

Committed to creating shareholder value by:

Focusing on customer needs.

Providing quality products.

Positioning for the future.

Contributing to the quality of life for employees and communities.

Temple-Inland
1999 Annual Report

Temple-Inland Inc. 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, plywood, particleboard, medium density fiberboard,
gypsum wallboard, fiberboard and fiber-cement products.

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

The Financial Services Group consists of savings bank activities,
mortgage banking, real estate and insurance brokerage.

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 Federal Bank, F.S.B.; 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.

	1999	1998	Percent Change
<i>(in millions, except per share data)</i>			
Total revenues	\$ 3,682	\$ 3,291	12 %
Manufacturing net revenues	\$ 2,566	\$ 2,255	14 %
Income from continuing operations	\$ 191	\$ 88	117 %
Net income	\$ 99	\$ 64	55 %
Earnings per share from continuing operations:			
Basic	\$ 3.45	\$ 1.60	116 %
Diluted	\$ 3.43	\$ 1.59	116 %
Net earnings per share:			
Basic	\$ 1.79	\$ 1.16	54 %
Diluted	\$ 1.78	\$ 1.15	55 %
Dividends per share	\$ 1.28	\$ 1.28	-
Shareholders' equity	\$ 1,927	\$ 1,998	(4)%
Book value per share	\$ 35.55	\$ 35.93	(1)%
Weighted average shares outstanding:			
Basic	55.6	55.8	-
Diluted	55.8	55.9	-
Common shares outstanding at year end	54.2	55.6	(3)%

SELECTED BUSINESS SEGMENT DATA

	1999	1998	Percent Change
<i>(in millions)</i>			
REVENUES			
Paper	\$ 1,798	\$ 1,642	10 %
Building Products	\$ 768	\$ 613	25 %
Financial Services	\$ 1,116	\$ 1,036	8 %
OPERATING INCOME			
Paper	\$ 103	\$ 39	164 %
Building Products	\$ 174	\$ 112	55 %
Financial Services	\$ 138	\$ 154	(10)%

A Leader with Commitment and Vision.

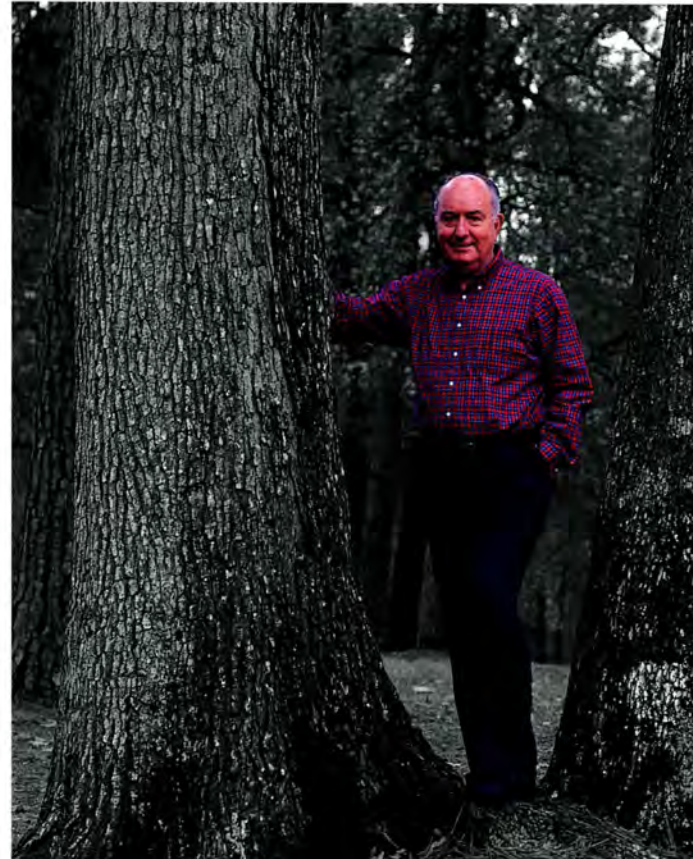
Successful companies are most often created by a combination of several key factors, including strong leadership and great people. Clifford Grum personifies both.

Through dedicated leadership and strategic vision, Clifford led Temple-Inland from its creation as a spin-off company in 1984 through its growth into a strong, diversified manufacturing and financial services entity.

Sixteen years is a relatively short time in the context of a corporate entity's life span, but Temple-Inland has accomplished much in that time under Clifford Grum's leadership. When Temple-Inland was spun off from Time Inc. in 1984, the company had \$1.2 billion in operating revenues, employed 10,000 people and owned 1.1 million acres of forestland in Texas and Georgia. Today, revenues have tripled to \$3.7 billion; and the company now has over 14,000 employees and owns more than 2 million acres of forestland. Through a number of strategic acquisitions driven by Clifford, Temple-Inland's financial services group has grown from a small mortgage banking and real estate company to a significant financial services entity with a \$13 billion savings bank, a \$22 billion mortgage servicing portfolio and an insurance agency that is one of the largest in Texas.

Clifford's ability to develop dedicated, talented employees is also a part of his legacy. He encouraged personal development of employees and provided support and instruction. Through his commitment to Temple-Inland's success and his unwavering integrity, he set an example for all the employees of the company to follow.

We will miss Clifford, but his legacy will continue to live on with the company. We wish Clifford and his family the best.



Clifford J. Grum retired from the office of chairman and chief executive officer of Temple-Inland Inc. on January 1, 2000. We will always be grateful for his leadership and friendship.

During 1999, we made significant progress for Temple-Inland shareholders as earnings improved substantially over 1998, and we continued positioning the company for the future.

Income from continuing operations was \$191 million, or \$3.43 per diluted share, more than double 1998 income from continuing operations of \$88 million, or \$1.59 per diluted share. Revenues from continuing operations for 1999 were \$3.7 billion, up 12 percent compared with 1998 continuing revenues of \$3.3 billion.

We continued our focus on improving return on investment (ROI). We view ROI as the key measurement of our financial performance because it focuses on earnings and the efficient use of capital. Employee compensation is tied to ROI with a significant portion of total compensation at risk if return targets are not met.

Strategic Initiatives Taken

Our actions in 1999 to position this company for the future included:

- Selling the bleached paperboard operation in Evadale, Texas, to Westvaco Corporation. This transaction allows the paper group to focus on corrugated packaging.
- Converting the Newport, Indiana, mill from the production of corrugating medium to a joint-venture facility that will manufacture lightweight gypsum facing paper. This project, which should be completed in 2000, will not only improve ROI, but also ultimately eliminate 285,000 tons of containerboard capacity.
- Continuing to implement our *Mplus 50* profit enhancement initiative, the goal of which is to improve the paper group's ROI.
- Divesting a box plant in Argentina that was not able to generate satisfactory returns.
- Installing a new information system to improve the paper group's performance to the customer and facilitate capturing the benefits of e-commerce. This project was initiated in 1999 and should be completed in 2001.
- Renovating the Diboll, Texas, sawmill to convert smaller logs to lumber more efficiently. We are also constructing a new sawmill in Pineland, Texas, which should be completed in 2001. Each of our sawmills has now been modernized and utilizes new generation technology.

- Executing a 20-year lease to operate a particleboard facility and medium density fiberboard (MDF) facility in Mt. Jewett, Pennsylvania, which will allow us to continue to meet increasing demand and serve new markets.
- Constructing, through a joint venture, a new gypsum wallboard plant in Cumberland City, Tennessee, that uses synthetic gypsum as its raw material. This facility will have a unique cost structure and a competitive market advantage due to location.
- Broadening financial services geographically through the acquisition of HF Bancorp, Inc., with offices in the Southern California markets of Palm Springs, Riverside County and northern San Diego County. These areas have a high percentage of customers who value our "high touch" service.
- Diversifying financial services by acquiring an asset-based lending operation, an industrial and commercial equipment leasing and finance company, and an interest in a regional investment bank.

Key Profit Drivers

In addition to the specific actions outlined above, three key drivers will improve our level of profitability.

The first is focusing on customer needs. We are committed to partnering with customers to develop solutions, realize the full potential of opportunities and improve profitability.

The second is providing quality products. Customers tell us that they rely on the consistency and quality of our products. We will continue to anticipate and exceed customer requirements for quality and service.

The third key driver is continuing to focus on the long-term growth and viability of our forests. These timberlands represent not only a strategic and valuable asset, but also a significant social and environmental responsibility.

Outlook is Promising

The outlook for 2000 and beyond appears promising. Markets in the United States continue to grow and many overseas markets are improving as well.

Market conditions for corrugated packaging began improving early in 1999 and gained momentum through the year, allowing our paper group to implement two price increases. Another price increase for linerboard was announced for February 2000. Our paper group's growth in box shipments in 1999 was approximately 5 percent, compared with industry growth of 2.4 percent. More importantly, most of our growth was in higher-value accounts.

Looking forward, very low rates of new containerboard capacity are anticipated, and growth in demand currently exceeds growth in supply. As e-commerce develops, the fulfillment and shipment of products will be of critical importance. This could steepen the demand growth curve for boxes. These factors, coupled with incremental improvements from our *Mplus 50* profit enhancement initiative, should result in improved paper group earnings.

Our building products group capitalized on a strong new home construction and remodeling market to produce record earnings in 1999. Although interest rates are higher and projections are for a slowdown in housing starts, our diversified line of products, coupled with the anticipated contribution from new facilities and operations that were affected by start-up costs in 1999, should result in another good year for building products in 2000.

Our financial services group's earnings were down slightly from 1998's record level. As borrowers refinanced to low fixed-rate alternatives, due to declining interest rates in late 1998 and early 1999, our bank experienced run-off in its single-family, adjustable-rate mortgage portfolio. Fortunately, the bank was able to increase the volume of other types of loans and actually increased the total loan portfolio by \$1.2 billion in 1999.

For 2000, the new loans added last year provide further geographic and product diversification and the opportunity for improved earnings. Moreover, with rising interest rates, the bank should have the opportunity to again add single-family, adjustable-rate mortgages to the portfolio.

Positioned for the Future

We took major steps in 1999 to position our company for the future. We now intend to capitalize on each of our markets by bringing the greatest value to our customers through quality products and high levels of service.

We will actively look for opportunities to grow each of our businesses, but only if such growth will improve earnings and meet or exceed targeted ROI requirements.

In November, the Board of Directors authorized the repurchase of up to 6 million shares of Temple-Inland common stock. We repurchased 1.65 million shares in the fourth quarter of 1999 and another 800,000 shares in January 2000.

Preceding this letter is a well-deserved tribute to Clifford Grum. I would personally like to thank Clifford for his efforts and contributions to our company.

I would also like to thank our employees for their dedication and commitment to providing quality products and service to our customers. Their efforts are key to successful implementation of our strategy to improve ROI and build value for our shareholders.



Finally, thank you to our shareholders for your investment in our company. We look forward to the year 2000.

Sincerely,

Kenneth M. Jastrow, II
Chairman and Chief Executive Officer

January 30, 2000

With Commitment and Determination.

Copied from an original at The History Center, Diboll, Texas. www.TheHistoryCenterOnline.com 1993:001

Committed to our goals and determined to succeed.

This is the spirit of Temple-Inland.

See that spirit in our people.

Learn how it reflects on our customers, on their customers and on the communities where we do business.

Our commitment to clearly defined goals and carefully conceived strategies is well founded in our culture.

*We are confident we will succeed based on the dedication of our employees,
our competitive manufacturing capability and an integral knowledge of our markets.*



Through commitment and determination, we will build on the strength of our core businesses –
and capitalize on the promise of emerging technologies.

Looking ahead,
*we search for even better ways to meet our commitments to our customers, our shareholders,
our employees and our communities.*

We are Temple-Inland. And these are our stories.

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for employees and communities.

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John Marota, vice president of retail creative services for Anheuser-Busch, Inc., expects highly innovative, top-quality packaging solutions that appropriately represent the company's products, meet production specifications and appeal to target markets. Inland not only satisfies these expectations but also adds value – one reason the two companies have shared a long-term partnership.



Focusing on customer needs.

We prefer to build relationships,
not just products.

Our focus is on product quality and on customer service.

To us, service goes beyond delivery.

It means being a partner with our customers.

Helping them anticipate and avoid problems.

Working together to realize the full potential of opportunities.

We take real pride in making a customer happy and more profitable.

And we're committed to finding even better ways to do it again and again.

In today's highly competitive business environment, packaging has become a critical component to the long-term success of the customers of Temple-Inland's paper group (Inland). Designing corrugated packaging that delivers both strength and environmental solutions, moving products off the shelf with innovative merchandising solutions and anticipating changing shipping demands created by e-commerce are just some of the ways Inland delivers customer satisfaction.

With a new and highly focused, market-driven philosophy, Inland made major progress toward becoming more of an integrated partner with its customers. The relationships established with customers do not occur from random sourcing or solely on price quotations; they result from becoming integrated into customers' overall business processes and delivering profitable solutions.

Inland works hard to learn the demands and nuances of customers' businesses and – just as important – the needs of customers' customers. Through its trademarked ScoreZone™ research and merchandising techniques, Inland provides customers with new strategies and tools to win consumer attention at the crucial point of sale.

In recent years, the company has been able to leverage strong relationships with customers to sell more non-traditional, value-added services. Inland is one of the few packaging suppliers that can deliver a full continuum of services – including high-end, six-color litho-laminate printing; total fulfillment capabilities; and audits to increase the productivity of customers' corrugated packaging lines. Customers see improved quality, productivity and sales, while Inland gains stronger relationships and further market penetration.

For example, when Wal-Mart began demanding that suppliers deliver corrugated package designs that allow easy setup to reduce the labor required to stock shelves, Inland stepped up to the challenge. Working closely with S.C. Johnson & Sons, Inland applied a patented tear-tape design that served Wal-Mart's setup requirements and still offered enhanced shelf appeal. This resulted in better margins for the retailer, a gain in market share for S.C. Johnson & Sons in both the United States and Canada, and improved returns for Inland.

A willingness to commit capital on behalf of customers is another way Inland gains value-added contracts and sales. In the east-central region of Pennsylvania, Inland built a specialty packaging plant to serve a distinct group of agricultural growers. The new, centrally located facility provides advance setups, custom printing and just-in-time delivery. As a result, Inland's market position in this area has grown to approximately 80 percent. In addition, the company is earning an excellent return on the capital invested.

In an effort to provide even better service to customers, Inland reorganized 30 converting plants into eight distinct business units, or districts, in 1999. The plants within each district now operate in tandem, creating synergies from combined sales and marketing expertise to satisfy the demand and value characteristics of each customer, thereby providing better and more timely solutions.

"This special Budweiser magnum-size bottle was important not only because it was a key way to demonstrate Anheuser-Busch's commitment to quality, but it helped raise the sophistication cue for the Budweiser brand. We chose Inland because of their full-service capabilities and the professionalism they have shown us over the years. Inland clearly believes in quality. It shows in their people, their facilities and the final output of the product they deliver. The marking of the new millennium was a once-in-a-lifetime event, and Inland helped deliver a once-in-a-lifetime package for the 'King of Beers.'"

John Marota, vice president, retail creative services, Anheuser-Busch, Inc.,
St. Louis, Missouri,
Inland customer



"Our plant's biggest customer is American Woodmark, one of the nation's largest kitchen cabinet manufacturers. We've been their predominant supplier and partner for nearly 10 years, and the quality of our particleboard is critical to their success. We try to anticipate their every need, but they're also a great customer because they give us honest and timely feedback. That's the way it's supposed to work. American Woodmark expects a consistent board, delivered just in time, that meets or exceeds their expectations – and they want that same board next week."

Steve Dwyer, Temple,
technical director, particleboard plant,
Thomson, Georgia



BUILDING PRODUCTS

To Temple-Inland's building products group (Temple), customer focus is about developing relationships and loyalties that securely tie the company to its customers. It is the cornerstone of Temple's success and reputation.

The primary tool Temple uses to deliver on its promises and enhance relationships is its proprietary, real-time customer interface system, known as Order to Cash. Part technology and part organization, Order to Cash addresses every aspect of the value chain – from developing and manufacturing new products to selling, delivering and receiving payment for the products. Order to Cash unites Temple's people, products and processes to put the customer first in every way possible. Customers know they can expect consistently high-quality products in a predictable manner. If a problem arises, Temple's commitment to customers is that they will receive prompt, satisfactory resolution.

Over the past decade, user and distribution channels have changed the market dynamics within the building products sector. Temple continuously monitors the complexities of all its diverse markets – industrial, commercial and retail. By anticipating the direction of markets, Temple can have the right people and technology in place to serve each customer group.

Technology continues to provide opportunities for Temple to better serve customers. Temple is at the forefront of using the Internet as an important marketing tool and making customer data interactive. For Temple, however, e-business is just one of many customer-support tools, not a substitute for personal responsiveness and relationship building.

Temple's forest group also plays an important role in delivering value to customers. Using sophisticated software tools and planning systems, Temple made major strides during the year to fine-tune its ability to ensure the right tree goes to the right mill to produce products based on specific customer needs. The focus is on adding value by targeting customer segments that require specific quality products that yield higher, sustainable margins for Temple. Efficient production of those products, in turn requires close coordination between raw material supply, manufacturing and delivery.

FINANCIAL SERVICES

"My customers are the medium and large homebuilders, many of which operate nationally. In this booming housing market, residential areas are developed quickly to meet growing demand, and builders need to know they have the financial backing to seize the opportunities. At Guaranty, we pride ourselves on being extremely responsive. Homebuilding is a complex business, with many variables that can cause delays. Our customers don't need more obstacles, and that's where our service comes in. Our people have actual experience in the building industry and can deliver tremendous value to our customers. We're partners in the growth and success of these builders."

Wendell Gamble, Guaranty,
assistant vice president, residential construction lending,
Dallas, Texas

Temple-Inland's financial services group (Financial Services) has utilized a common strategy of building strong customer relationships in all four of its lines of business – consumer banking, mortgage banking, real estate and insurance brokerage. Focusing on customer needs is a key to success in each of these businesses.

During 1999, Financial Services' flagship institution, Guaranty Federal Bank (Guaranty), undertook a major market research initiative that confirmed that a significant portion of customers value personal attention and "high touch" service. Therefore, rather than compete with large national banks on price, Guaranty has elected to leverage an already established culture of catering to customers who value this level of personal service and represent the largest segment of financial services dollars in the market today. Even though "high touch" service is the focus, emerging technologies are a very important tool in Guaranty providing personal service to customers.

Guaranty has established a national reputation as a lender of choice, particularly to the real estate and mortgage industries. This reputation is anchored in a long-term commitment to these businesses on the part of experienced loan officers who believe that sound business fundamentals and strong relationships between banker and client are the keys to mutual success.

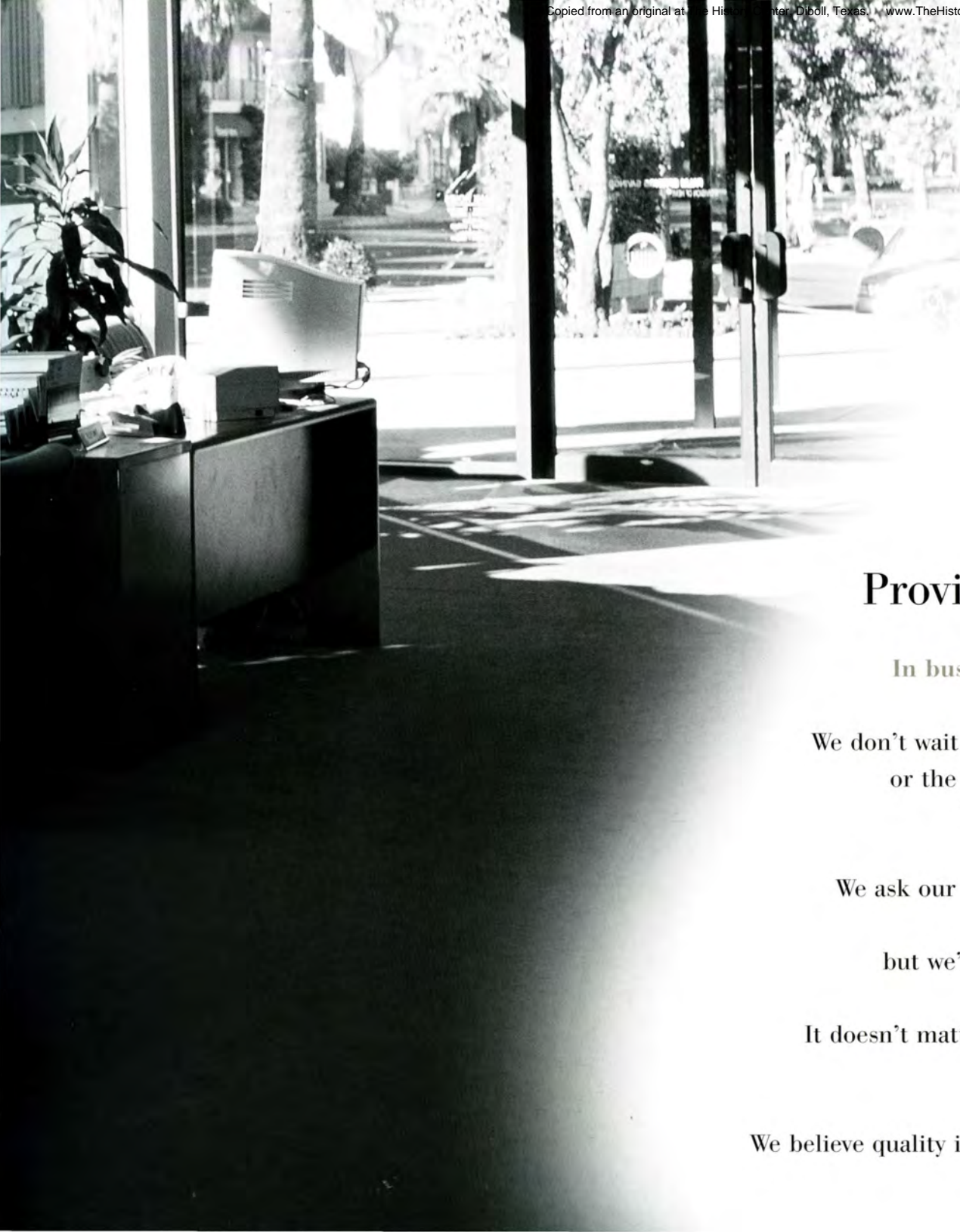
The same principles of relationship banking are also applied to the commercial side of Guaranty's lending business. Small and medium-size companies often need quick approval on loan requests. Guaranty's community business bankers can deliver a fast response because decisions are made locally. Strong banker-client relationships are also important, because many small-business owners do not have sufficient resources to meet all their business requirements. Regardless of what these businesses need – capital, cash management assistance, insurance or employee benefit programs – Guaranty's value lies in the ability to deliver comprehensive services and solutions.

The focus on customer relationships is also a key driver for Financial Services' other three businesses – mortgage banking, real estate and insurance brokerage. Although each of these businesses has a different set of customers with various types of needs, success is based on developing relationships that bring value to every customer.





Eloise McGuire, a part-time resident of Palm Springs, California, relies on Guaranty for the bank's variety of financial products, and because the team of service professionals is always available to personally assist her.



Providing quality products.

In business, quality is never static.

Someone is always raising the bar.
We don't wait for that "someone" to be the customer,
or the competition.
We raise it ourselves.

We ask our customers to define quality in their own terms.

Meeting or exceeding their requirements is important –
but we're not content with the minimum standards.

It doesn't matter if it's products, services, processes or ideas.

The highest level of quality is our benchmark.

We believe quality is what our customers want, and we expect it of ourselves.

Quality goes beyond consistent grade linerboard and the structural integrity of the container. From concept and design to delivery and recycling, the quality of Inland's product results from its total-solutions approach. This is what differentiates Inland from its competitors and benefits its customers.

To help take its quality standards to the next level, Inland is committed to delivering consistent quality from every plant, mill and office. As such, the company launched a new initiative called Inland Quality Process 9000 or, simply, IQP 9000. This fully integrated business management system is based on the ISO 9000 concept, but goes further by seeking to establish customer-focused, best-operating processes.

Already recognized by major national customers, such as Anheuser-Busch, Inc., The Minute Maid Company and Philip Morris Companies Inc., IQP 9000 goes beyond traditional quality-assurance systems to address organizational processes, including production, customer service, product delivery, invoicing and more.

This commitment to quality and innovative packaging solutions allows Inland to command a growing share of the agricultural industry in Mexico. Knowing that a one-size-fits-all container won't work when handling delicate fruits and vegetables, Inland works closely with each of the various growers to identify specific requirements for safe shipping. The result is less damage and waste for the growers, helping to increase profit margins.

"To me, maintaining the highest quality standards is simple: I discuss the customer's requirements with the people who run our paper machines and the corrugator operators at the packaging plants. Together, we develop solutions. Over the years, I have met with customers and gained a strong understanding of their needs. Having been at this mill since the doors opened 15 years ago, I have seen our quality go from good to the best in the industry. Our customers deserve the best and that's what they get."

Marvin Fry, Inland,
quality lab technician, containerboard mill,
Ontario, California

During 1999, Inland's consumer packaging business continued to build a reputation as the nation's premier supplier of litho-laminate, enhanced post-print and point-of-purchase displays – from the standpoint of both quality and creativity.

All of Inland's specialty products operations are supported by the Graphics Resource Center, recognized as one of the best preprint facilities in the United States. Serving as headquarters for the company's research, design and specialty printing staffs, the Graphics Resource Center in 1999 added an innovative retail research laboratory equipped with actual store fixtures, shelving and signage. The facility allows Inland to thoroughly test new merchandising concepts for specific retail environments, including

club stores, grocery stores, mass merchandise outlets and other configurations, thereby delivering to the customer a more efficient and targeted way to achieve sales goals.

Inland is regularly named supplier of the year by various customers who see the bottom line impact of breakthrough creative concepts for packaging and display systems. Inland's commitment to high levels of quality and innovation can also be gauged by the significant number of awards it receives from top industry associations. In 1999, for example, the company won more than 15 top honors from such groups as the Point of Purchase Advertising Institute, the Paper and Packaging Council, *POP Times* magazine and the Flexographic Technical Association, among others.





BUILDING PRODUCTS

Quality has long been a hallmark of Temple's diverse line of building products. For people who depend on the highest quality materials – professional contractors and do-it-yourself remodelers alike – Temple products set the standard for performance, ease of use and finished quality.

One of the key components of Temple's value-chain system is bringing customers into its manufacturing facilities to speak directly with plant employees. The overriding message that continuously comes through during these meetings is that the company's key competitive advantages, as defined by customers, are consistency, predictability and reliability. In fact, a leading building-supply distributor in Texas told Temple employees that when he purchases lumber from other suppliers to meet high demands, he uses Temple material to set the standard.

In addition to lumber, Temple is well-positioned in particleboard, medium density fiberboard (MDF), gypsum wallboard, fiber-cement siding and fiberboard. Building contractors count on the consistent quality Temple offers across all product lines. As a result, the company was able to benefit from the continued strong housing starts during 1999, as well as the growing home repair and remodeling market.

Temple is also meeting the growing demands of the retail market by establishing itself as a preferred provider with such customers as The Home Depot and Lowe's – companies that require high levels of service. As consumer purchasing behaviors continue to become more sophisticated, the company is partnering with retailers to incorporate in-store marketing strategies and point-of-purchase displays that highlight the features and benefits of its products.

The furniture and kitchen cabinet industries continue to grow, and Temple is positioned to capitalize on the resulting increased demand for composite wood products. The company's investment in recent years to upgrade three particleboard plants and to construct a world-class facility in Hope, Arkansas, has begun to pay off. These efforts have doubled the company's particleboard capacity since 1997, while also dramatically improving product quality. Today, Temple is recognized for the superior surface quality and performance of its particleboard.

Many of the group's particleboard customers are also employing MDF in their products. Demand for this product is growing rapidly. MDF is used primarily for applications in laminate flooring, architectural trim and store fixtures. Leveraging its reputation for consistent quality and offering the industry's most advanced continuous-press capabilities, Temple is the largest North American producer of MDF.

"Quality is part of our culture, and we firmly believe in the products we sell. We simply don't sell anything less than the best. I specialize in delivering customized special orders for my customers, and Temple's products are consistently reliable. There are very few returns when our customers leave the store with Temple's materials. I actually enjoy selling the company's fiber-cement products because the performance features are heads above competitive products. In fact, I'm installing it on my own house."

Bill Buell, special services manager and district trainer,
The Home Depot, store #6503, Dallas, Texas,
Temple customer

Financial Services has chosen to develop a high level of expertise in certain core businesses and products, rather than trying to be all things to all people.

As a nationally recognized lender, Guaranty has committed more than \$16 billion since 1991 to the commercial and residential real estate construction industry. Additionally, the bank is one of the largest mortgage warehouse lenders and a major investor in single-family, adjustable-rate mortgages.

Guaranty has also taken additional steps to strengthen its loan offerings, especially second-lien mortgage products, home-improvement loans, home-equity loans and lines of credit. Automobile and education lending activities also increased during the year. Guaranty significantly expanded its lending activities to middle-market companies during the year, achieving a record \$1 billion in loans outstanding.

On the retail side, Guaranty unveiled a broader array of products and convenient delivery options in 1999, including new high-yield money market and checking accounts, bill paying by telephone and the Visa® Check Card. As a result of these initiatives, Guaranty's deposits grew by 10 percent during the year.

More emphasis was also placed on offering a full range of products and services wherever bank customers do business. For example, the bank expanded its branches into supermarkets to enhance customer convenience. Additionally, consumer loans are offered in strategically selected bank branches, and investment products are available through the assistance of professionally licensed representatives.

Temple-Inland Mortgage Corporation, the group's mortgage banking operation, is one of the nation's largest lenders to single-family home buyers with customers in every state. Loan production totaled \$3.7 billion in 1999 and the company's \$22 billion loan servicing portfolio includes approximately 240,000 customers. Lumbermen's Investment Corporation, the group's real estate company, focuses on single-family real estate development.


Timberline Insurance Managers Inc., Financial Services' insurance brokerage operation, offers a comprehensive range of financial products and services, including personal and commercial lines of protection, annuities, life and health insurance, and risk advisory services. Timberline is one of the largest insurance agencies in Texas, which allows for a large customer base to be served with a full complement of products at competitive rates. Timberline is well positioned to increase its presence in Texas and expand into other markets, especially California.

"My husband and I live in Palm Springs for about half the year, and we originally chose our bank because of its location. It's very convenient to where we like to shop and eat, and that's important. When Guaranty purchased the bank, we stayed there because we love the people and the way they're always so courteous and watch out for us. They have just the kind of services we need. And the branch manager always comes out to say hello or to invite us into his office to chat. You know, saying hello like people do when people know each other."

Eloise McGuire,
Palm Springs, California,
Guaranty customer







Rick Daugherty, construction manager and now plant manager for Temple's new joint-venture synthetic gypsum wallboard plant — along with the entire construction planning team — envisioned and built a world-class facility.

Positioning for the future.

At Temple-Inland,

we are positioning ourselves with a view toward the future.

We listen very closely to our customers.

We continuously learn about their needs and definition of success.

We develop sound, strategic growth initiatives to meet those needs.

And implement those plans in the most efficient manner possible.

Success is measured by the value we deliver to our customers, shareholders and employees.

"During 1999, we spent a great amount of time and resources to achieve simultaneous goals – to create a flatter, leaner organization and position ourselves to respond quickly to our customers' continuously changing needs. By realigning into smaller districts, we've been able to sharpen our market focus and better utilize our assets. Every employee in our district understands how his or her actions can affect our customers' success."

Dave Glover, Inland,
vice president, Ohio River District,
Louisville, Kentucky



P A P E R

During 1999, Inland continued implementing the single most expansive margin-improvement program in the company's 75-year history. The primary goal is to create a distinctly market-driven culture in which the customer's demand for value and innovation determines the right products, operating levels and capital investments necessary to exceed the targeted return on investment.

As part of this program, Inland eliminated approximately 250 positions. Compensation is now aligned with profitability at each level of the value chain, rather than tonnage produced or sold.

Inland also successfully upgraded its customer base in 1999. In 1998, Inland made difficult decisions regarding pricing to some long-standing customers that resulted in the elimination of certain low-margin accounts. Because it exited accounts faster than they could be replaced, Inland's volume in 1998 trailed the industry. The trend was reversed in 1999, and volumes exceeded the industry average. More importantly, the increase was predominantly in higher-value accounts.

The market-driven culture applies to the containerboard mills as well as the corrugated packaging plants. It requires the mills to operate as a coordinated system. The mills can no longer simply run at full capacity and push containerboard to Inland's corrugated container plants. Rather, the box plants now order containerboard as needed to meet market demand. This makes the mill system responsible to the market through its primary customer. Inland's corrugated container plants, as well as other domestic and international users of containerboard.

A joint venture with Caraustar Industries, Inc., is a prime example of the company's efforts to enhance and balance its asset base. In May, the company announced it would convert its containerboard mill in Newport, Indiana, to produce a lightweight gypsum facing paper. When completed in 2000, the project will increase the company's integration levels and diversify its product line – important steps in further improving return on investment.

Installing a new company information system was identified as a key enabler to the margin improvement program and a requirement for improving performance to the customer. Called Integrated Package and Point Solutions, or IPPS, this effort includes configuring new processes, installing a new technical infrastructure and software, and training users. IPPS will provide a foundation for better managing the total supply chain and for capturing the benefits of e-commerce. In effect, IPPS represents an unprecedented opportunity to streamline and upgrade the company's business processes, procedures and systems – each element aimed at creating and sustaining true economic value for all stakeholders.

With an increased focus on the core corrugated packaging operations, Temple-Inland sold its bleached paperboard business to Westvaco Corporation during the fourth quarter. 1999 was a milestone year of positioning for Inland, as the company continues to improve earning power through aggressive efforts focused on organization efficiency and effectiveness, operations cost improvement and revenue enhancement.

BUILDING PRODUCTS

Temple has built a solid foundation on which it continues to leverage and add to the overall company's return to shareholders. It is positioned with a combination of broad product diversity, efficient plants and key geographic locations.

The company's new joint-venture gypsum wallboard plant in Cumberland City, Tennessee, is a good example of Temple's strategic focus on positioning itself for the long term. The raw material used to produce the wallboard is a low-cost, synthetic gypsum produced as a by-product of a Tennessee Valley Authority electric-utility plant adjacent to the gypsum wallboard facility.

Furthermore, the plant's location will help the company better serve the fast-growing construction markets in the eastern half of the United States.

Lumber remains Temple's largest product segment, and the company has now completed renovations to all of its existing sawmills. The construction of a new sawmill in Pineland, Texas, will be completed in 2001. The goal is to enable these operations to convert smaller logs, thereby increasing the percentage of fiber that can be used as lumber rather than by-product chips. With these changes, Temple has one of the most efficient, low-cost sawmill systems in the United States.

Temple also continues to expand its composite wood products to serve the growing home construction, repair and remodeling, and furniture markets. In late 1999, Temple entered into a 20-year lease to operate a particleboard facility and an MDF facility in Mt. Jewett, Pennsylvania. This acquisition raises Temple's North American market share in MDF to approximately 20 percent, and approximately 12 percent in particleboard. More importantly, these facilities allow Temple to continue meeting customers' increasing demand for particleboard and MDF and to serve new markets.

"I've spent my entire career building large manufacturing plants. But this is the first time I would become the day-to-day plant manager once it was completed. I personally wanted to ensure it was world class and, with management's support, I believe we've met our goals. It is truly a strategic facility with state-of-the-art processes. And our geographic location gives us a competitive cost advantage. We're literally next door to our raw material source, and we're close to fast-growing markets. It's a winning combination."

Rick Daugherty,
plant manager, synthetic gypsum wallboard plant,
Cumberland City, Tennessee





"The marriage between Guaranty and Fidelity Funding is a solid one in so many ways. We're a good fit geographically, and Fidelity helps to diversify the overall corporate lending portfolio. It's a powerful combination for our customers, which are mostly emerging, high-growth businesses. We provide lower cost of funds and, with Guaranty, more flexibility in financing sources."

Michael Skat, Fidelity Funding Financial Group,
vice president-marketing,
Orlando, Florida

FINANCIAL SERVICES

One of Financial Services' key strengths is the diversity of its assets. During 1999, Financial Services pursued an aggressive diversification strategy, making it less dependent on the cyclical nuances of any particular industry or region.

Financial Services took a major step forward in its diversification strategy by making a number of acquisitions. First, Guaranty acquired the asset-based lending operations of Fidelity Funding Financial Group, Inc., which provides corporate customers with lines of credit, term loans and other financing secured by account receivables, inventories and equipment. It also acquired an interest in Hoak Breedlove Wesneski & Co., a regional investment bank that specializes in technology and telecommunications. Finally, Guaranty has entered into an agreement to purchase American Finance Group, Inc., an industrial and commercial equipment leasing and financing company.

Furthering one of its key strategies to broaden geographically, Guaranty successfully integrated its acquisition of HF Bancorp, Inc. with branches in the Southern California markets of Palm Springs, Riverside County and northern San Diego County.

The bank's commercial and residential lending division continued to expand activities in Texas, California, the Southeast, the Northwest and in more than 50 major metropolitan areas from coast to coast, achieving record production.

Financial Services has historically provided a steady stream of earnings for Temple-Inland to offset the earnings volatility from paper and building products. By further diversifying its assets in 1999, Financial Services is positioned to continue providing increased earnings in the future.

Stan Cook and other special use forest
managers dedicate themselves to
the stewardship of Temple-Inland
forests — making sure the
company leaves a worthwhile
legacy for generations to follow.



Contributing to the quality of life for employees and communities.

Financial performance and returns are important.

But there are other kinds of returns,
as well.

Returning the trust placed in us with responsible forest management.

Returning something to the communities where we operate.

Returning something is a wise investment.

It's also the right thing to do.

We believe that by doing the right thing,

the returns will follow.

FOREST STEWARDSHIP

Temple-Inland's approximately 2.2 million acres of timberland in Texas, Louisiana, Georgia and Alabama represent a strategic and valuable source of raw material for its paper and building products operations. It also represents a significant social responsibility — a responsibility the company takes very seriously.

The company carefully manages its forests as a sustainable resource. Forest management decisions are made with consideration to the total forest environment, including wildlife, biodiversity, water quality and aesthetic issues. In 1995, the company established a comprehensive policy to preserve and enhance the sustainability of its forests. This policy sets company standards to help ensure a balance among ecology, economy and sustainable forestry.

As part of Temple-Inland's overall forest strategy, every acre is assigned a management prescription based on an individual site's most beneficial use and intrinsic qualities. Today, approximately 75 percent of the company's land is targeted for high-yield fiber production, while the remainder is managed as natural stands.

"I probably have one of the most interesting jobs in the company. I work right beside other special use foresters to make effective long-term management decisions. My specific responsibilities are related to Temple-Inland's commitment to the most sensitive aspects of the forests — protecting wildlife habitats and ensuring the quality of water resources and the aesthetics of the forests."

Stan Cook, Temple-Inland Forest,
special use forest manager,
Diboll, Texas

During the 1998-99 planting season, 49,000 acres were carefully selected and reforested with 36 million genetically improved pine seedlings. The seedlings grew 30 percent taller on average than seedlings planted in previous years. Seedling survival also increased by approximately 8 percent from historic levels. These results are due to new company innovations, technology and applied research, which will continue to increase the amount of fiber delivered to the company's mills annually.

As part of its efforts to help protect endangered species, the company signed an agreement in 1999 with the Texas Parks and Wildlife Department and the Texas Forest Service to establish a 5,000-acre Habitat Management Area for the red-cockaded woodpecker. The Habitat Management Area is located in the central region of the company's East Texas forests, and foresters are working to establish at least 14 groups of these birds, which are on the Federal Endangered Species List.

In recent years, there has been much discussion about how the forest industry can ensure that wood and paper products originate from well-managed forests, while at the same time conserving the Earth's more sensitive and diverse forest types. Because the majority of Temple-Inland's fiber base is derived from southern pine plantation resources, the company is not in the center of the debate surrounding old-growth forests, tropical forests and temperate rainforests.

Nevertheless, the company believes in communicating its high standards of forest management and fully expects to be held accountable by both retailers and the general public. During 1999, the company began exploring the options of contracting with leading assessment firms to conduct an independent verification of its forest practices, as well as to assess the company's compliance with the environmental management systems of the International Standards Organization.





"I belong to the Scholastic Basketball program that the 100 Black Men group does at my school. It's great. I joined at first just because I wanted to play basketball. But then I found out that they teach us how to approach life – like how to look somebody in the eye and shake hands like a man. And we win extra points for our class work and attendance and conduct. The coaches are great, too. I know they'll always be there for me for the rest of my life."

Stephen Carbone, 5th grader, P.S. 105,
Indianapolis, Indiana

The Scholastic Basketball program is sponsored in part by a Leadership Grant from The Inland Foundation.

Temple-Inland's business groups conduct a diverse range of philanthropic programs, including charitable contributions and grants, extensive volunteer activities and donations of equipment, products and in-kind services. However, there is one overriding direction to the various outreach efforts. The majority of Temple-Inland's charitable giving is centered on the communities in which the company's employees live and work.

The company has a particularly well-known and regarded program that encourages academic excellence among high school students. Each year, it gives a \$1,000 award to the top two graduating seniors from more than 550 schools in communities across the country where Temple-Inland has operations.

In addition, Inland is progressive in supporting elementary schools in the many communities in which it operates. Through its Partners in Education program, Inland not only contributes funds for capital and curriculum improvements at more than 40 schools throughout the country, it establishes long-term and productive relationships with students and teachers.

Financial Services' commitment to the economic development of the communities it serves is a deeply rooted tradition and goes well beyond its extensive Community Reinvestment Act program. Many of the group's community reinvestment efforts are aimed at supporting home ownership as a foundation to strong, vibrant neighborhoods. The programs are diverse and far ranging, including offering affordable mortgage products to low- and moderate-income families participating in FHA, VA and Fannie Mae lending programs; commercial lending for construction of affordable housing units; and loans to minority and small-business owners located in underserved areas.

Finally, it is impossible to measure the impact of individual volunteer work performed by Temple-Inland's employees. The company is proud of their activities and encourages even more participation as a way of showing gratitude and commitment to the many communities where employees live and work.



"The grant I received through Guaranty meant the world to me. I was ill, and both my daughter and I were unemployed at the time. I was able to make badly needed repairs to two bathrooms and all of my doors, including the garage doors. My family's security was a major concern and it was really worrying me. I feel safe now. And the house is in much better shape, which is also important because I truly believe that cleanliness is next to godliness."

Vivian Arceneux, self-employed baker,
Houston, Texas

Mrs. Arceneux received a Federal Home Loan grant in 1999 through Guaranty.

"The award gave me a head start on college. During the summer, I used the money to pay for two courses and received six hours of credit. It's amazing that companies like Temple get so involved with communities. I'm currently volunteering on a public relations committee for the Oklahoma State Department of Vocational and Technical Education. I'm learning a lot about business, and I hope I can help my future employer be the same type of company as Temple."

John Cross, freshman, Oklahoma State University,
Stillwater, Oklahoma
*John received a scholar award in 1999
from Temple.*



At Temple-Inland, we believe that the equation for creating shareholder value is a simple one:

Customer focus, plus quality products, plus strategic positioning, plus a commitment to stewardship.

By being faithful to this philosophy, our stakeholders will benefit —
regardless of whether their investment is as a shareholder, a customer, an employee or a neighbor.

We have been dedicated to strengthening and enhancing our company throughout 1999.

We look forward to continuing on this path as we move into the future.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations and Financial Condition

Results of continuing operations, including information regarding the principal business segments, are shown below. Additional information regarding business segments is included in Note 10 to the Consolidated Financial Statements.

BUSINESS SEGMENTS

For the year	1999	1998	1997	1996	1995
(in millions)					

REVENUES

Paper	\$ 1,798	\$ 1,642	\$ 1,694	\$ 1,761	\$ 1,910
Building Products	768	613	617	563	533
Financial Services	1,116	1,036	923	800	754
Total revenues	\$3,682	\$ 3,291	\$ 3,234	\$ 3,124	\$ 3,197

INCOME BEFORE TAXES

Paper	\$ 103	\$ 39	\$ (54)	\$ 120	\$ 333
Building Products	174	112	131	102	67
Financial Services	138	154	132	63 ^a	98
Segment operating income	415	305	209	285	498
Corporate expense	(30)	(28)	(25)	(17)	(22)
Special charge	-	(47)	-	-	-
Parent Company interest - net	(95)	(78)	(82)	(82)	(69)
Other income	16	6	6	5	4
Income from continuing operations before taxes	\$ 306	\$ 158	\$ 108	\$ 191	\$ 411

^aIncludes a one-time assessment of \$44 million to recapitalize the Savings Association Insurance Fund (SAIF).

The Paper Group manufactures linerboard and corrugating medium at six mills and converts it into corrugated packaging at 40 corrugated packaging plants located throughout the United States, and in Puerto Rico, Mexico and Chile. During the third quarter of 1999, the 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.

Revenues for the Paper Group increased to \$1,798 million in 1999, compared with \$1,642 million in 1998 and \$1,694 million in 1997. The Paper Group reported operating income of \$103 million in 1999, compared with \$39 million (before the special charges discussed below) in 1998 and a loss of \$54 million in 1997.

The following table shows the quarterly sales of the corrugated packaging operation in tons and dollars. The totals presented include both boxes sold and open market sales of linerboard.

For the Year	1999	1998	1997
UNIT SALES			
<i>(in thousands of tons)</i>			
1st Quarter	704	662	647
2nd Quarter	720	628	719
3rd Quarter	701	616	706
4th Quarter	677	613	697
	2,802	2,519	2,769
NET REVENUES			
<i>(in millions)</i>			
1st Quarter	\$ 420	\$ 432	\$ 412
2nd Quarter	444	420	433
3rd Quarter	462	410	421
4th Quarter	472	380	428
	\$1,798	\$1,642	\$1,694

Average box prices in 1999 were up 3 percent following a 7 percent increase in 1998 and an 11 percent decrease in 1997. The increase in 1999 reversed the downward movement of prices in the last half of 1998. Tons of boxes sold increased 5 percent in 1999, compared with a decrease of 3 percent in 1998 and an increase of 4 percent in 1997.

The average cost of old corrugated containers (OCC), the principal raw material used in approximately 46 percent of the Paper Group's containerboard production, increased by \$4 per ton in 1999. OCC cost decreased by \$16 per ton in 1998 and increased by \$16 per ton in 1997. Year-end OCC cost was \$89 per ton in 1999, \$85 per ton in 1998, and \$101 per ton in 1997.

Mill production totaled 2,656,000 tons in 1999, 2,499,000 tons in 1998 and 2,761,000 tons in 1997. In 1999, approximately 88 percent of the containerboard produced was converted into corrugated containers by the Paper Group's box plants. The remainder was sold in the domestic and export markets. The Paper Group curtailed production by approximately 236,000 tons in 1998 and 36,000 tons in 1997 to control inventory levels.

During 1998, the Paper Group closed and dismantled its 70,000 ton corrugating medium mill in Newark, California, and recognized a gain of \$13 million in 1999 from the sale of the real estate. In 1999, the company announced it had entered into a joint venture to convert its 285,000 ton containerboard mill in Newport, Indiana, to produce a lightweight gypsum facing paper. The conversion is expected to cost approximately \$70 million and is scheduled for completion in the third quarter of 2000. This conversion will increase the group's integration level and diversify its product line.

During 1999, the Paper Group continued implementing its *Mplus 50* program, the goal of which is to improve average return on investment to target levels over a cycle. The focus of the program is to create a distinctly market-driven culture in which customer demand determines the products, operating levels and capital investment necessary to achieve the goal. Employee compensation is tied to return on investment.

A key to *Mplus 50* is improving margins by targeting a more select customer base. In 1998, this group exited many low-value accounts faster than they could be replaced, and the Paper Group's volume in 1998 trailed the industry. This trend, however, reversed in 1999, and volume increases exceeded the industry average. The increase was predominantly in higher-value accounts.

Installing a new information system is also an important part of the *Mplus 50* program. This effort includes configuring new processes, installing a new technical infrastructure and software, and training users. This system, which is anticipated to be completed in 2001 and to cost approximately \$70 million, will allow the Paper Group to improve performance to the customer and capture the benefits of e-commerce.

The *Mplus 50* program was initiated in 1998 and resulted in a special 1998 charge that included \$13 million in severance costs, write-offs of \$4 million of abandoned packaging assets, and a \$20 million impairment write-down of the Argentine box plant. Half of the 250 employees affected by the work force reduction accepted an early retirement offer in December 1998. The remaining work force reductions were made during 1999. Substantially all of the charge for work force reductions was paid in 1999. During the second quarter of 1999, the Argentine box plant was sold for \$12 million, which approximated its adjusted carrying value.

Discontinued Operations

During the third quarter of 1999, the company decided to discontinue its bleached paperboard operation. The bleached paperboard mill was sold in December 1999 to Westvaco Corporation for approximately \$658 million, which included \$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 to the bleached paperboard mill, is expected to be sold during 2000. Revenues of the discontinued operations were \$381 million in 1999, \$376 million in 1998 and \$369 million in 1997. The losses from discontinued operations were \$92 million in 1999 (including a loss on disposal of \$71 million), \$21 million in 1998 and \$8 million in 1997. Interest expense of \$28 million per year was allocated to the discontinued operations based on debt allocated to these operations. The loss from operations is net of income tax benefits of \$13 million in 1999, \$13 million in 1998 and \$5 million in 1997. 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.

BUILDING PRODUCTS

The Building Products Group manufactures a diverse line of construction and commercial grade building products at 20 facilities located in Texas, Louisiana, Oklahoma, Arkansas, Alabama, Georgia, Pennsylvania, Tennessee and Canada. These facilities include four joint venture facilities and two facilities — a particleboard plant and a medium density fiberboard (MDF) plant — operated under long-term lease agreements that began during December 1999. The products manufactured are lumber, plywood, particleboard, MDF, gypsum wallboard, fiberboard and fiber-cement products.

Operating income for the Building Products Group was \$174 million in 1999, an all-time record, exceeding the previous record of \$139 million achieved in 1994. Operating income was \$112 million in 1998, excluding the special charge discussed below, and \$131 million in 1997. Revenues increased \$155 million, or 25 percent, to \$768 million in 1999, compared with \$613 million in 1998 and \$617 million in 1997. Housing starts were up 3 percent in 1999, reaching the highest level since 1986. As a result, prices advanced in 1999 across all product lines. Lumber, plywood and MDF prices were up more than 10 percent, and gypsum prices were up almost 25 percent from 1998.

The following table provides information on unit sales and net revenues for each product line.

For the year	1999	1998	1997
UNIT SALES^a			
Pine lumber	618	603	639
Plywood	296	289	281
Particleboard	574	518	470
MDF	187	35	-
Gypsum wallboard	890	858	843
Fiberboard	439	423	402
NET REVENUES^b			
<i>(in millions)</i>			
Pine lumber	\$ 254	\$ 223	\$ 262
Plywood	68	60	55
Particleboard	171	141	125
MDF	57	9	-
Gypsum wallboard	147	116	105
Fiberboard	71	64	66
Retail	-	-	4
Totals	\$ 768	\$ 613	\$ 617

^aUnit sales are in millions of square feet, except pine lumber, which is in millions of board feet, and do not include units sold from joint venture operations.

^bNet revenues do not include revenues from joint venture operations.

The solid wood operation manufactures lumber and plywood and manages the company's timber resources. Pine lumber shipments of 618 million board feet increased 2 percent from 1998, but decreased 3 percent from 1997. The Asian economy began to recover in 1999, resulting in increased industry exports of solid wood products and higher prices. For the year, the average sales price for the solid wood operation increased 7 percent for lumber and 11 percent for plywood, resulting in an increase in revenues for the solid wood operation of \$39 million, or 14 percent.

The major modernization project at the Buna, Texas, sawmill was completed in 1998, but modernization at the Diboll, Texas, sawmill continued through the first quarter of 1999 and resulted in temporary production outages and reduced shipments. The modernization at the Diboll sawmill resulted in the abandonment of \$3 million of equipment, which was included in the 1998 special charge. Both plants are now operating at full capacity. During 1998, the company announced its intention to change the focus of the operations at its plywood plant. This plant will continue to produce veneer products, and a state-of-the-art sawmill will be added to the site. This change will permit the Building Products Group to optimize the use of available sawtimber and produce a higher value product. The construction of the new sawmill in Pineland, Texas, is anticipated to be completed in early 2001. This effort resulted in the write-down of \$7 million related to certain plywood assets, which was also included in the 1998 special charge.

The solid wood operation manages the company's 2.2 million acres of timberland, which are located in Texas, Louisiana, Georgia and Alabama. In 1999, this renewable resource provided approximately 60 percent of the company's sawtimber requirements and roughly 55 percent of the fiber necessary to operate the company's paper, particleboard and fiberboard converting operations. In connection with the sale of the bleached paperboard operation, the company entered into a long-term agreement with Westvaco Corporation to provide fiber at market rates. Based on current pricing, the company expects revenue from this agreement to approximate \$40 million to \$45 million per year.

Using by-products of lumber processing, the group manufactures particleboard at five plants in Texas, Alabama, Arkansas, Georgia and Pennsylvania. Particleboard shipments increased 11 percent, and sales averages increased 9 percent over 1998. The improvement in sales averages is due primarily to the higher percentage of high-margin substrate for flooring in the product mix. Shipments of this substrate, produced at the Georgia and Alabama facilities, were more than triple 1998 shipments, contributing to a \$30 million, or 21 percent, rise in particleboard revenues for the year. This compares with a 13 percent increase in 1998 and an 18 percent increase in 1997.

In its first full year of operation, MDF was not profitable. However, MDF markets improved significantly throughout the year with sales averages at the end of 1999 exceeding year end 1998 levels by 19 percent. A strengthening MDF market, coupled with the natural progression up the production learning curve, should enable this operation to be profitable in 2000.

On December 28, 1999, the Building Products Group leased for a term of 20 years an MDF facility and a particleboard facility located in Mt. Jewett, Pennsylvania. The lease includes an option to purchase these facilities in the fifteenth year of the lease term and at the end of the lease. The MDF facility has an annual capacity of approximately 100 million square feet, and the particleboard facility has an annual capacity of approximately 200 million square feet. The addition of these two mills will allow the Building Products Group to meet customers' increasing demand for particleboard and strengthen its position in the growing MDF market.

Record revenues of \$147 million were achieved by the gypsum wallboard operation in 1999. Gypsum wallboard shipments of 890 million square feet were only 4 percent above 1998 levels, but revenues increased by \$31 million, or 27 percent, due to the 23 percent increase in sales averages for the year. Demand reached record levels in 1999. A slight weakening of demand during November was followed by a more dramatic decline in December. Demand slowdown, combined with increased gypsum industry capacity and increased imports, put downward pressure on shipments and sales averages at year end. The company expects this downward pressure to continue throughout 2000.

Production began at the new gypsum wallboard facility in Cumberland City, Tennessee, during the fourth quarter of 1999. The plant operates as a part of Standard Gypsum LLC, a joint venture in which the company owns a 50 percent interest. This state-of-the-art facility has the capacity to produce approximately 700 million square feet of gypsum wallboard annually, and utilizes 100 percent flue gas desulphurization (synthetic) gypsum. The plant is located adjacent to a coal-fired steam electric generation plant, which produces synthetic gypsum as a by-product of its air cleaning system. Independent of the joint venture, the company has negotiated a long-term contract for the synthetic gypsum produced at this electric generation plant. Synthetic gypsum acquired pursuant to this contract will supply the Cumberland City plant and the company's plant at West Memphis, Arkansas.

Fiber products revenues increased \$7 million, or 11 percent, from 1998 due to a 4 percent increase in shipments and a 7 percent increase in the overall sales average. High demand for Fiber Brace™, an intermediate-grade fiberboard sheathing used for corner bracing, was responsible for the improved product mix. This product grew to represent 51 percent of the softboard mix and now commands a 45 percent share of the 1/2-inch structural fiberboard market. TrimCraft™, the company's alternative lumber trim product, continued to gain market acceptance, with shipments of the product advancing 17 percent over 1998, the second consecutive year of double-digit growth. As a result, the company now holds a 25 percent share of the hardboard engineered trim market.

In its first year of operation, Fortra Fiber Cement LLC, a 50 percent joint venture located in Waxahachie, Texas, was not profitable due to higher than expected production costs and lower than anticipated sales averages. FORTRA™, the joint venture's brand-name fiber-cement product, provides numerous benefits, including: ease of cutting, fastening and finishing; low maintenance; immunity to water damage, salt spray and termite attack; and non-flammability. Management is undertaking a review of the operations to establish an appropriate course of action to achieve profitability at the venture. Alternatives being explored include, but are not limited to, an evaluation of the manufacturing processes, including the equipment and its use, to determine if modifications or changes can be made to enhance product offerings or improve operating efficiencies.

FINANCIAL SERVICES

The Financial Services Group includes savings bank, mortgage banking, real estate and insurance brokerage operations. Selected financial information for each of these operations is presented below.

FINANCIAL SERVICES GROUP SELECTED FINANCIAL INFORMATION

For the year (in millions)	1999	1998	1997
REVENUES			
Savings bank	\$ 841	\$ 743	\$ 711
Mortgage banking	131	153	113
Real estate	111	107	69
Insurance brokerage	33	33	30
Total revenues	\$ 1,116	\$ 1,036	\$ 923
INCOME			
Savings bank	\$ 109	\$ 113	\$ 107
Mortgage banking	19	22	24
Real estate	4	13	(4)
Insurance brokerage	6	6	5
Operating income	138	154	132
Taxes on income	17	27	21
Net income	\$ 121	\$ 127	\$ 111
ASSETS			
Savings bank	\$ 12,892	\$ 11,947	\$ 10,371
Mortgage banking	363	442	385
Real estate	313	295	268
Insurance brokerage	33	32	32
Eliminations	(280)	(340)	(284)
Total assets	\$ 13,321	\$ 12,376	\$ 10,772
EQUITY			
Savings bank	\$ 857	\$ 559	\$ 423
Mortgage banking	91	84	82
Real estate	53	48	58
Insurance brokerage	22	17	13
Total equity	\$ 1,023	\$ 708	\$ 576

Savings Bank

Guaranty Federal Bank, F.S.B. (Guaranty), conducts business through 155 banking centers in Texas and California. The Texas operations are concentrated in the metropolitan areas of Houston, Dallas/Fort Worth, San Antonio and Austin, as well as the central and eastern regions of the state. The California operations are concentrated in the Central Valley and Southern California. The primary business of Guaranty is attracting savings deposits from the general public, investing in single-family adjustable-rate mortgages, lending for the construction of real estate projects and providing a variety of loan products to consumers and businesses.

On October 26, 1999, Guaranty signed a definitive agreement to acquire all of the outstanding stock of American Finance Group, Inc. (AFG). AFG is a commercial finance company engaged in the leasing and secured financing of a variety of equipment for investment-grade "Fortune 1000" companies and creditworthy middle-market companies. AFG markets its products nationally through sales offices located in Boston, Massachusetts; Houston, Texas; Chicago, Illinois; Charlotte, North Carolina; and Minneapolis/St. Paul, Minnesota. At December 31, 1999, AFG had total assets of approximately \$188 million and total liabilities of approximately \$157 million. This transaction is expected to close in the first quarter of 2000, with an anticipated purchase price of approximately \$32 million in cash.

On June 29, 1999, the company acquired all of the outstanding stock of HF Bancorp, Inc., the parent company of Hemet Federal Savings and Loan Association (Hemet), and merged the operations of Hemet into Guaranty. The consideration paid was approximately \$119 million in cash. Hemet operated 18 branches in the Southern California markets of Riverside County, Palm Springs and northern San Diego County, and had assets at acquisition totaling approximately \$1.2 billion, consisting primarily of loans and securities.

On June 11, 1999, Guaranty acquired the assets of Fidelity Funding Financial Group (Fidelity) for \$18 million in cash. Fidelity, an asset-based lending operation, had assets at acquisition of approximately \$111 million, consisting primarily of loans.

On June 27, 1997, the company acquired all of the outstanding stock of California Financial Holding Company, the parent company of Stockton Savings Bank, F.S.B. (SSB), and merged the operations of SSB into Guaranty. Consideration for the transaction was \$143 million, consisting of approximately 1,614,000 shares of Temple-Inland Inc. common stock and cash of \$47 million. SSB operated 25 banking centers in the Central Valley area of California and had assets at acquisition totaling approximately \$1.4 billion, consisting primarily of loans and securities.

Selected financial information for the years ended December 31, 1999, 1998, and 1997 is provided below.

SAVINGS BANK
SELECTED FINANCIAL INFORMATION

For the year	1999	1998	1997
<i>(dollars in millions)</i>			
INCOME BEFORE TAXES			
Net interest income	\$ 306	\$ 246	\$ 222
Provision for loan losses	(38)	(1)	2
Noninterest income	30	31	18
Noninterest expense	(174)	(149)	(128)
Minority interest in income of subsidiary	(15)	(14)	(7)
Income before taxes	\$ 109	\$ 113	\$ 107
AVERAGE BALANCE SHEET			
Total earning assets	\$12,005	\$10,390	\$ 9,919
Loans receivable and mortgage loans held for sale	9,308	7,440	6,531
Mortgage-backed and other securities	2,344	2,602	2,722
Deposits	8,416	7,579	7,091
Securities sold under repurchase agreements and FHLB advances	2,795	2,242	2,574
KEY RATIOS			
Yield on earning assets	6.91%	7.02%	7.06%
Cost of funds	4.58%	4.82%	4.95%
Net interest spread	2.33%	2.20%	2.11%

During 1999, average loans receivable and mortgage loans held for sale constituted 78 percent of earning assets, compared with 72 percent during 1998. Guaranty continued to securitize portions of the mortgage loans held in its portfolio during 1999, ending the year with \$601 million in securitized mortgage loans. During 1999, the ratio of average loans receivable, mortgage loans held for sale and securitized mortgage loans to earning assets was 83 percent, compared with 78 percent during 1998.

Guaranty continued to increase the size and alter the mix of its loan portfolio through an increased focus on construction and development lending, commercial and business lending, and consumer lending, and the introduction of new products. In addition, real estate mortgage loans outstanding decreased in 1999. The change in the mix of the loan portfolio contributed to an increase in the provision for loan losses. These loans provide further geographic and product diversification and the opportunity for improved earnings in 2000.

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 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 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 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.

Guaranty recorded a \$38 million provision for loan losses in 1999, compared with \$1 million in 1998 and a \$2 million negative provision in 1997. The increase in the provision in 1999 was primarily related to the growth in, and the alteration of the mix of, the loan portfolio.

At year end 1999, the allowance for loan losses as a percentage of loans receivable increased to 1.20 percent from 1.06 percent at year end 1998. The increase was primarily driven by the changes in the portfolio discussed above and the acquisition of Hemet. At year end 1998, the allowance for loan losses as a percentage of loans receivable decreased to 1.06 percent from 1.41 percent at year end 1997. The decrease in 1998 compared with 1997 was primarily driven by a 30 percent decline in the purchased loan portfolios and a reduction in the related allowance for loan losses.

Net interest income for 1999 increased \$60 million from 1998 as earning assets increased. A large portion of the growth was the result of the Hemet acquisition discussed above. Net interest income for 1998 increased \$24 million from 1997, due primarily to average earning asset growth related to the acquisition of SSB discussed above.

Noninterest income, which primarily consists of service charges on deposits and gains or losses on the sale of loans, totaled \$30 million in 1999, down from \$31 million in 1998 and up significantly from \$18 million in 1997. The increase from 1997 is primarily due to losses incurred on the sale of loans and securities in 1997, compared with gains on similar activity in 1998 and 1999.

Noninterest expense for 1999 increased \$25 million from 1998, primarily as the result of the Hemet acquisition. Noninterest expense in 1998 increased \$21 million, compared with 1997, primarily due to the SSB acquisition.

The operations of Guaranty are subject to a risk of interest rate fluctuation to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. Because approximately 88 percent of Guaranty's assets at year end 1999 have adjustable rates, this risk is significantly mitigated.

Guaranty is also subject to prepayment risk inherent in a portion of its single-family adjustable-rate mortgage assets. A substantial number of Guaranty's investments in adjustable-rate mortgage-backed securities have annual or lifetime caps that subject Guaranty to interest rate risk should rates rise above certain levels. To optimize net interest income while maintaining acceptable levels of interest rate and liquidity risk, Guaranty, from time to time, will enter into various interest rate contracts to better match assets and liabilities.

On May 28, 1997, a newly formed subsidiary of Guaranty, which qualifies as a real estate investment trust (REIT), issued \$150 million of noncumulative floating rate preferred stock in a private placement. The preferred stock qualifies for inclusion in regulatory capital, subject to certain limitations. The REIT issued an additional \$75 million of noncumulative floating rate preferred stock on May 28, 1998.

OTS regulations require savings institutions to maintain certain minimum levels of capital. Guaranty's regulatory capital exceeded all applicable capital requirements at year end 1999. The company expects to maintain Guaranty's capital at a level that exceeds the minimum required for designation as "well capitalized" under OTS regulations. Additional information concerning Guaranty's capital requirements is included in the Notes to the Summarized Financial Statements of the Financial Services Group.

Mortgage Banking

Mortgage banking is conducted primarily through Temple-Inland Mortgage Corporation (TIMC), which arranges financing of single-family mortgage loans, securitizes the loans and sells them in the secondary market (primarily Fannie Mae, FHLMC and GNMA securities).

Selected financial information is provided below.

MORTGAGE BANKING SELECTED FINANCIAL INFORMATION

For the year	1999	1998	1997
<i>(dollars in millions)</i>			
PORTFOLIO ROLL-FORWARD			
Beginning servicing	\$ 22,886	\$ 26,082	\$ 17,851
Purchased servicing	3,884	3,536	9,497
New loans added, net of			
flow releases	2,383	3,375	2,600
Portfolio releases	(2,155)	(3,210)	-
Run-off	(4,815)	(6,897)	(3,866)
Ending servicing	\$ 22,183	\$ 22,886	\$ 26,082
Portfolio growth rate	(3.1)%	(12.3)%	46.1%
Run-off factor	21.0%	28.9%	16.8%
Ending number of			
loans serviced	241,400	256,300	351,600

Rising interest rates during 1999 resulted in a significant industrywide reduction in mortgage refinancing activity, contributing to a reduction in both mortgage origination volume and prepayments. Mortgage origination volume fell to \$3.7 billion in 1999, compared with \$6.1 billion in 1998. Portfolio run-off declined to 21.0 percent, compared with 28.9 percent in 1998.

The mortgage servicing portfolio fell to \$22.2 billion at year end 1999, compared with \$22.9 billion at year end 1998. TIMC continued its program of strategic acquisition and sales of servicing portfolios, resulting in significantly improved portfolio characteristics. The value of the servicing portfolio improved during 1999, as rising interest rates reduced actual and estimated future prepayment speeds, allowing for the reversal of \$16 million of the mortgage servicing valuation allowance provided in 1998.

The decline in mortgage origination volume has necessitated staff reductions, branch closures and consolidations. The number of staff positions was reduced by approximately 300 during 1999.

Real Estate

Real estate operations conducted primarily by Lumbermen's Investment Corporation (Lumbermen's) include the development of residential subdivisions and the management and sale of income properties. Land development projects include 38 residential subdivisions in Texas, California, Colorado, Florida, Georgia, Missouri, Tennessee and Utah. At year end 1999, land development inventory included 2,238 residential lots, 585 lots under development and 6,371 acres of land.

Lot sales for 1999 were 1,512, compared with 1,594 for 1998 and 1,422 for 1997. Revenues from residential operations, which includes lot sales, tract sales and other income, were \$79 million in 1999, \$58 million in 1998 and \$43 million in 1997.

Revenue from commercial properties was \$46 million in 1998 and \$21 million in 1997. Commercial revenues include a \$10 million gain in 1998 from the sale of a commercial investment property. Lumbermen's owns 18 commercial properties, including two hotels, one retail center, two business parks, five parcels of commercial land and properties owned through joint venture interests. These properties are located in Texas, New Mexico, Florida and California.

Insurance Brokerage

Timberline Insurance Managers, Inc. (Timberline), one of the largest insurance agencies in Texas, operates as a general agency selling a full range of insurance products, including automobile, homeowners and business insurance, as well as annuities and life and health products. The agency also acts as a risk manager of Temple-Inland Inc. Timberline currently has offices in Austin, Houston, Dallas/Fort Worth, El Paso and San Antonio, Texas.

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.

Future expenditures for environmental control facilities will depend on changing laws and regulations and technological advances. Given these uncertainties, the company estimates that capital expenditures for environmental purposes during the period 2000 through 2002 will average approximately \$20 million each year, exclusive of the expenditures for compliance discussed below.

On April 15, 1998, the U.S. Environmental Protection Agency (the EPA) issued extensive regulations governing air and water emissions from the pulp and paper industry (the Cluster Rule). Compliance with various phases of the Cluster Rule will be required at certain intervals over the next few years. According to the EPA, the technology standards in the Cluster Rule will cut the industry's toxic air pollutant emissions by almost 60 percent from current levels and virtually eliminate all dioxin discharged from pulp, paper and paperboard mills into rivers and other surface waters. The Cluster Rule also provides incentives for individual mills to adopt technologies that will lead to further reductions in toxic pollutant discharges.

The estimated capital expenditures disclosed above do not include expenditures that may be needed to comply with the Cluster Rule. Based on its interpretation of the Cluster Rule as issued, the company currently estimates that compliance with the Cluster Rule may require modifications at several facilities. Some of these modifications can be included in modernization projects that will provide economic benefits to the company. Excluding these investments, the company has incurred approximately \$1 million toward Cluster Rule compliance through the end of 1999,

including such expenditures related to discontinued operations, and expects that remaining expenditures related to Cluster Rule compliance will not exceed an additional \$20 million by the initial compliance deadline of April 15, 2001.

New effluent (water) quality standards for unbleached paper mills were not included in the phase I Cluster Rule as promulgated. These standards are expected to be promulgated between 2000 and 2002. Also not included in the phase I Cluster Rule was the proposed Maximum Achievable Control Technology (MACT) II Standard for the control of hazardous air pollutant emissions from pulp and paper mill combustion sources. The timeline for final promulgation of the MACT II Standard for the control of hazardous air pollutant emissions is uncertain at this time pending resolution of substantive issues raised during the public comment period and as subsequently addressed by industry stakeholder groups. Preliminary estimates indicate that the company could be required to make total capital expenditures of up to \$40 million over the next few years following issuance of these final rules.

CAPITAL RESOURCES AND LIQUIDITY

The company's financial condition continues to be strong. Internally generated funds, existing credit facilities and the capacity to issue long-term debt are sufficient to fund projected capital expenditures, service existing debt, pay dividends and meet normal working capital requirements.

Capital expenditures of approximately \$230 million are projected for 2000.

Parent Company interest expense was \$95 million in 1999, \$78 million in 1998 and \$82 million in 1997. The increase in 1999 is primarily due to higher levels of debt outstanding during the year. The decrease in 1998 was primarily due to lower average rates.

On December 29, 1999, proceeds from the sale of the bleached paperboard operation were used to pay off the \$200 million term note due 2002 with interest rates averaging 5.44 percent in 1999, and \$309 million of short-term borrowings with interest rates averaging 5.71 percent in 1999.

During 1998, \$90 million of notes payable with interest rates averaging approximately 9 percent and private placement debt of \$80 million with interest rates averaging 7 percent were paid off and replaced with commercial paper and short-term borrowings with interest rates averaging 5.77 percent at year end 1998.

At year end 1999, the Parent Company had credit agreements with banks totaling \$560 million, with final maturities at various dates in 2001 and 2002, that support commercial paper and other short-term borrowings. Current maturities of debt totaling \$79 million are classified as long-term debt in accordance with the company's intent and ability to refinance such obligations on a long-term basis.

In the fourth quarter of 1999, the Board of Directors authorized a stock repurchase program of up to 6.0 million shares. At year end 1999, approximately 1.65 million shares had been repurchased at a cost of approximately \$100 million.

INCOME TAXES

The company's effective tax rate on continuing operations was 38 percent in 1999, 44 percent in 1998, and 45 percent in 1997. The 1999 effective tax rate was lower than the statutory tax rate due to a one-time financial benefit realized from the sale of a foreign subsidiary. In 1998 and 1997, the differences between the statutory rate and the annual effective tax rate were primarily attributable to operating losses in foreign operations for which no financial benefit was recognized and nondeductible goodwill associated with acquisitions.

The Internal Revenue Service (IRS) has concluded its examination of the company's consolidated tax returns for the years 1987 through 1992. As a result, the company has agreed to pay approximately \$36 million in taxes and interest for those years, of which \$19 million was paid in 1999. 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 an adverse effect on the company's financial condition or results of operations.

EFFECTS OF INFLATION

Inflationary increases in operating costs since 1997 have not been significant. 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.

YEAR 2000 COMPLIANCE

The company completed all Year 2000 (Y2K) readiness preparations prior to year end 1999. Contingency plans were developed for handling potential business and operational disruptions. No Y2K occurrence required the execution of any contingency plan.

As expected, no significant business or production operations were affected by Y2K. A few minor incorrect dates were identified on internal company reports, all of which were corrected immediately. The company has declared the Y2K efforts complete and successful.

No additional Y2K exposures are anticipated in the future. Company operations continue without interruptions.

Cost for Y2K concerns was \$12 million and these expenditures had no material effect on business operations. No material future costs are expected to be incurred.

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 on the balance sheet at fair value. The company has not yet determined the effect on earnings or financial position of adopting this statement.

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 impact on pre-tax income of immediate, parallel and sustained shifts in interest rates for the subsequent 12-month period at year end 1999, with comparative information at year end 1998:

Change in Interest Rates (in millions)	Increase/(Decrease) in Income Before Taxes	
	1999	1998
+2 %	\$ (1)	\$ (26)
+1 %	\$ -	\$ (1)
0 %	\$ -	\$ -
-1 %	\$ (1)	\$ 10
-2 %	\$ (16)	\$ 29

The change in exposure to interest rate risk from year end 1998 is due primarily to a decrease in the Parent Company's adjustable-rate debt obligations and the diminishing impact at Guaranty of interest rate hedge contracts that have matured or are significantly closer to maturity.

Additionally, the fair value (estimated at \$329 million at year end 1999) of the Financial Services Group's mortgage servicing rights is also affected by changes in interest rates. The company estimates that a 1 percent decline in interest rates from year-end levels would decrease the fair value of the mortgage servicing rights by approximately \$47 million.

Commodity and 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

The company has no significant financial instruments subject to commodity price risks.

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0 %	\$ -	\$ -
-1 %	\$ (1)	\$ 10
-2 %	\$ (16)	\$ 29

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Additionally, the fair value (estimated at \$329 million at year end 1999) of the Financial Services Group's mortgage servicing rights is also affected by changes in interest rates. The company estimates that a 1 percent decline in interest rates from year-end levels would decrease the fair value of the mortgage servicing rights by approximately \$47 million.

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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

The company has no significant financial instruments subject to commodity price risks.

For the year	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990
<i>(in millions, except per share data)</i>										
REVENUES										
Paper	\$ 1,798	\$ 1,642	\$ 1,694	\$ 1,761	\$ 1,910	\$ 1,498	\$ 1,308	\$ 1,310	\$ 1,179	\$ 1,144
Building Products	768	613	617	563	533	575	497	409	311	305
Financial Services	1,116	1,036	923	800	754	628	631	634	607	509
Other activities	-	-	-	-	-	20	58	77	68	70
Total revenues	\$ 3,682	\$ 3,291	\$ 3,234	\$ 3,124	\$ 3,197	\$ 2,721	\$ 2,494	\$ 2,430	\$ 2,165	\$ 2,028
SEGMENT OPERATING INCOME										
Paper	\$ 103	\$ 39	\$ (54)	\$ 120	\$ 333	\$ 89	\$ 10	\$ 107	\$ 72	\$ 146
Building Products	174	112	131	102	67	139	102	40	5	9
Financial Services	138	154	132	63 ^a	98	56	68	64	54	52
Other activities	-	-	-	-	-	1	(2)	(2)	1	(2)
Segment operating income	\$ 415	\$ 305	\$ 209	\$ 285	\$ 498	\$ 285	\$ 178	\$ 209	\$ 132	\$ 205
Income from continuing operations	\$ 191	\$ 88 ^b	\$ 59	\$ 155	\$ 269	\$ 142	\$ 70	\$ 130	\$ 87	\$ 169
Discontinued operations	(92)	(21)	(8)	(22)	12	(11)	(3)	17	51	63
Cumulative effect of accounting change	-	(3)	-	-	-	-	50	-	-	-
Net income	\$ 99	\$ 64	\$ 51	\$ 133	\$ 281	\$ 131	\$ 117	\$ 147	\$ 138	\$ 232
Capital expenditures:										
Manufacturing	\$ 178	\$ 157	\$ 213	\$ 250	\$ 245	\$ 190	\$ 145	\$ 273	\$ 281	\$ 260
Financial Services	26	39	18	15	34	20	14	11	9	4
Depreciation and depletion:										
Manufacturing	200	192	187	178	166	160	155	138	130	112
Financial Services	17	14	13	12	8	8	6	5	4	5
Earnings per share - continuing operations:										
Basic	3.45	1.60	1.05	2.79	4.81	2.55	1.27	2.35	1.60	3.09
Diluted	3.43	1.59	1.04	2.79	4.80	2.55	1.26	2.34	1.59	3.06
Earnings per share - net income:										
Basic	1.79	1.16 ^c	0.91	2.39	5.02	2.35	2.12 ^d	2.66	2.53	4.24
Diluted	1.78	1.15 ^c	0.90	2.39	5.01	2.35	2.11 ^d	2.65	2.51	4.20
Dividends per common share	1.28	1.28	1.28	1.24	1.14	1.02	1.00	0.96	0.88	0.80
Weighted average shares outstanding:										
Basic	55.6	55.8	56.0	55.5	56.0	55.8	55.3	55.1	54.8	54.9
Diluted	55.8	55.9	56.2	55.6	56.1	55.9	55.5	55.5	55.2	55.4
Common shares outstanding at year end										
	54.2	55.6	56.3	55.4	55.7	56.0	55.5	55.2	54.9	54.6
At Year End										
Total assets	\$16,186	\$15,868	\$14,257	\$12,858	\$12,682	\$12,169	\$11,877	\$10,732	\$10,034	\$7,800
Long-term debt:										
Parent Company	1,253	1,501	1,356	1,440	1,407	1,234	963	930	830	467
Financial Services	212	210	167	133	113	82	76	99	76	94
Stock issued by subsidiary	226	225	150	-	-	-	-	-	-	-
Shareholders' equity	1,927	1,998	2,045	2,015	1,975	1,783	1,700	1,633	1,532	1,439
Ratio of total debt to total capitalization - Parent Company										
	39%	43%	40%	42%	42%	41%	36%	36%	35%	25%

^aIncludes a one-time assessment of \$44 million to recapitalize the Savings Association Insurance Fund (SAIF).

^bIncludes a pre-tax special charge of \$47 million.

^cIncludes a \$3 million after-tax charge, or \$0.06 per share, from cumulative effect of accounting change.

^dIncludes a credit of \$50 million, or \$0.90 per share, from cumulative effect of accounting change.

COMMON STOCK PRICES AND DIVIDEND INFORMATION

	1999			1998		
	Price Range		Dividends	Price Range		Dividends
	High	Low		High	Low	
First Quarter	\$ 67-3/4	\$56-7/16	\$ 0.32	\$64-15/16	\$ 50	\$ 0.32
Second Quarter	77-1/2	61-3/8	0.32	67-1/4	52-1/8	0.32
Third Quarter	73-7/16	58	0.32	55-15/16	42-11/16	0.32
Fourth Quarter	66-1/16	53-5/8	0.32	59-5/8	45-1/16	0.32
For the Year	\$ 77-1/2	\$ 53-5/8	\$ 1.28	\$ 67-1/4	\$ 42-11/16	\$ 1.28

SUMMARIZED STATEMENTS OF INCOME

Parent Company (Temple-Inland Inc.)

For the year (in millions)	1999	1998	1997
REVENUES			
Net revenues	\$2,566	\$2,255	\$2,311
Financial Services earnings	138	154	132
	<u>2,704</u>	<u>2,409</u>	<u>2,443</u>
COSTS AND EXPENSES			
Cost of sales	2,052	1,868	2,007
Selling and administrative	267	264	252
Special charge	-	47	-
	<u>2,319</u>	<u>2,179</u>	<u>2,259</u>
OPERATING INCOME	385	230	184
Interest - net	(95)	(78)	(82)
Other	16	6	6
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	306	158	108
Taxes on income	115	70	49
INCOME FROM CONTINUING OPERATIONS	191	88	59
Discontinued operations	(92)	(21)	(8)
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	99	67	51
Cumulative effect of accounting change	-	(3)	-
NET INCOME	<u>\$ 99</u>	<u>\$ 64</u>	<u>\$ 51</u>

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)	1999	1998	1997
CASH PROVIDED BY (USED FOR) OPERATIONS			
Net income	\$ 99	\$ 64	\$ 51
Adjustments to reconcile net income to net cash:			
Loss on disposal of discontinued operations	77	-	-
Cumulative effect of accounting change	-	3	-
Special charge	-	47	-
Depreciation and depletion	200	192	187
Deferred taxes	10	17	17
Unremitted earnings from financial services	(121)	(127)	(111)
Receivables	(74)	(11)	13
Inventories	(4)	2	(15)
Accounts payable and accrued expenses	42	(16)	(12)
Change in net assets of discontinued operations	23	63	34
Other	(5)	12	(13)
	247	246	151
CASH PROVIDED BY (USED FOR) INVESTMENTS			
Capital expenditures for property, plant and equipment	(178)	(157)	(213)
Proceeds from sale of discontinued operations	576	-	-
Proceeds from sale of property and equipment	55	6	52
Acquisitions, net of cash acquired, and joint ventures	(48)	(121)	(31)
Capital contributions to financial services	(279)	(44)	(25)
Dividends from financial services	70	44	275
	196	(272)	58
CASH PROVIDED BY (USED FOR) FINANCING			
Additions to debt	312	319	36
Payments of debt	(560)	(175)	(125)
Purchase of stock for treasury	(100)	(48)	(59)
Cash dividends paid to shareholders	(71)	(71)	(71)
Other	12	3	9
	(407)	28	(210)
Net increase (decrease) in cash and cash equivalents	36	2	(1)
Cash and cash equivalents at beginning of year	15	13	14
Cash and cash equivalents at end of year	\$ 51	\$ 15	\$ 13

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 the Parent Company (Temple-Inland Inc.) and its manufacturing subsidiaries. Temple-Inland Financial Services, including the savings bank, mortgage banking, real estate and insurance brokerage operations, is reflected in the summarized financial statements on the equity basis, except that related earnings 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.

INVENTORIES

Inventories are stated at the lower of cost or market.

Cost of inventories amounting to \$85 million at year end 1999 and \$78 million at year end 1998 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 costed on the LIFO method, inventories would have been \$21 million and \$2 million higher than reported at year end 1999 and 1998, respectively.

PROPERTY AND EQUIPMENT

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

CLASSIFICATION	ESTIMATED USEFUL LIVES
Buildings	15 to 40 years
Machinery and equipment:	
Manufacturing and production equipment	3 to 25 years
Transportation equipment	3 to 10 years
Office and other equipment	2 to 10 years

Certain machinery and equipment are depreciated on a straight-line basis over their estimated useful lives, based on operating hours or units of production because depreciation occurs primarily through use rather than through elapsed time.

Timberlands are stated at cost, less accumulated cost of timber harvested. The portion of the cost of timberlands 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.

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 \$3 million, net of tax benefit of \$2 million, and was recognized as of the beginning of the year 1998. Had start-up costs been expensed in prior years, net income would not have been materially different.

Environmental expenditures resulting in additions to property and equipment are capitalized, while other environmental expenditures are expensed. Environmental remediation liabilities are recorded on an undiscounted basis, when environmental assessments or cleanups are probable and the costs can be reasonably estimated, and are adjusted as further information develops or circumstances change. The estimated costs to close and remediate company-operated landfills are accrued over the estimated useful life of the landfill.

Revenue is recognized upon passage of title to the customer, which is generally at the time of shipment.

Long-term debt consists of the following:

At year end (in millions)	1999	1998
Commercial paper, other short-term borrowings, and borrowings under bank credit agreements — Average interest rate was 5.71% in 1999 and 5.75% in 1998	\$ -	\$ 264
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	-
Private placement debt — 6.59% to 7.31% Notes due 1998 through 2007	188	258
Term Note due 2002 — Average interest rate was 5.44% in 1999 and 5.81% in 1998	-	200
Revenue Bonds due 2007 through 2028 — Average interest rate was 4.58% in 1999 and 4.05% in 1998	119	119
Other indebtedness due through 2006 — Average interest rate was 5.96% in 1999 and 6.30% in 1998	97	112
	1,254	1,503
LESS:		
Current portion of long-term debt	(1)	(2)
	\$ 1,253	\$ 1,501

At year end 1999, the Parent Company had credit agreements with banks totaling \$560 million with final maturities at various dates in 2001 and 2002 that support commercial paper and other short-term borrowings. In June 1998, the company filed a shelf registration statement to issue up to \$500 million in debt securities, of which \$300 million were issued in the first quarter of 1999. Current maturities of debt totaling \$79 million are classified as long-term debt in accordance with the company's intent and ability to

refinance such obligations on a long-term basis. On December 29, 1999, proceeds from the sale of the bleached paperboard operation were used to pay off the \$200 million term note due 2002 and \$309 million of short-term borrowings.

Maturities of the Parent Company's long-term debt during the next five years are as follows (in millions): 2000 — \$80; 2001 — \$202; 2002 — \$56; 2003 — \$62; and 2004 — \$101.

Interest on funds borrowed during the construction period on certain assets is capitalized. Capitalized interest in 1999, 1998 and 1997 was \$2 million, \$1 million and \$2 million, respectively, and is netted against interest expense. Parent Company interest paid during 1999, 1998 and 1997 was \$117 million, \$101 million and \$105 million, respectively.

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 box plant, and \$10 million of asset impairments related to the Building Products Group.

The work force reductions affected approximately 250 employees, half of whom accepted an early retirement offer in December 1998. The remaining work force reductions were made during 1999. Of the \$13 million charge for work force reductions, which included termination benefits associated with the early retirement offer and severance amounts for the involuntary terminations, substantially all was paid in 1999.

During the second quarter of 1999, the company sold its Argentine box plant for an amount that approximated its adjusted carrying value. The sale proceeds included \$1 million in cash and \$11 million in promissory notes. The promissory notes were subsequently sold with recourse. In addition, the company expects to collect \$8 million of working capital and other items over the next two years. The company does not believe that any issues arising from the resolution of these matters will have a material adverse effect on its operations or financial position.

Of the \$34 million in asset impairments provided for in 1998, \$20 million was for the Argentine box plant, \$8 million was for manufacturing assets abandoned in 1998 and \$6 million was for property and equipment that is still in use.

During the third quarter of 1999, the 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 \$658 million, which included \$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 to the bleached paperboard mill, is expected to be sold during 2000.

Information related to the discontinued operations follows:

For the year	1999	1998	1997
<i>(in millions)</i>			
Revenues	\$ 381	\$ 376	\$ 369
Loss from operations	(21)	(21)	(8)
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 1999, \$13 million in 1998 and \$5 million in 1997.

The loss on disposal is net of income tax benefits of \$44 million. Included in the loss on disposal are \$2 million of estimated operating losses of the eucalyptus fiber project through the anticipated date of disposal.

In connection with the sale of the bleached paperboard mill, the 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 company does not believe that the resolution of these matters will have a material adverse effect on its operations or financial position.

Subsidiaries of the Parent Company lease timberlands, equipment and facilities under operating lease agreements. Future minimum rental commitments, exclusive of related expenses, under non-cancelable operating leases having a remaining term in excess of one year are as follows (in millions): 2000 — \$31; 2001 — \$26; 2002 — \$20; 2003 — \$17; 2004 — \$16; 2005 and thereafter — \$250.

Total rent expense was \$34 million, \$30 million and \$29 million during 1999, 1998 and 1997, respectively.

In connection with its joint venture operations, the Parent Company has guaranteed certain obligations or issued standby letters of credit aggregating \$123 million at year end 1999.

The Parent Company has unconditional purchase obligations, principally for timber, aggregating \$56 million at year end 1999.

SUMMARIZED STATEMENTS OF INCOME

Financial Services Group

For the year	1999	1998	1997
<i>(in millions)</i>			
INTEREST INCOME			
Loans receivable and mortgage loans held for sale	\$ 705	\$ 584	\$ 526
Mortgage-backed and other securities available-for-sale	78	77	62
Mortgage-backed and other securities held-to-maturity	48	73	99
Other earning assets	5	4	22
Total interest income	836	738	709
INTEREST EXPENSE			
Deposits	379	357	331
Borrowed funds	158	137	157
Total interest expense	537	494	488
NET INTEREST INCOME	299	244	221
Provision for loan losses	38	1	(2)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	261	243	223
NONINTEREST INCOME			
Loan origination, marketing and servicing fees, net	115	135	105
Other	165	163	109
Total noninterest income	280	298	214
NONINTEREST EXPENSE			
Compensation and benefits	166	174	134
Other	222	199	164
Total noninterest expense	388	373	298
INCOME BEFORE TAXES AND MINORITY INTEREST	153	168	139
Minority interest in income of consolidated subsidiary	(15)	(14)	(7)
INCOME BEFORE TAXES	138	154	132
Taxes on income	17	27	21
NET INCOME	\$ 121	\$ 127	\$ 111

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

SUMMARIZED BALANCE SHEETS

Financial Services Group

At year end	1999	1998
<i>(in millions)</i>		
ASSETS		
Cash and cash equivalents	\$ 233	\$ 229
Mortgage loans held for sale	252	621
Loans receivable, net of allowance for loan losses of \$113 in 1999 and \$87 in 1998	9,296	8,101
Mortgage-backed and other securities available-for-sale	1,431	1,071
Mortgage-backed and other securities held-to-maturity	1,061	1,414
Other assets	1,048	940
TOTAL ASSETS	\$13,321	\$12,376
LIABILITIES		
Deposits	\$ 9,027	\$ 7,338
Federal Home Loan Bank advances	2,403	3,221
Other borrowings	212	210
Other liabilities	430	674
Stock issued by subsidiary	226	225
TOTAL LIABILITIES	12,298	11,668
SHAREHOLDERS' EQUITY	1,023	708
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$13,321	\$12,376

See the notes to the Financial Services Group summarized financial statements

SUMMARIZED STATEMENTS OF CASH FLOWS

Financial Services Group

For the year	1999	1998	1997
<i>(in millions)</i>			
CASH PROVIDED BY (USED FOR) OPERATIONS			
Net income	\$ 121	\$ 127	\$ 111
Adjustments to reconcile net income to net cash:			
Amortization, depreciation and accretion	62	108	43
Mortgage loans held for sale	369	(183)	(99)
Collections and remittances on loans serviced for others, net	(251)	129	193
Other	82	(86)	(61)
CASH PROVIDED BY (USED FOR) OPERATIONS	383	95	187
CASH PROVIDED BY (USED FOR) INVESTMENTS			
Purchases of securities available-for-sale	(294)	(208)	(121)
Maturities of securities available-for-sale	279	300	210
Sales of securities available-for-sale	145	53	844
Maturities and redemptions of securities held-to-maturity	351	349	308
Loans originated or acquired, net of principal collected on loans	(1,163)	(1,852)	(1,084)
Sales of loans	299	16	29
Acquisitions, net of cash acquired of \$29 in 1999	(108)	-	(13)
Capital expenditures	(26)	(39)	(18)
Other	(17)	12	(1)
CASH PROVIDED BY (USED FOR) INVESTMENTS	(534)	(1,369)	154
CASH PROVIDED BY (USED FOR) FINANCING			
Net increase (decrease) in deposits	808	(36)	128
Securities sold under repurchase agreements and short-term borrowings, net	(121)	788	(609)
Additions to debt	35	770	411
Payments of debt	(775)	(251)	(204)
Sale of subsidiary stock	1	75	150
Capital contributions from Parent Company	279	44	25
Dividends paid to Parent Company	(70)	(44)	(275)
Other	(2)	(18)	(6)
CASH PROVIDED BY (USED FOR) FINANCING	155	1,328	(380)
Net increase (decrease) in cash and cash equivalents	4	54	(39)
Cash and cash equivalents at beginning of year	229	175	214
Cash and cash equivalents at end of year	\$ 233	\$ 229	\$ 175

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

NOTES TO FINANCIAL SERVICES GROUP SUMMARIZED FINANCIAL STATEMENTS

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 with 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, less the 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, 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 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 risk rating to distinguish levels of credit risk and identify higher or unacceptable credit risks and deteriorating 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 environmental factors.

Specific allowances established on the outstanding principal balance of criticized graded loans range from 5 percent to 35 percent on Substandard classified loans, 36 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 homogeneous 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 provisions over historic levels.

The unallocated allowance for inherent 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 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 or customer-specific conditions affecting the identification and estimation of losses for larger, non-homogeneous loans; and the sensitivity of assumptions used to establish general allowances for homogeneous groups of loans.

MORTGAGE-BACKED AND OTHER DEBT SECURITIES

The group determines the appropriate classification of mortgage-backed and other securities at the time of purchase and confirms the designation of these 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 shareholders' 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 Federal Bank, F.S.B. (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 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 by Guaranty and Temple-Inland Mortgage Corporation (TIMC).

Real estate held for future development and real estate projects that are 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, less 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 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 capitalized mortgage servicing rights, net, 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.

FEDERAL 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 6 Acquisitions

On October 26, 1999, Guaranty signed a definitive agreement to acquire all of the outstanding stock of American Finance Group, Inc. (AFG), a company engaged in industrial and commercial equipment leasing and financing. At December 31, 1999, AFG had total assets (primarily financing leases, loans and equipment under operating leases) of approximately \$188 million and total liabilities (primarily debt) of approximately \$157 million. The transaction is expected to close in the first quarter of 2000, with an anticipated purchase price of approximately \$32 million in cash.

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), and merged the operations of Hemet into Guaranty. Total assets and liabilities of Hemet at acquisition were approximately \$1.2 billion (primarily loans and securities) and \$1.1 billion (primarily deposits), respectively. At closing, the group paid approximately \$119 million in cash for all of the outstanding stock of HF Bancorp, Inc. The excess of the purchase price over the fair value of the identifiable net assets acquired of approximately \$39 million is being amortized on the straight-line method over 25 years.

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

On June 27, 1997, Temple-Inland Inc. acquired all of the outstanding stock of California Financial Holding Company, the parent company of Stockton Savings Bank, F.S.B. (SSB), and merged the operations of SSB into Guaranty. Total assets and liabilities of SSB at acquisition were approximately \$1.4 billion (primarily loans and securities) and \$1.3 billion (primarily deposits and FHLB advances), respectively. At closing, Temple-Inland Inc. issued approximately 1.6 million shares of common stock valued at \$96 million and paid approximately \$47 million in cash. The excess of purchase price over the fair value of identifiable net assets acquired of approximately \$63 million is being amortized on the straight-line method over 25 years.

Effective May 31, 1997, TIMC acquired 100 percent of the common stock of Knutson Mortgage Corporation, a corporation engaged in mortgage banking activities, for approximately \$15 million in cash. This transaction increased the production branch network by a total of 34 branches and the principal balance of the loan servicing portfolio by approximately \$6.4 billion.

The consummated 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 consummated 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 principal balances of loans receivable consisted of the following:

At year end (in millions)	1999	1998
Real estate mortgage	\$ 3,763	\$ 4,105
Construction and development	3,253	2,210
Commercial and business	1,265	1,031
Consumer and other	1,121	827
Premiums, discounts and deferred fees, net	7	15
	9,409	8,188
LESS:		
Allowance for loan losses	(113)	(87)
	\$ 9,296	\$ 8,101

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 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 1999, the group had unfunded commitments on outstanding loans totaling approximately \$4.2 billion. In addition, at year end 1999, the group had issued letters of credit totaling approximately \$105 million. The amount to be ultimately funded is uncertain.

Activity in the allowance for loan losses was as follows:

For the year (in millions)	1999	1998	1997
Balance, beginning of year	\$ 87	\$ 91	\$ 69
Provision for loan losses	38	1	(2)
Additions related to acquisitions and bulk purchases of loans	12	-	30
Charge-offs, net of recoveries	(24)	(5)	(6)
Balance, end of year	\$ 113	\$ 87	\$ 91

NOTE D - Mortgage-Backed and Other Securities

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

At year end 1999 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
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:				
U.S. Government	7	-	-	7
Corporate	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

At year end 1998 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AVAILABLE-FOR-SALE				
Mortgage-backed securities:				
FNMA certificates	\$ 752	\$ 7	\$ (2)	\$ 757
FHLMC certificates	2	-	-	2
Collateralized mortgage obligations	120	-	-	120
Private issuer pass-through securities	15	-	(2)	13
	889	7	(4)	892
Debt securities:				
Corporate	3	-	-	3
Equity securities,				
primarily Federal Home Loan Bank stock	176	-	-	176
	\$1,068	\$ 7	\$ (4)	\$1,071

HELD-TO-MATURITY				
Mortgage-backed securities:				
FNMA certificates	\$ 782	\$ -	\$ (18)	\$ 764
FHLMC certificates	158	-	(4)	154
Collateralized mortgage obligations	184	-	(6)	178
Private issuer pass-through securities	290	-	(8)	282
	\$1,414	\$ -	\$ (36)	\$1,378

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 1999 (in millions)	Amortized Cost	Fair Value
Due in 1 year or less	\$ 1	\$ 1
Due after 1 year through 5 years	5	3
Due after 5 years through 10 years	147	143
Due after 10 years	2,358	2,293
Total mortgage-backed and other securities	\$2,511	\$ 2,440

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 that are 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.

Guaranty securitized \$217 million, \$164 million and \$962 million of mortgage loans previously held in the loan portfolio during 1999, 1998 and 1997, respectively. The transfer to mortgage-backed securities was recorded at the carrying value of the mortgage loans at the time of securitization. The group held \$601 million and \$657 million in such securities at year end 1999 and 1998, respectively.

NOTES TO DEPOSITS

Deposits consisted of the following:

	1999		1998	
	Average Stated Rate	Amount	Average Stated Rate	Amount
(in millions)				
Noninterest bearing demand		\$ 329		\$ 152
Interest bearing demand	3.46%	2,035	2.08%	1,135
Savings deposits	1.96%	214	2.21%	207
Time deposits	5.36%	6,449	5.39%	5,844
		\$9,027		\$7,338

Scheduled maturities of time deposits at year end 1999 are as follows:

	\$100,000 or More	Less Than \$100,000	Total
(in millions)			
3 months or less	\$ 280	\$1,280	\$1,560
Over 3 months through 6 months	242	1,264	1,506
Over 6 months through 12 months	230	1,162	1,392
Over 12 months	355	1,636	1,991
	\$1,107	\$5,342	\$6,449

At year end 1999, time deposits maturity dates were as follows (in millions): 2000 — \$4,458; 2001 — \$1,452; 2002 — \$360; 2003 — \$107; 2004 — \$68; 2005 and thereafter — \$4.

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:	1999	1998
<i>(in millions)</i>		
Average daily balance	\$ 112	\$ 349
Maximum month-end balance	\$ 223	\$1,255

There were no securities sold under repurchase agreements outstanding at year end 1999 or 1998.

NOTE 1 - 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 5.75 percent and 5.09 percent at year end 1999 and 1998, respectively. At year end 1999, the advances had maturity dates as follows (in millions): 2000 — \$2,276; 2001 — \$115; and 2003 — \$12.

NOTE 2 - Other Borrowings

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

At year end	1999	1998
<i>(in millions)</i>		
Long-term debt with an average rate of 6.75% and 7.47% during 1999 and 1998, respectively, due through 2001	\$ 175	\$170
Long-term debt at various rates which approximate prime, secured primarily by real estate	37	40
	<u>\$ 212</u>	<u>\$ 210</u>

At year end 1999, a non-savings bank subsidiary had a \$210 million credit facility that expires in 2001, with \$35 million remaining unused.

At year end 1999, maturities of other borrowings are as follows (in millions): 2000 — \$2; 2001 — \$176; 2002 — \$2; 2003 — \$1; 2004 — \$1; 2005 and thereafter — \$30.

In May 1997, Guaranty Preferred Capital Corporation (GPCC), a subsidiary of Guaranty, issued 150,000 shares of noncumulative floating-rate preferred stock, with a liquidation preference of \$1,000 per share. GPCC is a real estate investment trust (REIT) established for the purpose of acquiring, holding and managing real estate mortgage assets. Dividends on preferred stock are noncumulative and are payable when declared. Within 10 years after issuance, the preferred stock may be redeemed for cash at the option of GPCC, in whole or in part, at a redemption price of \$1,000 per share. The preferred stock is convertible to Guaranty preferred stock upon the occurrence of certain regulatory events. GPCC issued an additional \$75 million of noncumulative floating-rate preferred stock in May 1998.

NOTE 3 - Mortgage Loan Servicing

The group services mortgage loans that are owned primarily by independent investors. The group serviced approximately 241,400 and 256,300 mortgage loans aggregating \$22.2 billion and \$22.9 billion as of year end 1999 and 1998, respectively.

The group is required to advance from group funds, escrow and foreclosure costs on loans that 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 disposing of certain foreclosed VA loans. No significant losses were incurred during 1999, 1998 or 1997 in connection with this risk.

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

	Purchased Loan Servicing Rights	Originated Loan Servicing Rights	Total
For the year 1999			
<i>(in millions)</i>			
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			<u>\$ 267</u>
For the year 1998			
<i>(in millions)</i>			
Balance, beginning of year	\$ 159	\$ 42	\$ 201
Additions	47	71	118
Amortization expense	(40)	(16)	(56)
Sales	(24)	(8)	(32)
Subtotal	\$ 142	\$ 89	231
Valuation allowance			(17)
Balance, end of year			<u>\$ 214</u>

Amortization expense related to mortgage loan servicing rights totaled \$49 million, \$56 million and \$22 million for 1999, 1998 and 1997, respectively. The valuation allowance was increased \$17 million in 1998 by a charge to operations and reduced \$16 million in 1999 by a credit to operations. There was no other activity in the valuation allowance during 1999, 1998 or 1997.

During 1998, the group recognized a \$28 million gain in connection with the sale of servicing rights on mortgage loans with approximately \$4.5 billion in outstanding principal balance, \$1.3 billion of which was not transferred until 1999.

The estimated fair value of the capitalized mortgage servicing rights at year end 1999 was approximately \$329 million. Fair value was determined utilizing market-driven assumptions for prepayment speeds, discount rates and other variables.

NOTE 3 - Interest Rate Risk Management

At year end 1998, Guaranty was a party to interest rate floors with a notional amount of \$850 million and interest rate collars with a notional amount of \$850 million.

The interest rate floor agreements generated interest payments to Guaranty as the variable rate based on various Constant Maturity Swap (CMS) indices fell below the average strike rate of 5.25 percent. The interest rate collar agreements incorporated a floor from which Guaranty received payments as the CMS indices fell below the average strike rate of 5.02 percent and a cap that required Guaranty to pay as the CMS indices exceeded the average strike rate of 5.60 percent. These agreements matured in 1999 and were not renewed.

Guaranty is also a party to various interest rate corridor agreements to 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 \$291 million and \$319 million at December 31, 1999 and 1998, 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 (4.77 percent at year end 1999) 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 and not the notional amounts used to express the principal amounts underlying these transactions. Guaranty minimizes its exposure to credit risk by entering into contracts with major U.S. securities firms.

NOTE 4 - Leasing

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): 2000 — \$11; 2001 — \$7; 2002 — \$6; 2003 — \$5; 2004 — \$4; 2005 and thereafter — \$8.

Total rent expense under these lease agreements was \$14 million, \$15 million and \$14 million for 1999, 1998 and 1997, respectively.

At year end 1999, the group had commitments to originate or purchase loans totaling approximately \$1.1 billion and commitments to sell loans of approximately \$298 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 5 - Regulatory Capital Measures

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.

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. Guaranty's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. The payment of dividends from Guaranty is subject to proper regulatory notification.

Quantitative measures established by regulation to ensure capital adequacy require Guaranty to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to adjusted tangible assets. Management believes, at year end 1999, Guaranty met all its capital adequacy requirements.

Guaranty as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized," Guaranty must maintain minimum total risk-based, Tier 1 (Core) risk-based and Tier 1 (Core) leverage capital ratios as set forth in the table. Guaranty's actual capital amounts and ratios are also presented. No amounts were deducted from capital for interest-rate risk at year end 1999 or 1998.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(dollars in millions)</i>						
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%	Not applicable	
At year end 1998:						
Total Risk-Based Ratio (Risk-based capital / Total risk-weight assets)	\$ 829	10.17%	≥\$ 652	≥ 8.00%	≥\$ 815	≥ 10.00%
Tier 1 (Core) Risk-Based Ratio (Core capital / Total risk-weight assets)	\$ 756	9.27%	≥\$ 326	≥ 4.00%	≥\$ 489	≥ 6.00%
Tier 1 (Core) Leverage Ratio (Core capital / Adjusted tangible assets)	\$ 756	6.31%	≥\$ 479	≥ 4.00%	≥\$ 599	≥ 5.00%
Tangible Ratio (Tangible equity / Tangible assets)	\$ 756	6.31%	≥\$ 240	≥ 2.00%	Not applicable	

CONSOLIDATED STATEMENTS OF INCOME

Temple-Inland Inc. and Subsidiaries

For the year **1999** 1998 1997
(in millions, except per share data)

REVENUES

Manufacturing	\$ 2,566	\$ 2,255	\$ 2,311
Financial Services	1,116	1,036	923
	3,682	3,291	3,234

COSTS AND EXPENSES

Manufacturing	2,319	2,132	2,259
Special charge	-	47	-
Financial Services	978	882	791
	3,297	3,061	3,050

OPERATING INCOME	385	230	184
Parent Company interest - net	(95)	(78)	(82)
Other	16	6	6

INCOME FROM CONTINUING

OPERATIONS BEFORE TAXES	306	158	108
Taxes on income	115	70	49

INCOME FROM

CONTINUING OPERATIONS	191	88	59
Discontinued operations	(92)	(21)	(8)

INCOME BEFORE CUMULATIVE EFFECT

OF ACCOUNTING CHANGE	99	67	51
Cumulative effect of accounting change	-	(3)	-

NET INCOME	\$ 99	\$ 64	\$ 51
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EARNINGS PER SHARE

Basic:

Income from continuing operations	\$ 3.45	\$ 1.60	\$ 1.05
Discontinued operations	(1.66)	(0.38)	(0.14)
Cumulative effect of accounting change	-	(0.06)	-
NET INCOME	\$ 1.79	\$ 1.16	\$ 0.91

Diluted:

Income from continuing operations	\$ 3.43	\$ 1.59	\$ 1.04
Discontinued operations	1.65	(0.38)	(0.14)
Cumulative effect of accounting change	-	(0.06)	-
NET INCOME	\$ 1.78	\$ 1.15	\$ 0.90

See the notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Temple-Inland Inc. and Subsidiaries

For the year (in millions)	1999	1998	1997
CASH PROVIDED BY (USED FOR) OPERATIONS			
Net income	\$ 99	\$ 64	\$ 51
Adjustments to reconcile net income to net cash:			
Loss on disposal of discontinued operations	77	-	-
Special charge	-	47	-
Cumulative effect of accounting change	-	3	-
Depreciation and depletion	217	206	200
Amortization of goodwill	8	7	6
Deferred taxes	11	18	20
Amortization and accretion on financial instruments	40	90	26
Mortgage loans held for sale	369	(183)	(99)
Receivables	(74)	(11)	13
Inventories	(4)	2	(15)
Accounts payable and accrued expenses	42	(16)	(12)
Collections and remittances on loans serviced for others, net	(251)	129	193
Change in net assets of discontinued operations	23	63	34
Other	70	(78)	(79)
	630	341	338
CASH PROVIDED BY (USED FOR) INVESTMENTS			
Capital expenditures on property, plant and equipment	(204)	(196)	(231)
Proceeds from sale of discontinued operations	576	-	-
Proceeds from sale of property and equipment	55	28	53
Purchases of securities available-for-sale	(294)	(208)	(121)
Maturities of securities available-for-sale	279	300	210
Proceeds from sale of securities available-for-sale	145	53	844
Maturities and redemptions of securities held-to-maturity	351	349	308
Loans originated or acquired, net of principal collected on loans	(1,163)	(1,852)	(1,084)
Proceeds from sale of loans	299	16	29
Acquisitions, net of cash acquired, and joint ventures	(156)	(121)	(44)
Other	(17)	(10)	(2)
	(129)	(1,641)	(38)
CASH PROVIDED BY (USED FOR) FINANCING			
Additions to debt	347	1,089	447
Payments of debt	(1,335)	(426)	(329)
Securities sold under repurchase agreements and short-term borrowings, net	(121)	788	(609)
Net increase (decrease) in deposits	808	(36)	128
Purchase of stock for treasury	(100)	(48)	(59)
Cash dividends paid to shareholders	(71)	(71)	(71)
Proceeds from sale of subsidiary preferred stock	1	75	150
Other	10	(15)	3
	(461)	1,356	(340)
Net increase (decrease) in cash and cash equivalents	40	56	(40)
Cash and cash equivalents at beginning of year	244	188	228
Cash and cash equivalents at end of year	\$ 284	\$ 244	\$ 188

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	-	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	130	799
Long-term debt	1,253	212	1,465
Deferred income taxes	226	-	196
Postretirement benefits	143	-	143
Stock issued by subsidiary	-	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	61
Additional paid-in capital	364
Accumulated other comprehensive income (loss)	(31)
Retained earnings	1,838
	<u>2,232</u>
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.

At year end 1998 (in millions)	Parent Company	Financial Services	Consolidated
ASSETS			
Cash and cash equivalents	\$ 15	\$ 229	\$ 244
Mortgage loans held for sale	-	621	621
Loans receivable	-	8,101	8,101
Mortgage-backed and other securities available-for-sale	-	1,071	1,071
Mortgage-backed and other securities held-to-maturity	-	1,414	1,414
Trade and other receivables	264	-	257
Inventories	283	-	283
Net assets of discontinued operations	677	-	677
Property and equipment	2,109	129	2,238
Other assets	188	811	962
Investment in Financial Services	708	-	-
TOTAL ASSETS	\$ 4,244	\$ 12,376	\$ 15,868

LIABILITIES			
Deposits	\$ -	\$ 7,338	\$ 7,338
Federal Home Loan Bank advances	-	3,221	3,221
Other liabilities	334	674	988
Long-term debt	1,501	210	1,711
Deferred income taxes	266	-	242
Postretirement benefits	145	-	145
Stock issued by subsidiary	-	225	225
TOTAL LIABILITIES	\$ 2,246	\$ 11,668	13,870

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	61
Additional paid-in capital	357
Accumulated other comprehensive income (loss)	(17)
Retained earnings	1,810
	<u>2,211</u>
Cost of shares held in the treasury: 5,785,139 shares	(213)
TOTAL SHAREHOLDERS' EQUITY	1,998
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$15,868

Temple-Inland Inc. and Subsidiaries

	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
<i>(in millions)</i>						
BALANCE AT YEAR END 1996	\$ 61	\$ 305	\$ (24)	\$1,837	\$ (164)	\$ 2,015
Comprehensive Income						
Net income	-	-	-	51	-	51
Other comprehensive income:						
Unrealized gains on securities	-	-	4	-	-	4
Total comprehensive income	-	-	-	-	-	55
Dividends paid on common stock - \$1.28 per share	-	-	-	(71)	-	(71)
Stock issued for acquisition - 1,613,546 shares	-	48	-	-	48	96
Stock issued for stock plans - 253,075 shares	-	3	-	-	6	9
Stock acquired for treasury - 994,830 shares	-	-	-	-	(59)	(59)
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 gains 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

See the notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CASH AND CASH EQUIVALENTS

The consolidated financial statements include the accounts of Temple-Inland Inc. and all subsidiaries in which the company has more than a 50 percent equity ownership. Investments in joint ventures and other subsidiaries in which the company has between a 20 percent and a 50 percent equity ownership are reflected using the equity method. However, because certain assets and liabilities are in separate corporate entities, the consolidated assets are not available to satisfy all consolidated liabilities. All material intercompany amounts and transactions have been eliminated. Certain amounts have been reclassified to conform with current year's classification.

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.

Included as an integral part of the consolidated financial statements are separate summarized financial statements and notes for the company's primary business groups, as well as the significant accounting policies unique to each group.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, amounts due from banks, commercial paper, agency discount notes, federal funds sold, 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 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-TERM 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.

DEVELOPED SOFTWARE

The company capitalizes purchased software costs, as well as the direct costs, both internal and external, associated with software developed for internal use. These costs are amortized using the straight-line method over estimated useful lives of three to seven years.

NEW ACCOUNTING PROPOSALS

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 company has not yet determined the effect on earnings or financial position of adopting this statement.

Taxes on income from continuing operations consisted of the following:

For the year (in millions)	1999	1998	1997
CURRENT TAX PROVISION:			
U.S. Federal	\$ 89	\$ 38	\$ 24
State and other	12	10	3
	101	48	27
DEFERRED TAX PROVISION:			
U.S. Federal	14	21	17
State and other	-	1	5
	14	22	22
PROVISION FOR INCOME TAXES	\$ 115	\$ 70	\$ 49

Earnings or losses from continuing operations consisted of the following:

For the year (in millions)	1999	1998	1997
EARNINGS (LOSSES):			
U.S.	\$ 311	\$ 189	\$ 117
Non-U.S.	(5)	(31)	(9)
	\$ 306	\$ 158	\$ 108

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

For the year (in millions)	1999	1998	1997
Taxes on income			
at statutory rate	\$ 107	\$ 56	\$ 38
State, net of federal benefit	8	6	5
Foreign losses and			
taxes not benefited	3	6	3
Sale of foreign subsidiary	(7)	-	-
Goodwill	2	1	4
Other	2	1	(1)
	\$ 115	\$ 70	\$ 49

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

At year end (in millions)	1999	1998
DEFERRED TAX LIABILITIES:		
Depreciation	\$ 254	\$ 400
Timber and timberlands	37	40
Pensions	26	28
Other	34	69
Total deferred tax liabilities	351	537
DEFERRED TAX ASSETS:		
Alternative minimum tax credits	185	293
Net operating loss carryforwards	12	31
OPEB obligations	56	56
Other	56	74
Total deferred tax assets	309	454
VALUATION ALLOWANCE	(154)	(159)
Net deferred tax liability	\$ 196	\$ 242

The valuation allowance represents accruals for deductions that are uncertain and accordingly have not been recognized for financial reporting purposes. The decrease in the valuation allowance is primarily the result of the sale of a foreign subsidiary.

Current income tax payments, net of refunds received, were \$52 million, \$39 million and \$21 million during 1999, 1998 and 1997, respectively.

The company has domestic net operating loss carryforwards of \$3 million that expire in 2005. In addition, the company has foreign net operating loss carryforwards of \$16 million that expire from the year 2005 through the year 2010, 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.

As a result of the sale of a foreign subsidiary in 1999, the company realized a \$7 million one-time decrease in tax expense.

The Internal Revenue Service (IRS) has concluded its examination of the company's consolidated tax returns for the years 1987 through 1992. As a result of this examination, the company has agreed to pay approximately \$36 million in taxes and interest for those years, of which \$19 million was paid in 1999. 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.

NOTE 2: Fair Value of Financial Instruments

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

At year end <i>(in millions)</i>	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS:				
Loans receivable	\$ 9,296	\$ 9,248	\$ 8,101	\$ 8,126
Mortgage-backed and other securities	2,492	2,440	2,485	2,448
FINANCIAL LIABILITIES:				
Deposits	9,027	8,987	7,338	7,369
FHLB advances	2,403	2,403	3,221	3,223
Total debt	1,466	1,443	1,713	1,769
OFF-BALANCE-SHEET INSTRUMENTS:				
Interest rate contracts	-	2	-	(5)
Commitments to extend credit	-	2	-	(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 Parent Company has guaranteed certain joint venture obligations principally related to variable-rate debt instruments at year end 1999. It is not practicable to estimate the fair value of these guarantees.

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 \$0.01 per Right at any time until the tenth 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 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 medical and insurance benefits to certain 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:

	Pension Benefits		Postretirement Benefits	
At year end	1999	1998	1999	1998
<i>(in millions)</i>				
Benefit obligation at beginning of year	\$ 597	\$ 507	\$ 133	\$ 115
Service cost	17	15	3	3
Interest cost	39	37	8	8
Change in assumptions	(50)	15	-	-
Plan amendments	3	2	(2)	-
Actuarial (gain) loss	4	44	(21)	12
Termination benefits	-	6	-	1
Benefits paid	(28)	(29)	(11)	(7)
Retiree contributions	-	-	1	1
Benefit obligation at end of year	\$ 582	\$ 597	\$ 111	\$ 133
Fair value of plan assets at beginning of year	\$ 616	\$ 628	\$ -	\$ -
Actual return	122	15	-	-
Benefits paid	(28)	(28)	-	-
Contributions	1	1	-	-
Fair value of plan assets at end of year	\$ 711	\$ 616	\$ -	\$ -
Funded status	\$ 129	\$ 19	\$ (11)	\$ (133)
Unrecognized net loss (gain)	(69)	41	(24)	(3)
Prior service costs not yet recognized	5	3	8	(9)
Unrecognized net transition obligation (asset)	(4)	(8)	-	-
Additional minimum liability	(4)	(5)	-	-
Prepaid (accrued) benefit cost	\$ 57	\$ 50	\$ (143)	\$ (145)

The net prepaid benefit cost of \$57 million at year end 1999 is comprised of pension plans with prepaid benefit cost totaling \$78 million and accrued benefit liability totaling \$21 million. Amounts applicable to the company's pension plans with accumulated benefit obligations in excess of plan assets are as follows:

At year end	1999	1998
<i>(in millions)</i>		
Projected benefit obligation	\$ 16	\$236
Accumulated benefit obligation	\$ 14	\$221
Fair value of plan assets	\$ -	\$202

Significant assumptions used for the employee benefit plans follow:

For the year	Pension Benefits			Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
Weighted average assumptions:						
Discount rate	7.50%	6.75%	7.50%	7.50%	6.75%	7.50%
Expected long-term rate of return	9.00%	9.00%	9.00%	-	-	-
Rate of compensation increase	4.75%	4.00%	4.75%	-	-	-

For measurement purposes, an 8.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2000. The rate was assumed to decrease gradually to 6.0 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			Postretirement Benefits		
	1999	1998	1997	1999	1998	1997
<i>(in millions)</i>						
CHARGES (CREDITS)						
Service cost - benefits						
earned during the period	\$ 17	\$ 15	\$ 14	\$ 3	\$ 3	\$ 3
Interest cost on projected benefit obligation	39	37	36	8	8	8
Expected return on plan assets	(54)	(56)	(47)	-	-	-
Net amortization and deferral	(3)	(5)	(5)	(1)	(1)	(1)
Net periodic benefit cost (credit) ^a	\$ (1)	\$ (9)	\$ (2)	\$ 10	\$ 10	\$ 10

^aIn addition to the above, 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:

	1 Percentage Point Increase	1 Percentage Point Decrease
<i>(in millions)</i>		
Effect on total of service and interest cost components in 1999	\$ 1	\$ (1)
Effect on postretirement benefit obligation at year end 1999	\$ 10	\$ (8)

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, the plans permitted the grant of stock appreciation rights with all or part of any options so granted. Options granted after 1995 have primarily a 10-year term and become exercisable in steps from one to five years.

A summary of stock option activity follows:

For the year	1999		1998		1997	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
<i>(shares in thousands)</i>						
Outstanding beginning of year	1,892	\$ 51	1,430	\$ 47	1,626	\$ 45
Granted	455	61	654	56	201	56
Exercised	(315)	47	(139)	38	(303)	41
Forfeited	(58)	53	(53)	50	(94)	50
Outstanding end of year	1,974	\$ 53	1,892	\$ 51	1,430	\$ 47
Weighted average fair value of options granted during the year	\$23.06		\$17.68		\$18.24	

Options exercisable at year end were (in thousands): 1999 — 691; 1998 — 737; and 1997 — 658. The weighted average exercise price for options exercisable was \$49 per share and \$48 per share for year end 1999 and 1998, respectively. Exercise prices for options outstanding at year end 1999 range from \$12 to \$75. The weighted average remaining contractual life of these options is eight years. An additional 1,727,156 and 2,182,000 shares of common stock were available for grants at year end 1999 and 1998, respectively. A restricted stock plan also provides for a maximum of 300,000 shares of restricted common stock to be reserved for awards. At year end 1999, awards of 111,342 shares of restricted common stock were outstanding.

The fair value of the options granted in 1999, 1998 and 1997 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

For the year	1999	1998	1997
Expected dividend yield	2.0%	2.0%	2.1%
Expected stock price volatility	29.4%	28.7%	27.3%
Risk-free interest rate	6.8%	4.8%	5.6%
Expected life of options	8.0 years	7.0 years	8.0 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 \$96 million and \$1.73 per diluted share in 1999; \$62 million and \$1.10 per diluted share in 1998; and \$49 million and \$0.87 per diluted share in 1997. 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.

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

For the year	1999	1998	1997
<i>(in millions)</i>			
Numerator for basic and diluted earnings per share:			
Income from continuing operations	\$ 191	\$ 88	\$ 59
Discontinued operations	(92)	(21)	(8)
Cumulative effect of accounting change	-	(3)	-
Net income	\$ 99	\$ 64	\$ 51
Denominator for basic earnings per share:			
Weighted average shares outstanding	55.6	55.8	56.0
Dilutive effect of stock options	0.2	0.1	0.2
Denominator for diluted earnings per share	55.8	55.9	56.2

The components of other comprehensive income are as follows:

	Currency Translation Adjustments	Unrealized Gains on Available-for- Sale Securities	Minimum Pension Liability	Total
<i>(in millions)</i>				
Balance at year end 1996	\$ (17)	\$ (7)	\$ -	\$ (24)
Unrealized gains on available- for-sale securities	-	7	-	7
Deferred taxes relating to unrealized gains on available- for-sale securities	-	(3)	-	(3)
Balance at year end 1997	(17)	(3)	-	(20)
Unrealized gains on available- for-sale securities	-	8	-	8
Deferred taxes relating to unrealized gains on available- for-sale securities	-	(3)	-	(3)
Minimum pension liability	-	-	(4)	(4)
Deferred taxes relating to minimum pension liability	-	-	2	2
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 adjustment	1	-	-	1
Balance at year end 1999	\$ (16)	\$ (13)	\$ (2)	\$ (31)

The company has three reportable segments: paper, building products and financial services. The paper segment manufactures 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. Corporate interest expense is not allocated to 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.

Refer to the tables on the following page.

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, if any, by plaintiffs or claimants that may result from the foregoing litigation and claims will not have a material adverse effect on its operations or financial position in relation to the consolidated financial statements of the company and its subsidiaries.

For the year or at year end 1999: (in millions)	Paper	Building Products	Financial Services	Corporate and Other Eliminations	Total
Revenues from external customers	\$ 1,798	\$ 768	\$ 1,116	\$ -	\$ 3,682
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	\$ 1,642	\$ 613	\$ 1,036	\$ -	\$ 3,291
Depreciation, depletion and amortization	138	53	18	4	213
Operating income	39	112	154	(75) ^a	230
Financial Services, net interest income	-	-	244	-	244
Total assets	1,728	1,043	12,376	721 ^b	15,868
Investment in equity method investees	8	29	3	-	40
Capital expenditures	79	73	39	5	196

For the year or at year end 1997:

Revenues from external customers	\$ 1,694	\$ 617	\$ 923	\$ -	\$ 3,234
Depreciation, depletion and amortization	137	50	16	3	206
Operating income	(54)	131	132	(25)	184
Financial Services, net interest income	-	-	221	-	221
Total assets	1,792	914	10,772	779 ^b	14,257
Investment in equity method investees	7	19	4	-	30
Capital expenditures	131	69	18	13	231

^aIncludes a special charge of \$47 million, of which \$37 million applies to the paper segment and \$10 million applies to the building products segment.^bIncludes net assets of discontinued operations.

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

GEOGRAPHIC INFORMATION	1999	1998	1997
(in millions)			
For the year:			
Revenues from external customers			
United States	\$ 3,552	\$ 3,181	\$ 3,145
Canada	27	4	-
Mexico	77	64	50
South America	26	42	39
Total	\$ 3,682	\$ 3,291	\$ 3,234

At year end:

Property and equipment			
United States	\$ 2,090	\$ 2,115	\$ 2,105
Canada	61	56	-
Mexico	28	27	28
South America	18	40	41
Total	\$ 2,197	\$ 2,238	\$ 2,174

NOTE 11 - Summary of Quarterly Results of Operations (Unaudited)

Selected quarterly financial results for the years 1999 and 1998 are summarized below. Quarterly financial results have been restated to reflect discontinued operations.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<i>(in millions, except per share amounts)</i>				
1999				
Total revenues	\$ 850	\$ 904	\$ 955	\$ 973
Manufacturing net revenues	592	642	668	664
Manufacturing gross profit	101	128	143	142
Financial Services operating income before taxes	27	34	41	36
Income from continuing operations	\$ 26	\$ 48	\$ 60	\$ 57
Discontinued operations	(7)	(7)	(89)	2
Net income	\$ 19	\$ 41	\$ (20)	\$ 59
Earnings per share:				
Basic:				
Income from continuing operations	\$ 0.47	\$ 0.88	\$ 1.07	\$ 1.03
Discontinued operations	(0.13)	(0.14)	(1.43)	0.04
Net income	\$ 0.34	\$ 0.74	\$ (0.36)	\$ 1.07
Diluted:				
Income from continuing operations	\$ 0.46	\$ 0.87	\$ 1.07	\$ 1.03
Discontinued operations	(0.13)	(0.13)	(1.43)	0.04
Net income	\$ 0.33	\$ 0.74	\$ (0.36)	\$ 1.07

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<i>(in millions, except per share amounts)</i>				
1998				
Total revenues	\$ 837	\$ 835	\$ 821	\$ 798
Manufacturing net revenues	586	576	566	527
Manufacturing gross profit	102	108	95	82
Financial Services operating income before taxes	37	41	36	40
Income from continuing operations	\$ 35	\$ 39	\$ 25	\$ (11) ^a
Discontinued operations	(9)	(4)	(1)	(7)
Cumulative effect of accounting change	(3)	-	-	-
Net income	\$ 23	\$ 35	\$ 24	\$ (18)
Earnings per share:				
Basic:				
Income from continuing operations	\$ 0.62	\$ 0.70	\$ 0.47	\$ (0.20)
Discontinued operations	(0.15)	(0.08)	(0.03)	(0.12)
Cumulative effect of accounting change	(0.06)	-	-	-
Net income	\$ 0.41	\$ 0.62	\$ 0.44	\$ (0.32)
Diluted:				
Income from continuing operations	\$ 0.62	\$ 0.70	\$ 0.47	\$ (0.20)
Discontinued operations	(0.15)	(0.08)	(0.03)	(0.12)
Cumulative effect of accounting change	(0.06)	-	-	-
Net income	\$ 0.41	\$ 0.62	\$ 0.44	\$ (0.32)

^aIncludes a pre-tax special charge of \$47 million.

REPORT OF MANAGEMENT

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 of the Board and
Chief Executive Officer



David H. Dolben
Vice President and
Chief Accounting Officer

REPORT OF INDEPENDENT AUDITORS

We have audited the accompanying consolidated balance sheets of Temple-Inland Inc. and subsidiaries as of January 1, 2000, and January 2, 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 1, 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 January 1, 2000, and January 2, 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 1, 2000, in conformity with accounting principles generally accepted in the United States.



Houston, Texas
January 28, 2000

BOARD OF DIRECTORS

Temple-Inland Inc.

Robert Cizik (2) (3) (5) (6)

Anthony M. Frank (1) (2) (3) (4)

Chairman

Belvedere Capital Partners, Inc.

William B. Howes

Chairman and Chief Executive Officer

Inland Paperboard and Packaging, Inc.

Bobby R. Inman (2) (3) (4)

Kenneth M. Jastrow, II (3)

Chairman and Chief Executive Officer

Temple-Inland Inc.

James A. Johnson

Chairman and Chief Executive Officer

Johnson Capital Partners

W. Allen Reed

President and Chief Executive Officer

General Motors Investment Management Corporation

Herbert A. Sklenar (1) (2) (3) (4)

Chairman Emeritus

Vulcan Materials Company

Walter P. Stern (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)

Larry E. Temple (1) (3) (5)

Attorney

Advisory Director

Paul M. Anderson

President and Chief Executive Officer

Broken Hill Proprietary Company, Ltd.

(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

OFFICERS

Temple-Inland Inc.

Kenneth M. Jastrow, II

Chairman and Chief Executive Officer

William B. Howes

Executive Vice President

Harold C. Maxwell

Executive Vice President

Bart J. Doney

Group Vice President

Kenneth R. Dubuque

Group Vice President

James C. Foxworthy

Group Vice President

Jack C. Sweeny

Group Vice President

Randall D. Levy

Chief Financial Officer

M. Richard Warner

Chief Administrative Officer

David H. Dolben

Vice President and Chief Accounting Officer

Louis R. Brill

Vice President, Controller

Scott Smith

Chief Information Officer

Leslie K. O'Neal

Secretary and Assistant General Counsel

David W. Turpin

Treasurer

Richard L. Reisenweber

Vice President Environmental Affairs

PAPERBOARD

William B. Howes

Chairman and Chief Executive 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.

FOREST 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 INSTITUTIONS

Kenneth R. Dubuque

President and Chief Executive Officer

Guaranty Federal Bank, F.S.B.

Shareholder Information

Transfer Agent and Registrar

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

Independent Auditors

Ernst & Young LLP
Houston, Texas

Annual Meeting

The annual meeting of shareholders of Temple-Inland Inc. will be held at the company's corporate headquarters, 303 South Temple Drive, Diboll, Texas, on May 5, 2000, at 9:00 a.m. local time.

Stock Listing

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

Number of Shareholders

As of December 31, 1999, there were 6,304 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.

Form 10-K

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 Shareholder Relations Department.

Mailing Address

Temple-Inland Inc.
Drawer N
Diboll, Texas 75941
936.829.1313

Temple-Inland Inc.

Box 1000 N. Diboll, Texas 75941

936.829.1313

