability totaling $22 million. Amounts applicable to the company's pension plans with accumulated benefit obligations in excess of plan assets are as follows:

At year end	**2000**	*1999*
(in millions)		
Projected benefit obligation	**$ 20**	$ 16
Accumulated benefit obligation	**$ 17**	$ 14
Fair value of plan assets	**$ –**	$ –

Significant assumptions used for the employee pension plans follow:

For the year	*Pension Benefits* **2000**	*1999*	*1998*	*Postretirement Benefits* **2000**	*1999*	*1998*
Weighted Average Assumptions:						
Discount rate	**7.50%**	7.50%	6.75%	**7.50%**	7.50%	6.75%
Expected long-term rate of return	**9.00%**	9.00%	9.00%	**–**	–	–
Rate of compensation increase	**4.75%**	4.75%	4.00%	**–**	–	–

A 7.75 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 6 percent for 2010 and remain at that level thereafter.

Net periodic benefit cost (credit) for pension and postretirement plans include the following:

For the year	*Pension Benefits* **2000**	*1999*	*1998*	*Postretirement Benefits* **2000**	*1999*	*1998*
(in millions)						
Charges (Credits)						
Service cost-benefits earned during the period	**$ 15**	$ 17	$ 15	**$ 3**	$ 3	$ 3
Interest cost on projected benefit obligation	**42**	39	37	**8**	8	8
Expected return on plan assets	**(62)**	(54)	(56)	**–**	–	–
Net amortization and deferral	**(4)**	(3)	(5)	**(1)**	(1)	(1)
Net periodic benefit cost (credit)*(a)*	**$ (9)**	$ (1)	$ (9)	**$ 10**	$ 10	$ 10

(a) In addition to the above, in 2000 the company recognized an additional $.3 million expense relating to postretirement benefits for special termination benefits resulting from restructuring of the Pineland operation. In 1999, the company recognized an additional $4 million credit relating to pension benefits and a $2 million credit relating to postretirement benefits for curtailments resulting from the sale of the bleached paperboard operation. In 1998, the company recognized an additional $3 million credit relating to pension benefits and a $1 million credit relating to postretirement benefits for curtailments resulting from employee terminations.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefits. A one percentage point change in assumed health care cost trend rates would have the following effects:

(in millions)	*1 Percentage Point Increase*	*1 Percentage Point Decrease*
Effect on total of service and interest cost components in 2000	$ 1	$ (1)
Effect on postretirement benefit obligation at year-end 2000	$ 11	$ (9)

NOTE 6 | STOCK OPTION PLANS

The company has established stock option plans for key employees and directors. The plans provide for the granting of nonqualified stock options and/or incentive stock options, and prior to 1994, of stock appreciation rights with all or part of any options so granted. Options granted after 1995 generally have a ten-year term and become exercisable in steps from one to five years.

A summary of stock option activity follows:

For the year	**2000**		1999		1998	
(shares in thousands)	*Options*	*Weighted Average Exercise Price*	*Options*	*Weighted Average Exercise Price*	*Options*	*Weighted Average Exercise Price*
Outstanding beginning of year	**1,974**	**$ 53**	1,892	$ 51	1,430	$ 47
Granted	**971**	**55**	455	61	654	56
Exercised	**(88)**	**48**	(315)	47	(139)	38
Forfeited	**(101)**	**54**	(58)	53	(53)	50
Outstanding end of year	**2,756**	**$ 54**	1,974	$ 53	1,892	$ 51
Weighted average fair value of options granted during the year		**$ 16.63**		$ 23.06		$ 17.68

Options exercisable at year end were (in thousands): 2000-896; 1999-691; and 1998-737. The weighted average exercise price for options exercisable was $50 per share and $49 per share for year-end 2000 and 1999, respectively. Exercise prices for options outstanding at year-end 2000 range from $27 to $75. The weighted average remaining contractual life of these options is eight years. An additional 755,956 and 1,727,156 shares of common stock were available for grants at year-end 2000 and 1999, respectively. Under the 1993 restricted stock plan, at year-end 2000, awards of 56,248 shares of restricted common stock were outstanding. The 1997 restricted stock plan provided for a maximum of 300,000 shares of restricted common stock to be reserved for awards. Under this plan, at year-end 2000, awards of 54,000 shares of restricted common stock were outstanding and an additional 244,950 shares were available for grants.

The fair value of the options granted in 2000, 1999 and 1998 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

For the year	**2000**	1999	1998
Expected dividend yield	**2.7 %**	2.0 %	2.0 %
Expected stock price volatility	**29.7 %**	29.4 %	28.7 %
Risk-free interest rate	**5.1 %**	6.8 %	4.8 %
Expected life of options	**8.0 years**	8.0 years	7.0 years

Assuming that the company had accounted for its employee stock options using the fair value method and amortized such to expense over the options vesting period, pro forma net income and diluted earnings per share would have been $189 million and $3.71 per diluted share in 2000; $96 million and $1.73 per diluted share in 1999; and $62 million and $1.10 per diluted share in 1998. The pro forma disclosures may not be indicative of future amounts due to changes in subjective input assumptions and because the options vest over several years with additional future option grants expected.

NOTE 7 | EARNINGS PER SHARE

Numerators and denominators used in computing earnings per share are as follows:

For the year	**2000**	1999	1998
(in millions)			
Numerators for basic and diluted earnings per share:			
Income from continuing operations	**$ 195**	$ 191	$ 88
Discontinued operations	**–**	(92)	(21)
Effect of accounting change	**–**	–	(3)
Net income	**$ 195**	$ 99	$ 64
Denominator for basic earnings per share:			
Weighted average shares outstanding	**50.9**	55.6	55.8
Dilutive effect of stock options	**–**	.2	.1
Denominator for diluted earnings per share	**50.9**	55.8	55.9

NOTE 8 | ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of other comprehensive income are as follows:

(in millions)	*Currency Translation Adjustments*	*Unrealized Gains on Available-for-Sale Securities*	*Minimum Pension Liability*	*Total*
Balance at year end 1998	$ (17)	$ 2	$ (2)	$ (17)
Unrealized gains on available-for-sale securities	–	(22)	–	(22)
Deferred taxes relating to unrealized gains on available-for-sale securities	–	7	–	7
Foreign currency translation adjustments	1	–	–	1
Balance at year end 1999	(16)	(13)	(2)	(31)
Unrealized gains available-for-sale securities	–	36	–	36
Deferred taxes relating to unrealized gains on available-for-sale securities	–	(13)	–	(13)
Minimum pension liability	–	–	(3)	(3)
Deferred taxes relating to minimum pension liability	–	–	1	1
Deferred taxes relating relating to foreign currency translation adjustment	2	–	–	2
Balance at year end 2000	**$ (14)**	**$ 10**	**$ (4)**	**$ (8)**

NOTE 9 | CONTINGENCIES

There are pending against the company and its subsidiaries lawsuits, claims and environmental matters arising in the regular course of business.

In the opinion of management, recoveries and claims, if any, by plaintiffs or claimants resulting from the foregoing litigation will not have a material adverse effect on its operations or the financial position of the company.

NOTE 10 | SEGMENT INFORMATION

The company has three reportable segments: paper, building products and financial services. The paper segment manufactures containerboard and corrugated packaging. The building products segment manufactures a variety of building materials and manages the company's timber resources. The financial services segment operates a savings bank and engages in mortgage banking, real estate and insurance brokerage activities. All prior periods have been restated to reflect the discontinued operations of the bleached paperboard operation.

These segments are managed as separate business units. The company evaluates performance based on operating income before special charges, corporate expenses and income taxes. Parent company interest expense is not allocated to the business segments. The accounting policies of the segments are the same as those described in the accounting policy notes to the financial statements. Corporate and other includes corporate expenses, special charges and discontinued operations.

(in millions)	*Paper*	*Building Products*	*Financial Services*	*Corporate and Other Eliminations*	*Total*
For the year or at year end 2000:					
Revenues from external customers	**$ 2,089**	**$ 828**	**$ 1,369**	**$ –**	**$ 4,286**
Depreciation, depletion and amortization	**131**	**63**	**24**	**7**	**225**
Operating income	**205**	**68**	**189**	**(48)** (a)	**414**
Financial Services net interest income	**–**	**–**	**389**	**–**	**389**
Total assets	**1,589**	**1,199**	**15,324**	**30**	**18,142**
Investment in equity method investees	**4**	**33**	**27**	**–**	**64**
Capital expenditures	**115**	**87**	**34**	**21**	**257**
For the year or at year end 1999:					
Revenues from external customers	$ 1,869	$ 823	$ 1,116	$ –	$ 3,808
Depreciation, depletion and amortization	138	59	22	6	225
Operating income	103	174	138	(30)	385
Financial Services net interest income	–	–	299	–	299
Total assets	1,676	1,090	13,321	99	16,186
Investment in equity method investees	8	27	14	–	49
Capital expenditures	80	92	26	6	204
For the year or at year end 1998:					
Revenues from external customers	$ 1,707	$ 660	$ 1,036	$ –	$ 3,403
Depreciation, depletion and amortization	138	53	18	4	213
Operating income	39	112	154	(75) (b)	230
Financial Services net interest income	–	–	244	–	244
Total assets	1,728	1,043	12,376	721 (c)	15,868
Investment in equity method investees	8	29	3	–	40
Capital expenditures	79	73	39	5	196

(a) *Includes a special charge of $15 million applicable to the building products segment.*
(b) *Includes a special charge of $47 million of which $37 million applies to the paper segment and $10 million applies to the building products segment.*
(c) *Includes net assets of discontinued operations.*

The following table includes revenues and property and equipment based on the location of the operation:

GEOGRAPHIC INFORMATION

(in millions)	***2000***	*1999*	*1998*
For the year			
Revenues from external customers			
United States	**$ 4,122**	$ 3,672	$ 3,286
Canada	**33**	27	4
Mexico	**106**	82	68
South America	**25**	27	45
Total	**$ 4,286**	$ 3,808	$ 3,403
At year end			
Property and Equipment			
United States	**$ 2,069**	$ 2,090	$ 2,115
Canada	**63**	61	56
Mexico	**34**	28	27
South America	**18**	18	40
Total	**$ 2,184**	$ 2,197	$ 2,238

NOTE 11 | SUMMARY OF QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

Selected quarterly financial results for the years 2000 and 1999 are summarized below. Quarterly financial results have been restated to reflect the reclassification of shipping and handling costs.

(in millions except per share amounts)	*First Quarter*	*Second Quarter*	*Third Quarter*	*Fourth Quarter*
2000				
Total revenues	**$ 1,066**	**$ 1,096**	**$ 1,081**	**$ 1,043**
Manufacturing net revenues	**757**	**753**	**734**	**673**
Manufacturing gross profit	**148**	**140**	**107**	**81**
Financial Services operating income before taxes	**35**	**48**	**50**	**56**
Income from continuing operations	**55**	**62**	**43**(a)	**35**
Net income	**55**	**62**	**43**(a)	**35**
Earnings per Share:				
Basic:				
Income from continuing operations	**$ 1.04**	**$ 1.20**	**$ .87**	**$ .72**
Net income	**1.04**	**1.20**	**.87**	**.72**
Diluted:				
Income from continuing operations	**$ 1.04**	**$ 1.20**	**$ .87**	**$ .72**
Net income	**1.04**	**1.20**	**.87**	**.72**
1999				
Total revenues	$ 880	$ 937	$ 988	$ 1,003
Manufacturing net revenues	622	675	701	694
Manufacturing gross profit	101	128	143	140
Financial Services operating income before taxes	27	34	41	36
Income from continuing operations	$ 26	$ 48	$ 60	$ 57
Discontinued operations	(7)	(7)	(80)	2
Net income	$ 19	$ 41	$ (20)	$ 59
Earnings per Share:				
Basic:				
Income from continuing operations	$ .47	$ .88	$ 1.07	$ 1.03
Discontinued operations	(.13)	(.14)	(1.43)	.04
Net income	$ .34	$ .74	$ (.36)	$ 1.07
Diluted:				
Income from continuing operations	$ .46	$ .87	$ 1.07	$ 1.03
Discontinued operations	(.13)	(.13)	(1.43)	.04
Net income	$ .33	$ .74	$ (.36)	$ 1.07

(a) *Includes a $15 million special charge related to the discontinued fiber-cement operation.*

MANAGEMENT'S REPORT ON FINANCIAL STATEMENTS

Management has prepared and is responsible for the company's financial statements, including the notes thereto. They have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on judgments and estimates by management. All financial information in this annual report is consistent with that in the financial statements.

The company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The design, monitoring and revision of internal accounting control systems involve, among other things, management's judgment with respect to the relative cost and expected benefits of specific control measures. The company also maintains an internal auditing function that evaluates and formally reports on the adequacy and effectiveness of internal accounting controls, policies and procedures.

The company's financial statements have been examined by Ernst & Young LLP, independent auditors, who have expressed their opinion with respect to the fairness of the presentation of the statements.

The Audit Committee of the Board of Directors, composed solely of outside directors, meets with the independent auditors and internal auditors to evaluate the effectiveness of the work performed by them in discharging their respective responsibilities and to assure their independent and free access to the committee.

Kenneth M. Jastrow, II
Chairman and Chief Executive Officer

Louis R. Brill
Vice President, Chief Accounting Officer

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of Temple-Inland Inc.:

We have audited the accompanying consolidated balance sheets of Temple-Inland Inc. and subsidiaries as of December 30, 2000 and January 1, 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 30, 2000. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Temple-Inland Inc. and subsidiaries at December 30, 2000 and January 1, 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States.

Austin, Texas
January 31, 2001

BOARD OF DIRECTORS
Temple-Inland Inc.

(1) Audit Committee
(2) Management Development and Executive Compensation Committee
(3) Executive Committee
(4) Corporate Governance Committee
(5) Public Policy/Environmental Committee
(6) Finance Committee

Robert Cizik.........................2, 3, 6

Anthony M. Frank................1, 4, 5
Chairman, Belvedere Capital Partners, Inc.

James T. Hackett......................1, 4
Chairman, President and Chief Executive Officer, Ocean Energy, Inc.

William B. Howes
Chairman and Chief Executive Officer, Inland Paperboard and Packaging, Inc.

Bobby R. Inman.................. 2, 3, 5
Managing Director, Inman Ventures

Kenneth M. Jastrow, II...2, 3, 4, 5, 6
Chairman and Chief Executive Officer, Temple-Inland Inc.

James A. Johnson.................... 2, 5
Chairman and Chief Executive Officer, Johnson Capital Partners

W. Allen Reed..........................4, 6
President and Chief Executive Officer,General Motors Investment Management Corporation

Herbert A. Sklenar...............1, 2, 3
Chairman Emeritus, Vulcan Materials Company

Walter P. Stern.....................3, 4, 6
Vice Chairman, Capital Group International, Inc.

Arthur Temple III....................2, 6
Chairman and Chief Executive Officer, Exeter Investment Company

Charlotte Temple.....................1, 5
President, Temple Vineyards

Larry E. Temple....................1, 3, 5
Attorney

ADVISORY DIRECTOR

Paul M. Anderson
Managing Director and Chief Executive Officer, Broken Hill Proprietary Company, Ltd.

OFFICERS

Kenneth M. Jastrow, II
Chairman and Chief Executive Officer

William B. Howes
Executive Vice President

Harold C. Maxwell
Executive Vice President

Kenneth R. Dubuque
Group Vice President, Financial Services

Dale E. Stahl
Group Vice President, Paper

Bart J. Doney
Group Vice President, Packaging

James C. Foxworthy
Group Vice President, Paperboard

Jack C. Sweeny
Group Vice President

Randall D. Levy
Chief Financial Officer

M. Richard Warner
Chief Administrative Officer

Louis R. Brill
Vice President, Chief Accounting Officer

Doyle R. Simons
Vice President, Administration

Richard L. Reisenweber
Vice President, Environmental Affairs

Scott Smith
Chief Information Officer

Leslie K. O'Neal
Secretary and Assistant General Counsel

David W. Turpin
Treasurer

PAPER GROUP

William B. Howes
Chairman and Chief Executive Officer, Inland Paperboard and Packaging, Inc.

Dale E. Stahl
President and Chief Operating Officer, Inland Paperboard and Packaging, Inc.

Bart J. Doney
Executive Vice President, Packaging Group, Inland Paperboard and Packaging, Inc.

James C. Foxworthy
Executive Vice President, Paperboard Group, Inland Paperboard and Packaging, Inc.

BUILDING PRODUCTS GROUP

Harold C. Maxwell
Chairman and Chief Executive Officer, Temple-Inland Forest Products Corporation

Jack C. Sweeny
Executive Vice President, Forest/Solid Wood Temple-Inland Forest Products Corporation

FINANCIAL SERVICES GROUP

Kenneth R. Dubuque
President and Chief Executive Officer, Temple-Inland Financial Services Inc.

SHAREHOLDER INFORMATION

Transfer Agent and Register
First Chicago Trust Company of New York
525 Washington Blvd.
Jersey City, New Jersey 07310
201.324.1225

Independent Auditors
Ernst & Young LLP
Austin, Texas

Annual Meeting
The annual meeting of shareholders of Temple-Inland Inc. will be held at 303 South Temple Drive, Diboll, Texas, on May 4, 2001, at 9:00 a.m. CDT.

Stock Listing
Temple-Inland Inc. common stock is listed on the New York Stock Exchange and the Pacific Exchange under the ticker symbol TIN.

As of December 31, 2000, there were 5,962 shareholders of record of the Company's common stock.

Dividend Reinvestment Plan
Temple-Inland offers its shareholders a convenient and economical way to increase their investment in the Company's common stock through the purchase of additional shares with quarterly dividends and optional cash payments. Under the Temple-Inland Inc. Dividend Reinvestment Plan, administered by First Chicago Trust Company of New York, Temple-Inland pays the brokerage fees and service charges, and the shareholder receives the benefit of larger quantity purchases and optional free custodial services. For more information about the plan, contact First Chicago Trust Company of New York, Dividend Reinvestment Plans, P.O. Box 2598, Jersey City, New Jersey, 07303-2598, 201 324 1225.

A copy of Temple-Inland Inc.'s annual report on Form 10-K, as filed with the Securities and Exchange Commission, will be sent without charge upon written request made to the Company's Investor Relations Department.

Mailing Address
Temple-Inland Inc.
P.O. Box 40
Austin, Texas 78767
512. 434. 8000

Company Web Site
Additional information regarding Temple-Inland may be obtained from Temple-Inland's home page on the Internet, the address of which is http://www.temple-inland.com.

<..............................Turn this page for a detailed map of Temple-Inland's facilities.

TEMPLE-INLAND FACILITIES

Corporate Headquarters
Austin, Texas

Subsidiary Headquarters
Inland Paperboard and Packaging, Inc.
Indianapolis, Indiana

Temple-Inland Forest Products Corporation
Diboll, Texas

Temple-Inland Financial Services Inc.
Austin, Texas

Building Products
Fiberboard Operation
Diboll, Texas

Gypsum Wallboard Operations
West Memphis, Arkansas
Fletcher, Oklahoma
McQueeney, Texas*
Cumberland City, Tennessee*

Lumber Operations
Rome, Georgia
DeQuincy, Louisiana
Buna, Texas
Diboll, Texas
Pineland, Texas

Medium Density Fiberboard Operations
El Dorado, Arkansas*
Clarion, Pennsylvania
Mt. Jewett, Pennsylvania
Pembroke, Ontario, Canada

Particleboard Operations
Monroeville, Alabama
Hope, Arkansas
Thomson, Georgia
Mt. Jewett, Pennsylvania
Diboll, Texas

Paper Mills
Linerboard
Ontario, California
Rome, Georgia
Maysville, Kentucky
Orange, Texas

Corrugating Medium
New Johnsonville, Tennessee

Gypsum Facing
Newport, Indiana*

Packaging Plants
Corrugated Packaging
Fort Smith, Arkansas (2)
Bell, California
El Centro, California
Ontario, California
Sante Fe Springs, California
Tracy, California
Wheat Ridge, Colorado
Orlando, Florida
Rome, Georgia
Chicago, Illinois
Crawfordsville, Indiana
Evansville, Indiana
Garden City, Kansas
Kansas City, Kansas
Louisville, Kentucky
Minden, Louisiana
Minneapolis, Minnesota
Hattiesburg, Mississippi
St. Louis, Missouri
Milltown, New Jersey
Spotswood, New Jersey
Middletown, Ohio
Streetsboro, Ohio
Biglerville, Pennsylvania
Gettysburg, Pennsylvania
Hazleton, Pennsylvania
Lexington, South Carolina
Rock Hill, South Carolina
Ashland City, Tennessee
Elizabethon, Tennessee (2)
Dallas, Texas
Edinburg, Texas
Petersburg, Virginia (2)
Vega Alta, Puerto Rico
Santiago, Chile
San Jose Iturbide, Guanajuato, Mexico
Guadalajara, Jaliscao, Mexico
Monterrey, Leon, Mexico
Los Mochis, Sinaloa, Mexico

Consumer Packaging
Buena Park, California
Ontario, California
Sante Fe Springs, California (2)
(Crockett Container Corporation)
Harrington, Delaware
Indianapolis, Indiana (2)
Leominster, Massachusetts
Linden, New Jersey
Rural Hall, North Carolina

Financial Services
Consumer Banking Regions
Central Valley of California
Southern California
Austin, Texas, and Adjacent Cities
Dallas, Texas, and Adjacent Cities
East Texas
Houston, Texas, and Adjacent Cities
San Antonio, Texas, and Adjacent Cities

Mortgage Banking Operations
Alabama
Arizona
Arkansas
California
Colorado
Florida
Georgia
Illinois
Indiana
Louisiana
Minnesota
Nevada
New Mexico
New Jersey
New York
Ohio
Oklahoma
Pennsylvania
South Dakota
Tennessee
Texas
Utah
Wisconsin

*(50 percent joint venture)

TEMPLE-INLAND
INC.

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