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TEMPLE-INLAND INC.



1989

ANNUAL REPORT

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About Our Company

Temple-Inland Inc. is a holding company with major interests in paper, packaging, building products and financial services.

Two of our four operating groups—bleached paperboard and building products—market their products and operate under the name Temple-Inland Forest Products Corporation. Our container and containerboard group operates under the Inland Container Corporation name. The fourth operating entity is Temple-Inland Financial Services.

Temple-Inland's largest group is container and containerboard which in 1989 produced 1,897,000 tons of containerboard (linerboard and corrugating medium) at its six paper mills and shipped 1,569,000 tons of corrugated boxes from its 33 box plants. The Company ranks fifth in containerboard production in the United States and third among the country's 800 corrugated box producers.

The Company's bleached paperboard mill in Evadale, Texas is one of the nation's largest specialty mills. In 1989, it produced 579,000 tons of bleached paperboard and pulp.

Temple-Inland produces a wide variety of building materials, including lumber, plywood, particleboard, gypsum wallboard, fiberboard, and rigid foam products, but no single product manufactured represents a significant portion of the total market.

Temple-Inland is a major landowner with about 1.8 million acres of timberland in east Texas, Louisiana, Georgia and Alabama.

The Company's financial services group consists of Lumbermen's Investment Corporation of Texas, a mortgage banking and real estate development firm based in Austin, Texas, which services a $3.2 billion loan portfolio, and Guaranty Federal Savings Bank, a federally-chartered savings and loan institution based in Dallas. The company also owns Kilgore Federal Savings & Loan Association. Combined assets of the two savings and loans total $4.2 billion. Temple-Inland is based in Diboll, Texas. Its common stock is traded on the New York and Pacific Stock Exchanges under the ticker symbol TIN.



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FINANCIAL HIGHLIGHTS

(in millions, except per share data)

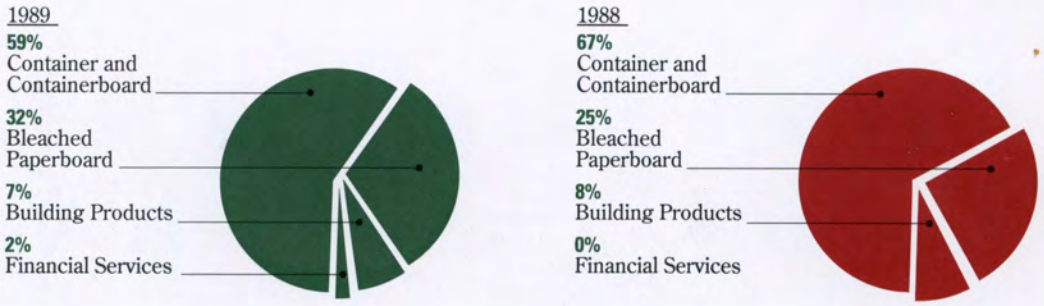
	1989	1988	Percent Increase (Decrease)
Total Revenues	**$2,124.0**	$2,016.8	5 %
Manufacturing Net Sales	**$1,894.2**	$1,773.5	7 %
Operating Income	**$ 340.4**	$ 304.3	12 %
Net Income	**$ 207.4**	$ 199.2	4 %
Earnings Per Share*	**$ 3.75**	$ 3.58	5 %
Dividends Per Share*	**$ .58**	$ .42	38 %
Shareholders' Equity	**$1,258.9**	$1,095.8	15 %
Book Value Per Share*	**$ 22.95**	$ 19.87	16 %
Average Shares Outstanding*	**55.3**	55.7	(1)%
Common Shares Outstanding at Year End*	**54.9**	55.2	(1)%

SELECTED BUSINESS SEGMENT DATA

(in millions)

	1989	1988	Percent Increase (Decrease)
Manufacturing Net Sales			
Container and containerboard	**$1,138.4**	$1,093.1	4 %
Pulp and paperboard	**$ 368.3**	$ 336.0	10 %
Building products	**$ 320.3**	$ 312.2	3 %
Operating Income			
Container and containerboard	**$ 208.4**	$ 221.3	(6)%
Pulp and paperboard	**$ 114.9**	$ 82.7	39 %
Building products	**$ 23.7**	$ 24.6	(4)%
Financial services	**$ 6.9**	$ (5.6)	— %

*Per share amounts have been retroactively adjusted for a two-for-one stock split declared in February 1990.



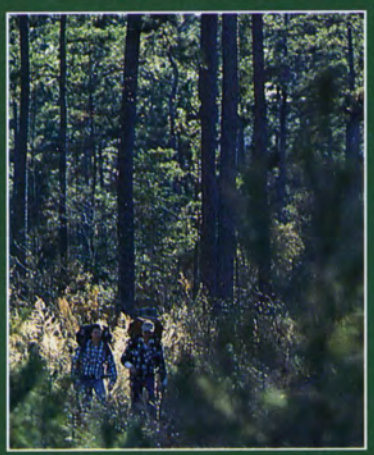
Combined operating earnings for Temple-Inland Inc. in 1989 and 1988 totaled $340.4 million and $304.3 million respectively. These charts show the percentage contributed by each of the Company's four operating groups.

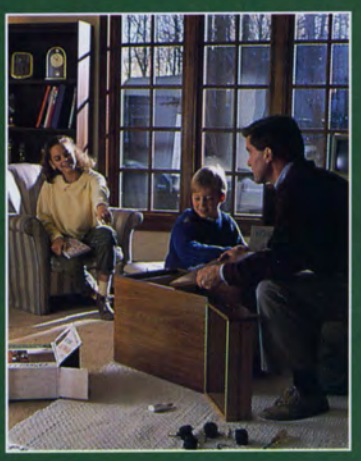
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To Our Shareholders:

1989 was our third consecutive record year, with earnings per share of $3.75 up 5 percent over last year. Revenues of $2.1 billion and operating income of $340 million also reached records. Cash dividends of $.58 per share were 38 percent higher than the prior year.

As impressive as these results may be, we believe they are only milestones in our efforts to achieve improved profitability. Two other records were set that are critical to achieving our future goals. Capital expenditures invested in our businesses reached $260 million, and over $450 million in additional commitments were made to ensure our future growth, including construction of a new paper mill.

Reflecting improved earnings and strong cash flow, the board of directors in February of this year approved a 2-for-1 stock split and increased the quarterly cash dividend by another 38 percent to $.20 per share on the post split shares. This is the sixth dividend increase in as many years since becoming an independent public corporation. The new annual rate of $.80 is more than double the rate of 1987.

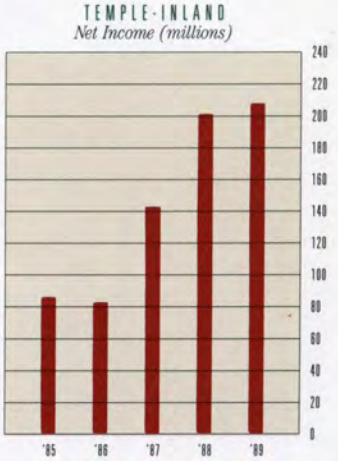
Record earnings were achieved in 1989 because of the excellent results of our two paper groups and the return to profitability of our financial services group.

The operating and financial results of the various business segments are discussed in greater detail in the Review of Operations section which follows this letter. However, it is important to note that the financial results alone do not adequately reflect the progress being made as we position our businesses for the future.

Historically, most of our core businesses have been commodity-oriented and subject to the cyclicality of the American economy. In a worldwide environment that is intensely competitive, it is virtually impossible to attain sufficient market share to singly influence market events. Therefore, to gain competitive advantage, we believe it is critical to be a low-cost producer and manufacturer of a balanced blend of products, including specialty items having higher profit margins.

We have expressed our philosophy regarding size and profitability on numerous occasions. However, we feel it is important to stress once again our particular point of view that Temple-Inland does not strive to become the biggest company in the forest products industry, only the most profitable for our shareholders.

While our two paper groups represent over two-thirds of total revenues, this industry faces an expansion dilemma. Existing mills, largely built in previous dec-



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ades, are not as efficient or as productive as current available technology in a new mill. However, the cost to construct a new greenfield mill to utilize this technology is so expensive that, at current market pricing, a satisfactory rate of return cannot be obtained on the required investment.

As an alternative, we have chosen to modernize existing mills implementing the new technology wherever feasible. This strategy has not only yielded a favorable return on investment, but has provided some additional production to serve the growing paper markets.

Our bleached paperboard mill in Evadale, Texas, as well as two large linerboard mills in Rome, Georgia and Orange, Texas, have been modernized and projects currently are underway at our corrugating medium mills in Newport, Indiana and New Johnsonville, Tennessee.

The Evadale and Orange projects were virtually completed in 1989, and the benefits include greater capacity with an improved cost structure. While still in a start-up mode, the Rome project should achieve similar results in 1990.



Arthur Temple (R), Clifford J. Grum (L)

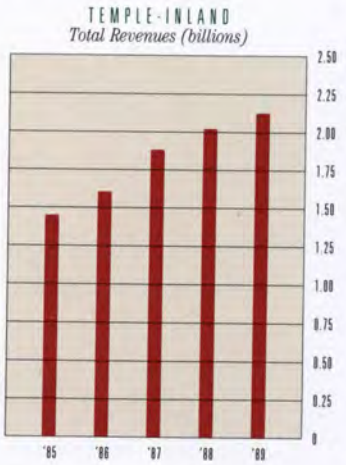
As an alternative to a new greenfield virgin linerboard mill, we continue to develop our expertise in recycling old corrugated boxes. Approximately one-third of our containerboard (combination of linerboard and corrugating medium) is manufactured from recycled boxes. Our Ontario, California mill was the first recycle linerboard mill in this country and we now plan to build another new recycle linerboard mill. We have purchased an option on a site near Maysville, Kentucky, about 70 miles from Cincinnati, Ohio. This site is strategically situated next to an electrical utility power plant. Excess steam, along with power, will be purchased from the utility, eliminating the need for constructing our own power supply. This formula has been very successful at our Newport mill.

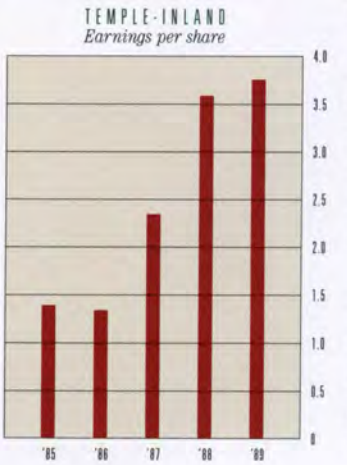
Traditionally, sales of corrugated containers have grown with the overall level of worldwide manufacturing activity because corrugated boxes generally provide the best shipping value based on the economics of lowest cost and highest performance.

Now, as the merchandising and retail distribution of many consumer products are changing (such as those items in supermarkets that are displayed and sold directly from the box), the shipping container serves a valuable purpose as a sales tool. To gain maximum value from this merchandising technique requires improved graphics. And, in many cases, this dictates a white box rather than the traditional brown box.

To be able to better serve our customers, we are modifying one of the paper machines at the Orange linerboard mill to produce a new product line—white top linerboard. This product will have a white surface to showcase enhanced graphics for corrugated boxes, allowing us to produce a wider variety of boxes for our customers.

In our bleached paperboard mill at Evadale, past expenditures and efforts to improve production and lower costs have paid off. Record earnings were achieved. The





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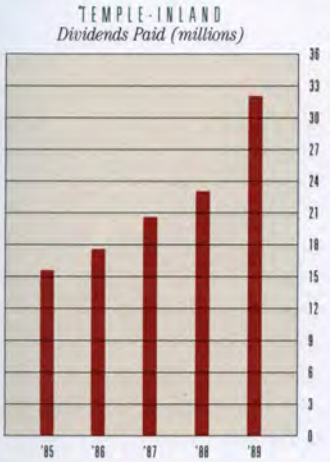
wide variety of specialty grades manufactured at this mill continues to allow for maximization of profit margins.

Lower residential housing activity continues to depress demand for most building materials. However, a combination of reduced supply and a slight recovery in activity as the year progressed, resulted in a mixed price environment for many of our products. Particleboard products were the exception and maintained pricing momentum throughout the year, largely because of growing demand in the furniture and cabinet markets.

Our new sawmill at Buna, Texas improved its productivity and its sister mill at DeQuincy, Louisiana will start production in the first quarter of 1990.

Southern pine lumber continues to gain market popularity, and these two mills offer a low-cost conversion opportunity to leverage this trend, as well as obtaining the greatest value from our pine timber resource.

Although the profits are included in the manufacture of various products, a significant advantage enjoyed by our shareholders is our timber base resource. The 1,800,000 acres include about 1,300,000 acres in Texas and Louisiana, which provide approximately 65 percent of our high value sawtimber requirements.



Environmental issues have become a major concern for our industry and probably will limit the ability to harvest the usual volumes of timber from public lands in the future. Therefore, our forests should not only become a more valuable asset but will also allow us to control our growth in both the paper and building materials markets.

The real estate deflation of Texas markets continues to depress the earnings of several segments within our financial services group, although the group was profitable after reporting its first loss in 1988.

These temporary conditions also created opportunities which we believe will be important to the future of our financial services group. Our majority-owned savings and loan—Guaranty Federal Savings Bank—continued to develop operating efficiencies and to restructure its liabilities lowering the cost of deposits.

The investment was acquired in a FSLIC-assisted transaction. The transition of regulatory agencies and new capital requirements caused considerable media attention during 1989. These events created a consumer perception of an unstable environment for Texas thrifts and, as a result, we elected to illustrate our financial soundness by prefunding the $50 million additional capital contribution in order to meet all present capital requirements and provide a more stable base for future growth.

We also elected not to consolidate the activities of this operation in 1989, but rather to use the earnings and certain tax benefits to reduce our investment to tangible net worth. Beginning in 1990, the income generated, as well as tax benefits, will be reflected in our consolidated earnings.

The reduction of our federal income tax rate as a result of the thrift's operations is dependent on many variables, including the level of interest rates and the amount of assets in our thrift which we are servicing for the FDIC.

We anticipate that the current Federal tax rate of 34 percent will be reduced by at least one-third in 1990 because of the consolidation.

We have owned this thrift for over a year, and the events to date have confirmed our initial conclusion that this acquisition offers a unique opportunity to buy a "turn-around" business of critical mass and at a controllable risk to our investment.

As the economy continues to moderate its rate of growth, most of the markets for our products are stabilizing and profit margin erosion has already begun. Forecasts for the remainder of the year are extremely difficult but the combination of our different business segments allows us some diversification from the cyclical markets. We continue to dedicate the efforts of the employees of Temple-Inland to produce our fourth consecutive year of record net earnings for our shareholders in 1990.

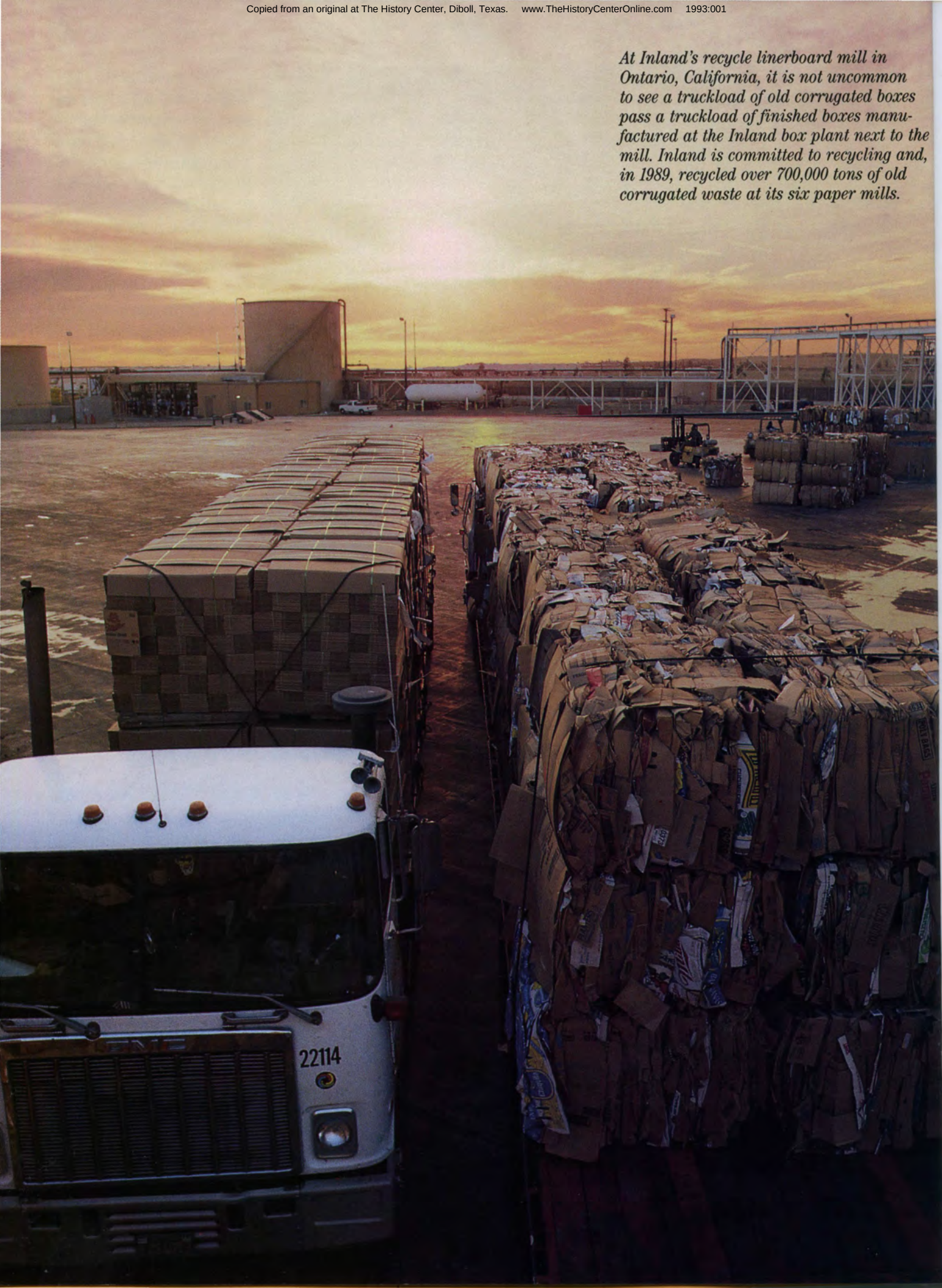
Sincerely,

Clifford J. Grum
President & Chief Executive Officer

Arthur Temple
Chairman of the Board

February 16, 1990

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At Inland's recycle linerboard mill in Ontario, California, it is not uncommon to see a truckload of old corrugated boxes pass a truckload of finished boxes manufactured at the Inland box plant next to the mill. Inland is committed to recycling and, in 1989, recycled over 700,000 tons of old corrugated waste at its six paper mills.

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Review Of Operations

CONTAINER AND CONTAINERBOARD

In 1989, new records were established in the production of containerboard (linerboard and corrugating medium) and shipments of corrugated boxes at Inland Container Corporation, Temple-Inland's largest business group.

Last year, Inland provided 54 percent of Temple-Inland's revenues and 59 percent of operating earnings. Revenues increased to $1.14 billion. Operating profits were $208.4 million, down 6 percent from 1988, due mainly to a highly competitive environment in which selling prices remained fairly stable while costs increased. Also, the severe cold weather in December reduced production at our southern mills.

Containerboard production at Inland's six paper mills reached an all-time record of 1,897,000 tons, up 3.3 percent from 1988. This record level was achieved despite the fact that the company's large linerboard mill in Rome, Georgia was down for 30 days for a machine rebuild.

Corrugated box shipments from the company's 33 box manufacturing plants also reached a record 1,569,000 tons, up 2.5 percent from last year's record.

The significant price increases of corrugated containers over the past few years slowed during 1989 with a return to a more balanced level of supply and demand, and a weakening in the price of containerboard. Incremental increases in containerboard capacity throughout the industry essentially matched demand.

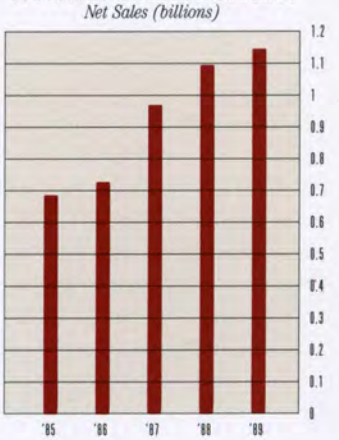
Inland's basic strategy is to be a vertically integrated operation. The company's objective is to convert over 75 percent of its containerboard production into corrugated boxes in its own box plants. The remainder is sold to other converters including some outside of this country and to paper bag manufacturers. In 1989, 80 percent of Inland's containerboard production was converted in Inland box plants. Therefore, growth of containerboard production allows for expansion of box plant volume. The virtual completion of major modernization programs at the company's two largest linerboard mills will provide substantial new volumes of containerboard.

In the fourth quarter of 1989, the Rome mill virtually concluded a three-year, $190 million modernization program. Throughout 1990, the mill should gradually increase its production to its targeted capacity of 2,500 tons per day, a 25 percent increase over the 1989 capacity level.

Also during 1989, the Orange mill completed its $75 million modernization program which has improved quality, dependability and production. Production reached 506,400 tons in 1989, up over 8 percent from 1988.

Approved and begun during 1989 were similar modernization programs at corrugating medium mills in

CONTAINER & CONTAINERBOARD
Net Sales (billions)



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An increasing number of large consumer products companies are purchasing packaging from fewer select suppliers. Inland's national system of box manufacturing plants allows it to service the needs of companies like Philip Morris Companies Inc., providing shipping containers for many products at a number of locations.

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New Johnsonville, Tennessee and Newport, Indiana. The New Johnsonville project will cost $20 million and will increase capacity there by about 33,000 annual tons, or 15 percent. A $35 million project is underway at the Newport mill which will increase capacity by 42,000 annual tons, or about 20 percent. When these projects are completed by the end of 1990, Inland's containerboard capacity will be 2.3 million tons annually.

For the past 15 years, Inland has made a major commitment to recycling. In 1975, long before the recent interest and public outcry over the growing waste disposal problem, Inland started up the Newport mill, the first corrugating medium mill built in the United States to use 100 percent recycle fiber as raw material. Ten years later, the company's linerboard mill in Ontario, California began production. Again, the mill was designed and built from the ground up to use 100 percent recycle fiber.

Inland now plans to build a third generation recycle mill which will be the most technically-advanced recycle mill in the industry. The new facility will be equipped to produce both linerboard and corrugating medium with an initial capacity of 600 tons per day. An option has been purchased on a site near Maysville, Kentucky. Engineering will begin as soon as final site selection is made, with production at the mill expected to begin in 1993.

The new mill, Inland's 7th containerboard mill, will increase annual capacity to about 2.5 million tons. When all these projects are completed, Inland will be using about one million tons of old corrugated boxes for raw material, boxes which otherwise would find their way into the country's waste stream, and have to be disposed of in landfills or incinerators.

The company also has begun a project at the Orange linerboard mill to manufacture a new product—white top linerboard. The trend in the corrugated box market is toward the use of more white board. This new product will provide customers with an attractive, cost-effective alternative to bleached linerboard and other substrates currently being used in enhanced graphics packaging.

A partner in this project is Temple-Inland's bleached paperboard mill in Evadale, Texas. The synergy is excellent. The Evadale mill can produce more bleached pulp than it can currently convert on its machines, and therefore can supply the Orange mill with the needed pulp. In addition, the process will be cost-effective since the bleached pulp can be shipped in slurry form from Evadale which is only 30 miles from the Orange mill.

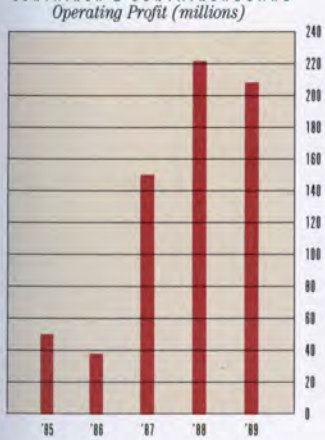


Inland continues to focus on quality and service in its corrugated box business. Customer value has been addressed by emphasizing cost and statistical process controls in the manufacturing process which allows us to provide competitive prices without sacrificing quality and service.

A significant trend among many large national corrugated box users is to concentrate their box purchases using just two or three suppliers. It is a modification in the corporate culture which emphasizes a partnership between customer and supplier. A key element in this partnership philosophy is a total commitment to understanding and responding to each other's needs.

Because of our network of box plants strategically located throughout the country, and our emphasis on quality and service, Inland has been able to gain a larger position as a supplier to many of these large national com-

CONTAINER & CONTAINERBOARD
Operating Profit (millions)



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panies. At the same time, each of the company's 33 box plants continues to provide the same high quality and service to its own local accounts.

In order to maintain the company's objective of converting over 75 percent of its containerboard production in its own box plants, productive capacity of its box plant system must continue to grow. Gains in productivity have been achieved through capital programs for newer, faster, labor-saving equipment. During 1989, corrugators capable of running at 1,000 feet per minute—well above industry standards—were installed at plants in Crawfordsville, Indiana and Biglerville, Pennsylvania. These corrugators, along with additional finishing equipment, have increased capacity of these plants by as much as 40 percent.

Also during the year, the company's 33rd box plant began production at Edinburg, Texas. The new 200,000 square foot facility is serving a variety of industries, including the fruit and vegetable markets in the area, Maquiladora manufacturing plants in Mexico, as well as other markets in Mexico and the U.S.

Plans were announced to relocate and expand our box plant in the Richmond, Virginia area. This new $15 million facility should be operational by early 1992 and will double the capacity there.

The decade of the 1980s was a period of substantial growth for Inland. From 1980 through 1989, containerboard production increased 82 percent, box shipments were up 60 percent, and revenues increased 113 percent.

The corrugated box business is a cyclical business with earnings being affected greatly by the worldwide supply/demand relationship for containerboard. Inland's earnings in 1989, although lower than 1988, were $208.4 million, compared with $53 million in 1980, an increase of 293 percent. The company's challenge in the 1980s was to achieve and maintain control of its costs in order to minimize the erosion of earnings in a down cycle while maximizing returns during the up cycles. This was achieved, and the challenge continues as the 1990s begin.

BLEACHED PAPERBOARD

The Bleached Paperboard Group consists primarily of a bleached paperboard mill in Evadale, Texas, one of the largest specialty mills in the country.

1989 was the second consecutive year our Bleached Paperboard Group achieved record results. Strong market demand for the Group's 10 different grades of paper and paperboard resulted in new highs for both revenues and operating profit.

This group, unlike containerboard which is integrated into converted products, sells all of its primary products to outside converters. In 1989, Bleached Paperboard accounted for approximately 17 percent of Temple-Inland's revenues and 33 percent of operating earnings.

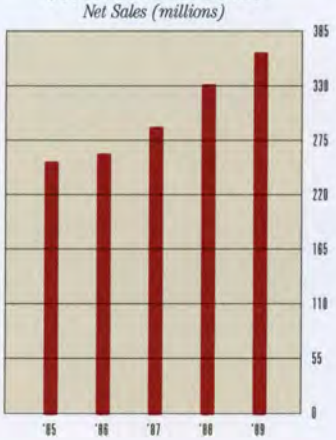
The paper mill has three Fourdrinier paper machines and one cylinder machine and is capable of producing a wide range of bleached paper and paperboard grades. It is one of the country's largest suppliers of bleached paperboard used in the manufacture of paper plates and cups, folding cartons, file folders, shopping bags, packaging for consumer goods and book covers.

During the past decade, much of the growth in the product market served by the Evadale mill has favored plastics instead of paper. During the last year, this trend was reversed with paper showing increased growth. Environmental concerns with recycling and biodegradable materials have typically favored the advantages of paper over plastic. The bleached paper industry is well positioned to address the consumer's concerns for the environment.

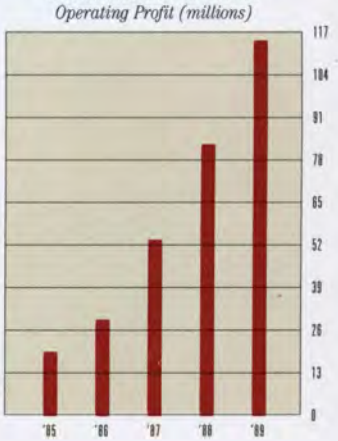
Quality and service continue to be the keystones of the mill's operations, and have contributed substantially to increased sales and an expanded customer base. New customers and careful attention to long-term relationships have paid dividends with full order backlogs even in soft markets. The mill has significantly enhanced customer relations by developing joint customer-company teams to address new product needs and produce value added refinements to existing product lines. The continued emphasis on quality and service will allow the company to continue to benefit from new revenue sources and will allow it to maintain its industry leadership position.

Although the Evadale mill started up in late 1954, it continues to maintain competitive manufacturing costs because of numerous modernization projects completed during the past 10 years. A major rebuild was completed on the mill's largest Fourdrinier paper machine during late 1989. The results since startup of the

BLEACHED PAPERBOARD
Net Sales (millions)



BLEACHED PAPERBOARD
Operating Profit (millions)



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For birthday party or picnic, nearly all of the paper products necessary, such as cups, plates and food containers, are made from bleached paperboard produced at our Evadale mill.

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machine have been very encouraging with a 10 percent increase in production and improved quality.

The total capacity of the Evadale mill is now approximately 1,675 tons per day. We expect incremental capacity increases to continue as changes occur in paper making technology.

The strategy of our Bleached Paperboard Group is to maintain a leading position in the food service marketplace, increase market share of value added products in the office supply, commercial printing and packaging markets and fully utilize the assets that are already in position at the Evadale mill.

We continue to look for new product opportunities, particularly those products that would satisfy the consumer's demand for greater flexibility with food service applications. Marketplace testing of a new microwavable product has been successfully completed and commercial production of a new composite cellulose/plastic container should begin during 1990.

Markets for bleached products are beginning to moderate. If the U.S. economy continues on a slower growth rate, the markets will probably weaken as the year develops. Hopefully, the results of our modernization program and a new railroad tie with our unbleached kraft mill in Orange will allow more efficient cost control thus preventing margin erosion. Also, our mill has the flexibility that is needed in today's markets to provide quick responses to changing customers' needs.

We fully believe success is a process of continuing improvement and we have dedicated ourselves to innovative quality products, excellence in customer service and highly efficient manufacturing facilities.

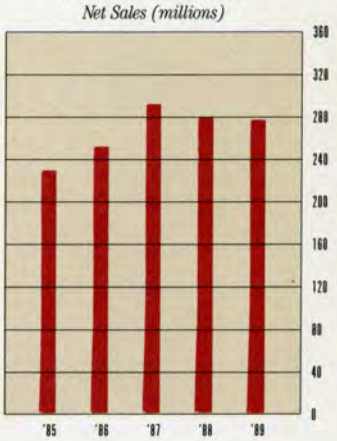
BUILDING PRODUCTS

Building Products sales and operating profit improved throughout 1989 as long-term interest rates declined during the year, halting the slide in the new construction market throughout the South, and particularly in Texas. This stabilization in new construction, coupled with the company's focus on new product markets and specialty wood items, led to higher volume in many of the division's key products, such as pine lumber, particleboard, and plywood.

In 1989, the Building Products Group earned $23.7 million, down four percent from the year earlier, on sales of $320.3 million, a three percent increase.

The Building Products Group manufactures a wide range of products from 13 plant locations primarily in Texas and other south central states. Products include particleboard, pine lumber, plywood, fiber products—both hardboard siding and fiberboard sheathing—and gypsum wallboard. Particleboard, once again, was the largest profit contributor but increased lumber volume, resulting from our new Buna sawmill as well as modernization programs at our three other mills, had a positive

BUILDING PRODUCTS
Net Sales (millions)



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Southern pine lumber, treated with wood preservatives, is being used extensively for outdoor applications such as decks and patios, providing years of beauty and enjoyment.

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effect. Improved operating efficiencies in plywood, as a result of a similar program completed in 1989, increased profits in this business segment as well.

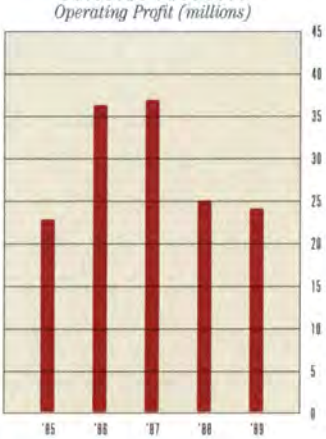
Manufacture of southern pine lumber remains our fastest growing product line and reached record levels in 1989. In its second year of operation, the Buna, Texas sawmill exceeded design capacity. With the start-up of our Southwest Louisiana sawmill near DeQuincy, Louisiana, we will have completed another step in the strategy to fully utilize our forest resource, to provide a consistent and cost effective supply of chips to our Texas paper mills, and to produce the highest quality lumber for our customers.

The appeal of southern pine lumber in the treated wood market continued to be a major positive development. The outlook is favorable as the popularity of outdoor living areas leads to further growth in the building of decks, balconies, and other treated applications.

Sales of high quality industrial grade TemStock™ particleboard to the furniture and cabinet industry increased by 42 percent in 1989. The further addition at our Diboll particleboard plant of a high speed laminator, which overlays specialty paper and vinyl to our TemStock grade particleboard, increased our ability to provide a finished board ready for assembly to our furniture customers.

In 1989, our exports of building products experienced their greatest growth ever. Sales of lumber, plywood, and particleboard increased sharply as our products gained a reputation for consistent quality.

BUILDING PRODUCTS
Operating Profit (millions)



The combination of our ability to produce high quality specialty grades of pine lumber from manufacturing plants located near Gulf Coast ports has been especially important to penetrating the European lumber market. In addition, our close proximity to the fast growing markets in Mexico has been a key to increased penetration of these markets.

Virtually every building material which we manufacture is sold on a delivered cost basis; therefore, elimination of freight expense is a critical element in our system.

As both trucking and railroad industries have become more interested in back-hauling freight, we are beginning to be able to market our building materials in much larger geographic areas without increasing our freight costs. For instance, we are now able to competitively sell certain lumber products in California.

During 1989, we increased our commitment to develop new products and transform present products into new offerings where natural demand exists for these products. With the new offerings, we concentrated on value added products such as cut-to-size particleboard, specialty grades of lumber, Ultra siding products and laminated products. Value enhancement through product transformation such as these will allow us to continue to meet our customer needs for the future.

TIMBERLANDS

The containerboard, pulp and paperboard, and building products groups are supported by 1.8 million acres of company timberlands in Texas, Louisiana, Georgia, and Alabama.

The Texas and Louisiana timberlands, well stocked with high value sawtimber, supplied 75 percent of all such fiber consumed by the company's area lumber and plywood mills. Roundwood pulpwood harvested from these tracts equaled 31 percent of total pulpwood requirements and, combined with wood chips from company sawmills, constitutes 57 percent of paper mill requirements.

Georgia and Alabama fee timberlands support younger stands and currently furnish 46 percent of that area's sawtimber supply along with 15 percent of the roundwood pulpwood. Volumes from all company sources, including sawmill wood chips, equate to 22 percent of needs at the Rome, Georgia paper mill.

Much of the East Texas and Louisiana timberland is relatively contiguous and within a 40-mile or less hauling distance to company mills. A major strategy of the timberlands group is to con-

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More than half of Temple-Inland's 1.8 million acres of timberland are open to the public for various outdoor recreation activities, including hunting, fishing and hiking.

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tinue to acquire through purchases and exchanges lands near Temple-Inland plants to gain the benefit of timberland management economies and to reduce transportation costs for delivered fiber.

All of the properties have been under prudent management practices. The Texas properties, under company management since the early 1900's, are particularly high in annual harvest levels, much of which is mature sawtimber. Georgia lands are under identical management practices and have all been acquired within the past four decades. Current harvest is at a lower rate per acre than the Texas timberlands, yet will increase rapidly during the next 10 years as young plantations reach maturity.

The company's policy is to maximize the current net worth of its standing timber acreage through timber management practices designed to produce high-yield timber for its long-range mill requirements. Currently, approximately 56 percent of the land holdings are in fast growth pine plantations. The company goal is to eventually have these high-yield timber stands on most of the company lands best suited for growing pine species. Planted pine will supply initial harvests of pulpwood at 15 to 20 years and good quality sawtimber at 30 to 35 years. Future planting of genetically-improved pine seedlings will increase fiber production from company lands, reducing dependence on volatile outside timber.

This strategy will position the company to meet wood fiber demands into the foreseeable future. Competing uses for forests amenities and declining supplies of fiber from public lands confirm the wisdom of the Temple-Inland dedication to manage its fee holdings to insure that every acre produces at its maximum potential.

The company maintains a continuously updated inventory of its timber reserves, matching fee and outside timber availability with anticipated long-range needs. Fiber allocation systems are utilized to direct each tree harvested to the manufacturing plant that earns the best return. This return-to-stump practice is the cornerstone for maximizing the value of our timberlands.

During 1989, a new pine seedling nursery, named for long-time Temple-Inland employee Clyde Thompson, was opened to supply all the company's pine seedling needs. The first crop was lifted beginning in December and was planted during the dormant season which extended through mid-March. The seedlings are all first or second generation improved seed developed in cooperation with university and industry sources and grown in company maintained seed orchards.

The maximum productive use of timberland yields other benefits to society in addition to a cost-efficient wood fiber crop. Careful attention is paid to environmental protection and aesthetics, as well. Temple-Inland acreage is cultivated to carefully nurture the forest creatures and plant life which depend upon the trees for sustenance, shelter, and protection. These forests also provide a source of recreation and education to residents and visitors. The company considers it important to act as a concerned citizen by providing a pleasant and satisfying forest setting for recreational and conservation needs.

FINANCIAL SERVICES

Financial Services' recovery during 1989 resulted in an earnings contribution of $6.9 million for the year versus a loss in 1988. Mortgage banking operations experienced improved activity in new loan originations, while delinquencies and the foreclosure rate of existing mortgage loans declined. However, the large number of properties already in foreclosure continued to adversely affect earnings throughout much of the year.

Following two years of restructuring, the results in the life insurance operations had begun to show improvement in 1989. However, during 1989, it became apparent that to maximize the potential of the life insurance operations this segment would need significant new capital to achieve a size that would allow it to be a low cost provider of products. The decision was made that rather than commit to this growth, the avenues for exiting that business should be explored. In the second quarter of 1989, National Fidelity Life Insurance was sold to Conseco, Inc. for $74 million and resulted in an after-tax loss of $4.1 million.

Subsequent to year-end, the company signed a definitive agreement to sell Great

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American Reserve Insurance Company to a unit of Conseco, Inc. for approximately $145 million. This transaction is expected to close late in the first quarter of 1990 and is anticipated to result in an after-tax gain of approximately $10 million. The divestitures and exit from the life insurance business will allow Temple-Inland Financial Services to refocus its business efforts on its traditional mortgage loan servicing operations and on the development of the Texas-based savings bank.

The weak real estate market conditions which have existed in the past several years began to show slight improvement in 1989. Though no dramatic rebound is forecast in 1990, real estate lot sales should improve and begin to return to profitable levels.

Temple-Inland's principal involvement in Financial Services since the early 1960s had been the mortgage banking segment of the business. In 1989, renewed emphasis was placed on development of the loan origination capability and on restoring the growth potential of the servicing portfolio. After a decline in the portfolio in 1988, the first in 22 years, Temple-Inland reversed that trend in 1989, growing the portfolio by about $20 million to its current level of $3.2 billion.



In addition to mortgage banking and real estate development, the group operates a casualty insurance brokerage company, Timberline Insurance Agency. This group brokers personal and business coverage for the general public market as well as serving as an insurance manager for the various coverages of Temple-Inland. The group continues its efforts at broadening its markets and was again a valuable profit contributor.

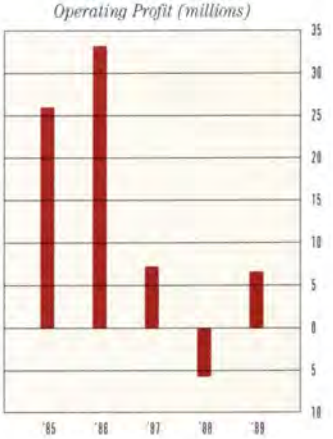
After its entry in 1987 into the savings and loan market through the purchase of Kilgore Federal Savings and Loan, the Company in 1988 acquired a majority interest in three Texas savings and loans with the assistance of the Federal Savings and Loan Insurance Corporation (FSLIC) under its assisted Southwest Plan. The assets acquired were operated during 1989 as Guaranty Federal Savings Bank through 52 branches in the metropolitan areas of Dallas, Austin, and Houston.

In 1989, with new management in place, efforts were made at refocusing the bank on sound financial and banking practices, at consolidating the various operating entities, and returning the thrift to profitability.

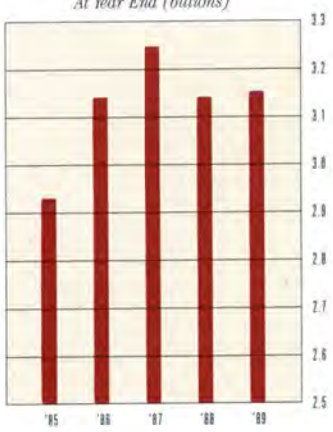
Temple-Inland's strategy for operating the thrift is to develop a consumer bank franchise and to provide growth in future earnings and assets.

Guaranty now consists of the assets and liabilities of three Texas savings and loans which were insolvent.

FINANCIAL SERVICES
Operating Profit (millions)



FINANCIAL SERVICES
Mortgage Loan Servicing Portfolio At Year End (billions)



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"Bank to Win" was the theme for Guaranty Federal Savings Bank's successful 1989 advertising campaign, the first major campaign since we purchased the thrift in 1988.



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When the acquisition was completed on September 30, 1988, we determined that it would be 15 months before these assets could be combined and consolidated into an orderly corporate entity. Therefore, we elected not to consolidate the earnings of the thrift but for the next 15 months to use the earnings and tax benefits received to reduce our investment in the thrift. As of December 31, 1989, we had a net investment of $52 million on our balance sheet and will begin consolidating the earnings during 1990.

At the time of the purchase, we had two minority partners and FSLIC held warrants exercisable for 20 percent of the outstanding stock. The fundamental plan for Guaranty was to have a bank with a solid capital base and then to capitalize on the recovery of the economy in Texas. Our strategic plan continues, but new capital requirements were prescribed by Federal authorities during 1989. With our current level of deposits we meet all minimum capital requirements; however, the future growth that we envision will require additional capital.

Our minority holders chose to be bought out rather than remain shareholders and we will pay a total of $19.6 million for their interests on March 31, 1990. As of this date, FSLIC retains warrants for 20 percent of the common equity, but as part of our new capitalization program, they may also elect to be bought out of their ownership position.

The Financial Services Group is now strongly positioned to resume the growth which characterized operations during the early 1980s. Though rapid growth is not in the short term forecast, an upward momentum is in place to grow and strengthen the operations in the future.



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★ **Corporate Headquarters**
Diboll, Texas

★ **Subsidiaries' Headquarters**

Inland Container Corporation
Indianapolis, Indiana

Lumbermen's Investment Corporation
Austin, Texas

Temple-Inland Forest Products Corporation
Diboll, Texas

Temple-Inland Financial Services Inc.
Austin, Texas



● **Building Products**

Fiberboard Operation
Diboll, Texas

Rigid Foam Operation
Diboll, Texas

Particleboard Operations
Diboll, Texas
Monroeville, Alabama
Thomson, Georgia

Gypsum Operations
West Memphis, Arkansas
Fletcher, Oklahoma

Plywood Operation
Pineland, Texas

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

Retail Distribution Operations
Diboll, Texas
Pineland, Texas
Conroe, Texas
Houston, Texas
Alexandria, Louisiana



● **Bleached Paperboard Mill**
Evadale, Texas

● **Containerboard Mills**

Linerboard
Ontario, California
Rome, Georgia
Orange, Texas

Corrugating Medium
Newark, California
Newport, Indiana
New Johnsonville, Tennessee



● **Packaging**

Corrugated Container Plants
Fort Smith, Arkansas
Los Angeles, California
Newark, California
Ontario, California
Santa Fe Springs, California
Tracy, California
Denver, Colorado
Orlando. Florida
Macon, Georgia
Rome, Georgia
Chicago, Illinois
Crawfordsville, Indiana
Evansville, Indiana
Garden City, Kansas
Kansas City, Kansas
Louisville, Kentucky
Minden, Louisiana
Minneapolis, Minnesota
Hattiesburg, Mississippi
St. Louis, Missouri
Edison, New Jersey
Spotswood, New Jersey
Middletown, Ohio
Biglerville, Pennsylvania
Erie, Pennsylvania
Hazleton, Pennsylvania
Vega Alta, Puerto Rico
Lexington, South Carolina
Rock Hill, South Carolina
Elizabethton, Tennessee
Dallas, Texas
Edinburg, Texas
Richmond, Virginia

Anderson Box Company
21 warehouses located throughout the country

Rexford Paper Company
Milwaukee, Wisconsin



● **Financial Services**

Mortgage Loan Operations
Austin, Texas
Dallas, Texas
Houston, Texas
Irving, Texas
Killeen, Texas
Temple, Texas
San Antonio, Texas
Garland, Texas
Round Rock, Texas
Corpus Christi, Texas
El Paso, Texas
Lombard, Illinois
Indianapolis, Indiana
Oklahoma City, Oklahoma
Memphis, Tennessee
Southaven, Mississippi
Minneapolis, Minnesota
Denver, Colorado
Richmond, Virginia
Virginia Beach, Virginia

Savings & Loan Associations
Austin, Texas
Dallas, Texas
Houston, Texas
Kilgore, Texas

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Chairman and Chief Executive Officer
Borg-Warner Corporation

Robert Cizik (2) (4)
Chairman, President and
Chief Executive Officer
Cooper Industries, Inc.

Henry C. Goodrich (2) (3) (4)
President
Richgood Corporation

Clifford J. Grum (3)
President and
Chief Executive Officer
Temple-Inland Inc.

Bobby R. Inman (1) (4)

W. Wayne McDonald (3)
Executive Vice President and
Chief Financial Officer
Temple-Inland Inc.

Walter P. Stern (1) (2) (3)
Chairman of the Board
Capital International, Inc.

Arthur Temple (3)
Chairman of the Board
Temple-Inland Inc.

Arthur Temple III (1) (3) (4)
Chairman of the Board and
Chief Executive Officer
Exeter Investment Company

Clinton G. Ames Jr.
Director Emeritus

Joe C. Denman Jr.
Director Emeritus

(1) Audit Committee
(2) Compensation Committee
(3) Executive Committee
(4) Nominating Committee

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President and
Chief Executive Officer

Arthur Temple
Chairman of the Board

W. Wayne McDonald
Executive Vice President and
Chief Financial Officer

David L. Ashcraft
Group Vice President

Ben J. Lancashire
Group Vice President

Harold C. Maxwell
Group Vice President

Roger D. Ericson
Vice President, General Counsel
and Secretary

M. Richard Warner
Treasurer

David H. Dolben
Vice President

Joseph E. Tomlinson
Assistant Treasurer

James R. Wash
Assistant Secretary

Chester E. Winger
Assistant Treasurer

Inland Container Corporation

Corporate Group

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Chairman, President and
Chief Executive Officer

E. Barney Ciotti
Senior Vice President and
President
Anderson Box Co.

David J. Harrison
Senior Vice President—
Administration

Joseph M. Areddy
Vice President—
Public Affairs

Frederick G. Fly
Vice President—
Management Information Services

Steven L. Householder
Vice President, General Counsel,
and Assistant Secretary

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Vice President—
Treasurer and Controller

John M. Vaughan
Vice President—
Engineering and Technology

Donald W. Armstrong Jr.
Assistant Vice President—
Human Resources Planning
and Development

Frank F. Hirschman
Assistant Vice President
and Assistant Secretary

Patricia A. Foley
Assistant Secretary

Containerboard Division

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Group Vice President

Edwin L. Wilson
Vice President and
General Manager
Inland-Rome Inc.

Alec Benson
Vice President and
General Manager
Inland-Orange Inc.

Robert E. Stone
Vice President

Container Division

William A. Long
Group Vice President

James E. Cory
Senior Vice President—
Sales and Marketing

Joseph E. Turk
Senior Vice President—
Plant Operations

James R. Adams
Vice President—
Area Manager

Charles R. Bachman Jr.
Vice President—
Area Manager

James M. Givens Jr.
Vice President—
National Accounts Executive

Bruce J. Grube
Vice President—
Area Manager

Samuel E. MacNulty
Vice President—
National Accounts Executive

C. Raymond Pope
Vice President—
Regional Sales Manager

J. Larry Tignor
Vice President—
Manufacturing Services

Charles L. Wilson
Vice President—
Area Manager

Anderson Box Company

James R. McConnell
Vice President and
General Manager

Temple-Inland Forest Products Corporation

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Vice President—
Administration

George S. Vorpahl
Vice President and
General Counsel

Richard A. Bennett
Vice President

C. Michael Harbordt
Vice President

James R. Wash
Secretary

Jack H. McCuistion
Controller

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Group Vice President

Joe K. Sample
Vice President—Marketing

Jack C. Sweeny
Vice President—Operations

Forests Division

Glenn A. Chancellor
Group Vice President

Kenneth G. Christopher
Vice President—Minerals

Pulp & Paperboard Group

David L. Ashcraft
Group Vice President

Aubrey W. Barlow
Vice President—Sales

W. C. Cole
Vice President—Mill Operations

E. Wayne Carr
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Construction Group

William B. Fulmer III
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Universal Electric Construction
Group

The Angelina Free Press, Inc.

Ernie S. Murray
Editor

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Chairman, President and
Chief Executive Officer

Lumbermen's Investment Corporation of Texas

William R. Starkey
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Chief Financial Officer

Joseph L. Maverick
Senior Vice President—
Commercial Lending

H. J. "Jay" Shands III
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Regional Manager—Southwest Region

Dennis P. Patton
Senior Vice President—
Regional Manager—Midwest Region

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Senior Vice President—
Regional Manager—Southeast Region

Temple-Inland Properties Inc.

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President

Timberline Insurance Managers, Inc.

Gary H. Cooper
President

Kilgore Federal Savings & Loan Association

B. Rex Whitten
President

Investments (Majority-Owned) Guaranty Federal Savings Bank

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Chief Operating Officer

Scott H. Smith
President-GSC Realty Corporation

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Financial Review

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operations and Financial Condition

Results of operations including information regarding the principal business segments are shown below.

Business Segments	1989	1988	1987	1986	1985
			(in millions)		
Revenues					
Container and containerboard	**$1,138.4**	$1,093.1	$ 964.2	$ 721.7	$ 684.2
Pulp and paperboard	**368.3**	336.0	292.5	264.9	256.7
Building products:					
Manufacturing	**278.2**	278.4	290.7	251.0	226.9
Retail	**42.1**	33.8	32.1	30.5	41.1
Other activities (1)	**67.2**	32.2	23.2	27.7	34.2
Manufacturing Net Sales	**1,894.2**	1,773.5	1,602.7	1,295.8	1,243.1
Financial services (2)	**229.8**	243.3	271.8	294.7	194.8
Total Revenues	**$2,124.0**	$2,016.8	$1,874.5	$1,590.5	$1,437.9
Income Before Taxes					
Container and containerboard	**$ 208.4**	$ 221.3	$ 150.8	$ 38.8	$ 49.7
Pulp and paperboard	**114.9**	82.7	53.4	29.4	19.8
Building products:					
Manufacturing	**22.4**	24.1	36.8	36.2	23.5
Retail	**1.3**	.5	(.3)	(.3)	(1.0)
Other activities (1)	**(.7)**	1.2	—	(5.8)	2.5
Operating profit	**346.3**	329.8	240.7	98.3	94.5
Financial services	**6.9**	(5.6)	7.6	33.0	25.3
	353.2	324.2	248.3	131.3	119.8
Corporate expense	**(12.9)**	(19.9)	(11.7)	(13.1)	(8.1)
Parent company interest—net	**(24.4)**	(23.1)	(20.3)	(13.0)	1.2
Other net	**(.9)**	(.4)	—	3.6	2.2
Gain (loss) on sale of property and equipment (3)	**(.8)**	21.0	4.1	4.5	12.5
	$ 314.2	$ 301.8	$ 220.4	$ 113.3	$ 127.6

(1) Primarily industrial contracting.
(2) Financial Services revenues have been restated to reflect adoption of FASB Statement No. 97.
(3) The 1988 amount includes gains of $12.4 million on the disposition of lands and $5.0 million on the sale of the AFCO Industries subsidiary. The 1985 amount includes an $11.3 million gain on the sale of the Eastex Packaging subsidiary.

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Container and Containerboard

The Container and Containerboard operations manufacture linerboard and corrugating medium at six paper mills and convert these grades of containerboard into corrugated shipping containers at 33 box plants.

Earnings from the Container and Containerboard group declined 6 percent from the record year of 1988 due to increasing costs with no resulting price increases. Earnings in 1988 were 47 percent above the amount earned in the previous year.

Despite an extended outage for a rebuild of the largest paper machine in December, mill production increased by 3 percent during 1989. Production had declined by 2 percent in 1988 due mainly to the sale of the Macon, Georgia linerboard mill in connection with the dissolution of Georgia Kraft Company. Production of containerboard exceeded internal box plant usage by 251,000 tons in 1989, 228,000 tons in 1988 and 354,000 tons in 1987. Most of the excess production was sold on the open market.

	1989	1988	1987
Tons Mill Production	1,897,000	1,836,000	1,874,000

The box plants manufacture a wide range of boxes from the simplest brown box to intricate die cut containers which can be printed with many colors and attractive graphics. Average price per ton of boxes can be significantly impacted by variations in production mix at the box plant locations.

Container prices were stable in 1989 after increasing 9 percent in 1988 and 13 percent in 1987. Current pricing in the first quarter 1990 reflects marginal declines from 1989 levels.

The table below shows the container and containerboard sales in tons and dollars. The totals presented include not only boxes sold but also open market, domestic and export sales of linerboard, bag paper and related products. Changes in product mix from period to period may make historical comparisons difficult.

Container & Containerboard	1989	1988	1987
Unit Sales	(in thousands of tons)		
1st Qtr	486	471	454
2nd Qtr	488	470	447
3rd Qtr	470	471	471
4th Qtr	469	455	430
For the year	1,913	1,867	1,802
Net Sales	(in millions)		
1st Qtr	$ 286.6	$ 264.2	$ 232.8
2nd Qtr	292.6	276.6	235.2
3rd Qtr	283.4	283.2	254.1
4th Qtr	275.8	269.1	242.1
For the year	$1,138.4	$1,093.1	$ 964.2

Pulp and Paperboard

The Pulp and Paperboard group produces bleached paperboard at its mill located in Evadale, Texas. The group sells this production to manufacturers who convert the product into paper cups, plates, shopping bags, file folders and a wide range of other products.

The Pulp and Paperboard group earned a record $114.9 million in 1989, an increase of 39 percent from 1988 which was 55 percent above the 1987 earnings level.

Mill production was 579,000 tons in 1989 compared with 602,000 tons in 1988 and 573,000 tons in 1987. The 4 percent decline in 1989 was due primarily to scheduled machine downtime for production improvements and from a weather related outage during the fourth quarter.

Demand for bleached paperboard was strong throughout the year and selling prices continued to improve. The average sales price per ton increased by 15 percent in 1989 after climbing 10 percent in 1988 and 8 percent in 1987. Following strong growth in the first three quarters, demand moderated somewhat in the fourth quarter causing price erosion in pulp markets.

The table below lists the quarterly sales by product in tonnage and dollars. Changes in product mix from period to period may make historical comparisons difficult.

Pulp and Paperboard	1989	1988	1987
Unit Sales	(in thousands of tons)		
Paperboard			
1st Qtr	120	119	123
2nd Qtr	114	122	119
3rd Qtr	114	118	109
4th Qtr	104	118	106
For the year	452	477	457
Pulp			
1st Qtr	36	28	25
2nd Qtr	29	29	25
3rd Qtr	29	33	31
4th Qtr	30	32	31
For the year	124	122	112
Net Sales	(in millions)		
Paperboard			
1st Qtr	$ 76.7	$ 65.6	$ 64.2
2nd Qtr	74.6	69.2	63.3
3rd Qtr	78.4	68.2	59.1
4th Qtr	70.9	72.3	58.1
For the year	$300.6	$275.3	$244.7
Pulp			
1st Qtr	$ 19.0	$ 11.5	$ 8.8
2nd Qtr	16.1	13.2	8.9
3rd Qtr	15.4	16.0	11.7
4th Qtr	15.5	15.7	13.3
For the year	$ 66.0	$ 56.4	$ 42.7
Other			
1st Qtr	$ .2	$ .8	$ 7
2nd Qtr	.1	1.2	1.5
3rd Qtr	.4	1.2	1.6
4th Qtr	1.0	1.1	1.3
For the year	$ 1.7	$ 4.3	$ 5.1

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Building Products

The Building Products group manufactures a complete line of building products including lumber, plywood, fiberboard, particleboard, gypsum wallboard, and rigid foam insulation. The following tables provide information on sales volume and unit sales for each building product line.

Building Products	1989	1988	1987
Unit Sales	(in millions of board feet)		
Pine lumber (1)	**308**	276	174
	(in millions of square feet)		
Fiberboard	**446**	442	458
Particleboard	**333**	311	321
Plywood	**213**	208	212
Gypsum wallboard	**685**	654	670
Decorative wall paneling (2)	**—**	14	50
Rigid foam insulation	**77**	80	71
Oriented strandboard (3)	**—**	33	80
Net Sales	(in millions)		
Pine lumber (1)	**$ 67.4**	$ 60.8	$ 39.5
Fiberboard	**48.0**	47.1	52.8
Particleboard	**64.6**	59.3	61.5
Plywood	**33.1**	28.2	31.1
Gypsum wallboard	**41.1**	42.2	49.1
Decorative wall paneling (2)	**—**	3.0	12.5
Rigid foam insulation	**17.0**	17.0	13.5
Oriented strandboard (3)	**—**	3.6	10.0
Retail distribution	**42.1**	33.8	32.1
Other	**7.0**	17.2	20.7
For the year	**$320.3**	$312.2	$322.8

(1) Excludes the Rome, Georgia sawmill acquired as a result of the dissolution of a joint venture. Sales from that facility totaled 57 million and 53 milion board feet, in 1989 and 1988, respectively.
(2) The decorative wall paneling operation was sold during the first quarter of 1988.
(3) The oriented strandboard operations suspended production at the end of June 1988.

Building product markets continued mixed in 1989 after the general declines experienced in 1988. This reflects a similar trend in the level of construction activity.

The increase in the unit sales volume of pine lumber in 1988 and 1989 is due primarily to the addition of the 145 million board feet capacity Buna, Texas wood resource complex which began operations in the fourth quarter of 1987. This mill provides a more efficient vehicle for converting fiber in the southern regions of the Company's timberlands, while supplying chips, a major by-product of the lumber manufacturing process, to the Orange, Texas linerboard mill.

In 1988, construction began on a new sawmill facility near DeQuincy, Louisiana. The mill, with a design production capacity of 100 million board feet annually, will provide for better utilization of timber resources in Louisiana and will supply additional chips to the East Texas paper mills. It is scheduled for startup in early 1990.

A total of 889,000 tons of internally-produced chips were supplied to the paper mills in 1989 compared with 819,000 tons in 1988.

During 1989, construction continued on expansion of the shortline railroad which already linked the mill at Buna, Texas and the Orange, Texas linerboard mill, to include the Evadale, Texas mill. Completion of the line in 1990 will provide additional freight savings on the shipment of chips, and black and green liquors between the two paper mills, and finished products to other rail connections.

Particleboard markets continued to show the most strength of all building products. The strength in particleboard has resulted from a continued emphasis toward industrial applications. Approximately 80 percent of total particleboard production is now sold to manufacturers who use the products in nonresidential applications (such as the manufacture of furniture and cabinets) compared with 60 percent of the total production finding nonresidential uses in 1988.

Pricing and demand for gypsum wallboard and fiberboard products began the year at depressed levels and have stabilized at these low levels.

Temple-Inland Financial Services and Guaranty Federal Savings Bank

Temple-Inland Financial Services operations reflect varying markets in the group's business segments. In 1989, the group conducted operations in various aspects of mortgage banking, real estate development, insurance, and savings and loan activities. The insurance activities included a casualty insurance agency and operations of two life insurance companies, one of which, National Fidelity Life, was sold in 1989 and a second, Great American Reserve Insurance Company, which is the subject of an agreement to sell with closing scheduled in the first quarter of 1990. With the sale and proposed sale of these life insurance companies, Temple-Inland Financial Services will have completely exited the life insurance business.

The savings and loan activities include two separate and distinct operating entities. In 1987, the Company acquired Kilgore Federal Savings and Loan, an operation which is wholly-owned and is reported as a part of the historical Financial Services operation. In 1988, the Company acquired a majority interest in a second savings and loan, Guaranty Federal Savings Bank, under the terms of the federally assisted Southwest Plan. Guaranty was accounted for as an investment and was not consolidated in 1989 and 1988 with the other Financial Services activity or with Kilgore. The Guaranty acquisition and methods of accounting are discussed later herein.

The following information and discussion of each business segment are provided to offer a more detailed description and explanation of the business activities and operations of Financial Services and of Guaranty Federal Savings Bank. Selected information on Financial Services is set out below.

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Temple-Inland Financial Services
Selected Segment Information

Years ended December 31	1989	1988	1987
		(in thousands)	
Income			
Mortgage banking	$ (4,826)	$ (1,485)	$ 4,428
Land development and income properties	(313)	(1,040)	(1,695)
Agency insurance	1,952	1,499	1,543
Life insurance:			
Income from operations	16,332	5,447	13,867
Acquisition interest	(7,283)	(11,429)	(11,635)
	9,049	(5,982)	2,232
Other activities	1,103	1,385	1,113
Operating income (loss)	6,965	(5,623)	7,621
Taxes on operating income	1,639	(1,760)	2,722
	5,326	(3,863)	4,899
Loss on disposal of NFL—net of tax	(4,126)	—	—
Net income	$ 1,200	$ (3,863)	$ 4,899
Assets			
Mortgage banking	$ 63,457	$ 72,487	$ 98,144
Land development and income properties	86,055	52,544	20,976
Agency insurance	5,911	5,092	9,548
Life insurance	909,294	1,172,454	1,102,571
Other	192,847	152,900	107,062
Total assets	$1,257,564	$1,455,477	$1,338,301
Liabilities			
Mortgage banking	$ 59,875	$ 66,363	$ 90,617
Land development and income properties	79,386	50,693	21,852
Agency insurance	4,880	4,079	8,540
Life insurance	766,371	1,003,120	924,486
Life insurance (acquisition debt)	93,900	122,900	127,900
Other	190,782	147,154	99,873
Total liabilities	$1,195,194	$1,394,309	$1,273,268
Equity			
Mortgage banking	$ 3,582	$ 6,124	$ 7,527
Land development and income properties	6,669	1,851	(876)
Agency insurance	1,031	1,013	1,008
Life insurance	49,023	46,434	50,185
Other	2,065	5,748	7,189
Total equity	$ 62,370	$ 61,170	$ 65,033

Mortgage Banking

The mortgage banking operations of Financial Services are conducted through Lumbermen's Investment Corporation of Texas. Mortgage banking is basically two businesses: the first, arranging the financing for purchasers of real estate; and the second, the servicing of these mortgage loans.

The loan origination operations cover the middle geographic section of the United States and prior to 1986 had produced $300 to $500 million in mortgages annually. The volume of mortgages may vary from year to year depending on the health of the residential and commercial real estate markets. Originations in mortgage loans had reached an all-time high of $651 million in 1986 due in part to heavy refinancing activity. In 1987, they declined to $524 million primarily because refinancing activity subsided somewhat due to increasing interest rates. In 1988, weakness in residential markets, as well as continuing increases in interest rates, produced only $216 million in originations and for the first time in 22 years the loan servicing portfolio declined. In 1989, renewed emphasis on origination activity, coupled with stable interest rates and small improvements in some residential markets, produced $337 million in originations.

The cost of originating a mortgage loan normally exceeds the fees charged. The profit on a loan is earned by servicing the loan. The servicing portfolio now totals approximately 83,300 loans with a balance of $3.2 billion compared with 84,000 loans with a balance of $3.1 billion in 1988 and 86,700 loans with a balance of $3.2 billion in 1987.

Another source of profit for the mortgage banker is the revenue generated from a favorable interest rate spread between long-term mortgage rates and short-term interest rates paid by the mortgage banker to finance the mortgage loans during the 2 to 3 month period between origination and shipment of loans to the utlimate investor. In rising interest rate markets, these spreads are reduced and can even result in negative margins. Earnings on the spreads were $3.4 million in 1989 compared with $3.1 million in 1988 and $5.2 million in 1987.

Historically, the mortgage banker was not considered to have the risk of principal loss on the foreclosure of a mortgage loan, only the cost of foreclosing and administering the delinquent loans. The average administrative cost and pass-through interest associated with handling a foreclosure is now in excess of $2,000. Additionally, the Company now has the risk of principal loss and overhead costs associated with certain Veterans Administration ("VA") foreclosed loans. The VA which guaranteed a minimum of the top 25 percent of the amount financed on the loan, would historically pay the guarantee to the investor and purchase the property at foreclosure for its own inventory. With real estate values in some areas, particularly in Texas, declining to levels below 75 percent of the loan value, the VA ceased bidding at foreclosure and simply paid the amount of its guarantee. Additional losses due to further declines in real estate values, fix-up and sales expenses, and interest carry became the responsibility of the mortgage banker. Costs associated with foreclosure including the foreclosure cost, economic losses, management and sales expenses and interest carry were $11.5 million in 1989, up from $9.1 million in 1988 and $5.1 million in 1987.

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The rate of foreclosure and the number of residential properties owned (REO) by virtue of foreclosure improved in 1989. The Company now holds 145 REO's which is down from 197 in 1988 and from 294 at the end of 1987.

A summary of selected financial information for the years 1989, 1988 and 1987 is provided below.

Mortgage Banking Operations Summary Years ended December 31	1989	1988	1987
		(in thousands)	
Revenues	$28,007	$24,023	$29,736
Income Before Taxes	(4,826)	(1,485)	4,428

Mortgage Banking Loan Administration Summary Years ended December 31	1989	1988	1987
		(in millions)	
Beginning Servicing Portfolio	$ 3,136	$ 3,246	$ 3,138
New Loans:			
Residential	337	217	567
Commercial	8	15	50
	345	232	617
Run-off	(327)	(342)	(509)
Ending Servicing Portfolio	$ 3,154	$ 3,136	$ 3,246
Servicing Portfolio Growth	.6%	(3.4)%	3.4%
Run-off Factor	10.4%	10.5%	16.2%

In 1989, the Company completed its second full year of operation of Kilgore Federal Savings and Loan. A summary of the revenues and income before taxes for Kilgore Federal Savings and Loan for the years 1989 and 1988 is shown below.

Kilgore Federal Savings and Loan Operations Summary Years ended December 31	1989	1988
	(in thousands)	
Revenues	$15,180	$9,664
Income Before Taxes	1,975	1,343

Land Development and Income Properties

This segment of Financial Services consists of nine active residential subdivisions in Texas, adjoining commercial acreage to those subdivisions, one commercial land project in Dallas, Texas, and several commercial buildings. The continued depressed Texas economy resulted in soft real estate markets and low profitability levels.

Temple-Inland Properties has typically taken the position of a financial partner in various joint ventures with home builders or land owners who are responsible for development. These ventures are accounted for by the equity method. Residential construction continued at weak but improving levels in most of this group's markets in 1989. Lots sold in 1989 totaled 229 compared with 90 sold in 1988 and 921 in 1987. At year end 1989, the completed residential lot inventory was 1,495, along with 4,240 undeveloped acres and 170 unsold commercial acres.

Selected financial information related to these activities is shown below.

Temple-Inland Properties Operations Summary Years ended December 31	1989	1988	1987
		(in thousands)	
Revenues:			
Residential	$ 3,398	$ 2,143	$ 1,176
Commercial	5,154	4,666	3,528
	$ 8,552	$ 6,809	$ 4,704
Income Before Taxes:			
Residential	$(4,023)	$ (526)	$(1,327)
Commercial	3,710	(514)	(368)
	$ (313)	$(1,040)	$(1,695)

Shown below is Temple-Inland Properties pro rata share of the assets, liabilities and equity of joint ventures in which it is a partner.

Temple-Inland Properties Investment in Joint Ventures As of December 31	1989	1988	1987
		(in thousands)	
Assets	$42,156	$65,309	$83,228
Liabilities (a)	$39,922	$65,206	$80,657
Equity	2,234	103	2,571
	$42,156	$65,309	$83,228

(a) Although the Company's pro rata share of joint venture liabilities total $39.9 million, the joint venture partners are in most instances jointly and severally liable for notes payable. The gross balance of these notes was $82.3 million at December 31, 1989. Where a venture partner is jointly and severally liable for notes payable, the partner also has rights against the other partners' interests in joint venture assets if payments above the normal partnership percentage are required.

Agency Insurance

The one segment in Temple-Inland Financial Services which continued to perform at levels comparable to prior years is the agency insurance business. This business is operated as a general agency providing insurance sales to homeowners as well as technical expertise and advice to a broad spectrum of retail and commercial clients. The agency insurance operation also provides the placement of significant reinsurance for the Company.

A summary of the revenues and income before taxes for the years 1989, 1988 and 1987 is shown below.

Agency Insurance Operations Summary Years ended December 31	1989	1988	1987
		(in thousands)	
Revenues	$4,694	$4,064	$4,069
Income Before Taxes	1,952	1,499	1,543

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Life Insurance

Improved earnings in 1989 resulted primarily from the discontinuance of certain unprofitable lines of health business and a concentration on new and more profitable policy lines. During 1988, adverse claims, particularly in the discontinued health insurance product lines of the Company's business were $3.1 million higher than anticipated. Also in 1988, the Company foreclosed 17 commercial properties. The charge to earnings from foreclosures and the write-down of the properties was approximately $3 million in 1988.

Effective June 30, 1989, the Company sold National Fidelity Life Insurance Company to Conseco, Inc., and on January 30, 1990 entered into an agreement to sell Great American Reserve Insurance Company. With the closing of the latter transaction, expected during the first quarter of 1990, Temple-Inland will have completely withdrawn from the life insurance business. See Note D to the Financial Services group financial statements.

Guaranty Federal Savings Bank Investment

In September 1988, the Company, with minority investors, acquired from the FSLIC as Receiver substantially all of the assets, deposits and secured liabilities of three savings and loan associations located in Texas. In connection with the acquisitions, Guaranty, the resulting institution, entered into an Assistance Agreement whereby FSLIC will provide substantial financial assistance and exert significant influence over a large portion of the Bank's assets. Under the agreement, a large percentage of Guaranty's assets are covered by FSLIC's assistance. Future yields on these assets will be computed by a formula that represents FSLIC's determination of the average cost of funds for a Texas savings and loan plus certain predefined spreads. Guaranty's ability to finance these assets with deposits or other liabilities at interest rates below the formula allows a profit margin. FSLIC guarantees the collection of these assets and also reimburses Guaranty for portions of the collection expense. The remaining nonguaranteed assets are largely liquid assets, certain mortgage loans on one to four family dwellings, and the fixed assets necessary to operate the bank.

Since virtually all of the deposits and other liabilities of Guaranty are interest bearing, profitability is dependent on the interest spread between the assets and the liabilities. In 1989, approximately 25 percent of the liabilities were funded by short-term notes with the Federal Home Loan Bank and the remainder with normal customer deposits.

The income received from FSLIC on the covered assets is nontaxable under current income tax regulations. However, under the assistance agreement, FSLIC payments to the thrift will be reduced by 25 percent of the tax benefits the Company received as the result of the ownership in the thrift. The tax sharing payments commence in the 6th year of the agreement, but the Company has chosen to accrue this liability on a current basis. In 1989, $8 million was added as a reserve against this liability and $2 million in the final quarter of 1988.

The following table reflects the profitability of Guaranty for the year 1989 and last quarter of 1988:

	Year 1989	Three Months 1988
	(in thousands)	
Income before amortization of goodwill and accrual for FSLIC tax benefit sharing	**$18,962**	$7,147
Amortization of goodwill	**(9,922)**	(2,534)
FSLIC tax benefit sharing	**(8,000)**	(1,800)
Net Income	**$ 1,040**	$2,813

When the Company acquired Guaranty, it chose to account for this acquisition as a nonconsolidated investment for the first 15 months of operation in order that it could restructure the three savings and loans into a viable business entity before consolidation. During this period of time, the profits and tax benefits which were received by Temple-Inland Inc. as a result of its ownership of Guaranty were used to decrease the carrying value of its investment. As of December 31, 1989, approximately $74 million had been applied to reduce the investment. The impact of this accounting treatment has been to substantially eliminate goodwill and the amortization thereof in future consolidated financial statements. The tax benefits received in 1989 caused the Company to come under the alternative minimum tax rules. In 1990, the Company anticipates it will continue under these rules and that the consolidated tax rate will be reduced by at least one-third from 1989.

As of December 1989, the Company's consolidated balance sheet included the assets and liabilities of Guaranty and beginning in January 1990, Guaranty's income will be consolidated and any tax benefits generated will flow directly to net income.

Results of Operations

As the table above reflects, Guaranty earned approximately $1 million in 1989. This was a transitional year in that the assets of the three separate institutions acquired were merged, and very little of the benefit savings were realized. In the opinion of management, the volatility of interest rates adversely affected the interest rate spreads in 1989.

The FSLIC assistance agreement is a complex agreement subject to differing interpretations by the federal regulators and other third parties. In addition, as mandated by FIRREA, federal thrift regulators and other governmental agencies are required to exercise all the rights that the FSLIC had in order to modify, renegotiate or restructure the 1988 Assistance Agreements where savings can be realized. Guaranty management believes that it has properly interpreted and is complying with the terms of the Assistance Agreement. However, management cannot predict the financial impact, if any, of the reviews on Guaranty or the probability of any modifications or renegotiations of the Assistance Agreement.

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Comments Regarding Guaranty's Financial Condition

Proper liability management requires a mix of customer deposits and other short-term borrowings. When deposits become unavailable at attractive rates, other short-term sources should be utilized. Since Guaranty was acquired, approximately $500 million of deposits have been replaced with borrowings from the Federal Home Loan Bank, borrowings which generally will be for maturities of less than one year. In the opinion of management, the level of deposits now in Guaranty is more stable and, in the current environment, large deposit fluctuations should not occur. However, at year end, Guaranty had approximately $600 million in available assets that are unencumbered and could be used as collateral with the Federal Home Loan Bank as well as certain additional borrowings provided under its assistance borrowing privilege.

During the year, FDIC mandated new capital requirements for all national thrift institutions, including Guaranty. If an institution did not have sufficient capital to reach minimum levels, they were required to submit a capital plan to ensure that they meet those levels in the future. In order to meet the required capital levels, Temple-Inland Inc. prefunded its $50 million stock subscription and now meets all three regulatory capital requirement formulae set out under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"). However, retained earnings may not be sufficient to finance a large growth of additional assets; therefore, Temple-Inland Inc. expects to be contributing additional capital in the future.

Additional Comments Regarding Results of Operations and Financial Condition

The Company's financial condition continues to be strong. Internally generated funds and the capacity to issue long-term debt are sufficient to fund expected capital expenditures, to service existing debt, to pay dividends, to repurchase shares of stock under authorized repurchase programs, and to meet normal working capital requirements.

The level of capital expenditures is now anticipated to be in the $260 million range in 1990. Major projects for 1990 will include construction of a new recycle containerboard mill, additions to the Orange, Texas linerboard mill to manufacture a new white top product line, construction of a new box plant facility in the Richmond, Virginia area, and major improvements to existing manufacturing facilities. A summary of the capital expenditures is shown below.

	1989	1988	1987
Capital Expenditures		(in millions)	
Container and containerboard	**$163.0**	$155.9	$ 68.2
Pulp and paperboard	**33.3**	24.7	22.1
Building products	**38.5**	16.0	38.1
Timber and timberlands	**21.4**	20.7	8.9
Other activities	**3.6**	1.9	1.3
Total manufacturing group	**$259.8**	$219.2	$138.6

Net interest expense incurred by the Parent Company is shown below.

	1989	1988	1987
Parent Company Interest—Net		(in thousands)	
Interest expense	**$34,970**	$33,737	$27,808
Interest income	**(1,681)**	(1,100)	(3,346)
Capitalized interest	**(8,848)**	(9,529)	(4,203)
Interest expense—net	**$24,441**	$23,108	$20,259

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Interest expense increased during 1989 and 1988 due to increased capital spending levels, the increased borrowings to fund share repurchase activity and the investment in Guaranty. The increase in capitalized interest during 1989 and 1988 resulted from the higher levels of capital expenditures.

See Note F of Notes to Consolidated Financial Statements for a discussion of the future impact of new accounting rules for income taxes.

The following table provides selected data for the periods indicated.

Five Year Selected Financial Data

For The Year	1989	1988	1987	1986	1985
			(in millions)		
Total revenues	$ 2,124	$ 2,017	$ 1,875	$ 1,591	$ 1,438
Manufacturing net sales	1,894	1,774	1,603	1,296	1,243
Net income	207	199	141	81	85
Capital expenditures:					
Manufacturing	260	219	139	103	184
Financial Services	13	5	1	3	3
Depreciation and depletion:					
Manufacturing	126	112	94	79	66
Financial Services	3	3	3	2	2
Earnings per share*	3.75	3.58	2.34	1.32	1.40
Dividends per common share*	.58	.42	.35	.29	.26
Average shares outstanding (in thousands)*	55,324	55,696	60,324	61,132	60,780
Common shares outstanding at year end (in thousands)*	54,851	55,167	55,338	60,694	60,458

At Year End					
			(in millions)		
Total assets	$ 7,249**	$ 3,370	$ 3,072	$ 2,889	$ 2,357
Long-Term Debt:					
Parent Company	399	417	416	366	248
Financial Services	30	25	30	25	14
Ratio of total debt to total capitalization—parent company	24%	29%	31%	28%	23%
Shareholders' equity	1,259	1,096	927	929	864

*Amounts have been retroactively adjusted for a two-for-one stock split declared in February 1990.

**Includes $4.0 billion of assets of Guaranty which was initially consolidated in the year end 1989 consolidating balance sheet.

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SUMMARIZED STATEMENTS OF CASH FLOWS
Parent Company (Temple-Inland Inc.)

For the year	1989	1988	1987
		(in thousands)	
Cash Provided by (Used for) Operations			
Net income	$ 207,374	$ 199,180	$ 141,408
Adjustments to reconcile net income to net cash:			
Depreciation and depletion	126,487	112,059	94,126
Deferred taxes and deferred tax credits	36,197	11,350	9,449
Unremitted earnings of affiliated companies	(1,200)	3,259	(5,661)
Receivables	(5,395)	(17,671)	(19,554)
Inventories	(9,222)	(7,041)	(12,446)
Prepaid expenses	(7,817)	7,203	(7,259)
Accounts payable and accrued expenses	(13,901)	(27,081)	10,521
Other assets and liabilities	(13,551)	(10,751)	(11,377)
Other	3,742	174	1,289
Transfer of Georgia Kraft	—	—	47,093
	322,714	270,681	247,589
Cash Provided by (Used for) Investments			
Capital expenditures	(259,786)	(219,180)	(138,621)
Sale of property and equipment, net	15,622	25,755	4,441
Investment in Guaranty Federal Savings Bank	(50,788)	(75,000)	—
Tax savings credited to investment in Guaranty Federal Savings Bank	56,796	17,012	—
Investments in other affiliated companies	—	(16,841)	(2,270)
	(238,156)	(268,254)	(136,450)
Cash Provided by (Used for) Financing			
Additions to debt	165,121	75,057	70,248
Payments of debt	(208,548)	(49,359)	(70,673)
Construction funds held by trustees	5,155	(312)	178
Issuance of common stock for stock plans	5,988	3,734	11,140
Purchase of stock for treasury	(18,404)	(11,501)	(133,312)
Cash dividends paid to shareholders	(31,815)	(23,116)	(20,615)
	(82,503)	(5,497)	(143,034)
Net Increase (Decrease) in Cash	2,055	(3,070)	(31,895)
Cash at beginning of year	16,166	19,236	51,131
Cash at end of year	$ 18,221	$ 16,166	$ 19,236

See the notes to the Parent Company summarized financial statements.

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SUMMARIZED BALANCE SHEETS
Parent Company (Temple-Inland Inc.)

At year end	1989	1988
	(in thousands)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 18,221	$ 16,166
Receivables, less allowances of $4,890,000 in 1989 and $4,989,000 in 1988	199,965	181,970
Refundable federal income taxes	—	12,600
Inventories:		
Work in process and finished goods	51,350	49,248
Raw materials	115,615	108,495
	166,965	157,743
Prepaid expenses	22,418	14,601
Total Current Assets	407,569	383,080
Investments—Note A		
Financial Services group	65,854	67,196
Guaranty Federal Savings Bank	51,980	57,988
Total Investments	117,834	125,184
Property and Equipment—Note C		
Buildings	259,668	246,190
Machinery and equipment	1,722,890	1,570,379
Less allowances for depreciation and amortization	(961,389)	(873,002)
	1,021,169	943,567
Construction in progress	156,908	114,186
Construction funds held by trustee	—	5,155
	1,178,077	1,062,908
Timber and timberlands—less depletion	346,871	351,657
Land	25,668	24,729
Total Property and Equipment	1,550,616	1,439,294
Other Assets	62,441	34,486
TOTAL ASSETS	$2,138,460	$1,982,044

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	1989	1988
	(in thousands)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses	**$ 154,709**	$ 169,408
Employee compensation and benefits	**17,078**	16,280
Current portion of long-term debt	**3,635**	28,341
Total Current Liabilities	**175,422**	214,029
Long-Term Debt—Note C	**398,777**	417,498
Deferred Investment Tax Credits	**19,556**	25,388
Deferred Federal Income Taxes	**258,184**	216,155
Other Liabilities	**27,596**	13,192
Shareholders' Equity	**1,258,925**	1,095,782
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$2,138,460**	$1,982,044

See the notes to the Parent Company summarized financial statements.

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SUMMARIZED STATEMENTS OF INCOME
Parent Company (Temple-Inland Inc.)

For the year	1989	1988	1987
		(in thousands)	
Revenues			
Net sales	$1,894,230	$1,773,460	$1,602,694
Financial services earnings—Note A	6,965	(5,623)	7,621
	1,901,195	1,767,837	1,610,315
Costs and Expenses			
Cost of sales	1,408,044	1,313,691	1,237,003
Selling and administrative	152,791	149,840	136,779
	1,560,835	1,463,531	1,373,782
Operating Income	340,360	304,306	236,533
Interest—net—Note C	(24,441)	(23,108)	(20,259)
Other	(1,716)	20,582	4,134
Income Before Taxes	314,203	301,780	220,408
Taxes on income	106,829	102,600	79,000
Net Income	$ 207,374	$ 199,180	$ 141,408

See the notes to the Parent Company summarized financial statements.

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Notes to the Parent Company (Temple-Inland Inc.) Summarized Financial Statements

Note A—Summary of Significant Accounting Policies

Basis of Presentation

The Parent Company (Temple-Inland Inc.) summarized financial statements include the accounts of Temple-Inland Inc. (the "Company") and its manufacturing subsidiaries. The Financial Services subsidiaries including mortgage banking, real estate development, insurance and savings and loan subsidiaries are reflected in the financial statements on the equity basis. Refer to pages 36 through 39 for the Temple-Inland Financial Services summarized 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.

Inventories

Inventories are stated at the lower of cost or market.

Cost of inventories amounting to $62.0 million in 1989 and $56.7 million in 1988 was determined by the last-in, first-out method (LIFO). The cost of the remaining inventories of $105.0 million in 1989 and $101.0 million in 1988 was determined principally by the first-in, first-out method (FIFO).

If the FIFO method of accounting had been applied to those inventories which were costed on the LIFO method, inventories would have been $28.2 and $25.9 million higher than reported at year end 1989 and 1988, respectively.

Property and Equipment

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

Classification	Estimated Useful Lives
Buildings	**5 to 40 years**
Machinery and equipment:	
Manufacturing and production equipment	**2 to 25 years**
Automobiles and aircraft	**2 to 12 years**
Office and other equipment	**2 to 25 years**

Certain properties are being depreciated based on operating hours because they depreciate primarily through use rather than merely through elapsed time.

Timberlands, including long-term timber harvesting rights, 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 cut 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.

Note B—Leases

Total rental expense was $12.8 million, $12.3 million and $10.3 million for the years 1989, 1988 and 1987, respectively.

The future minimum rental commitments, as of year end 1989, under non-cancellable operating leases were as follows: 1990—$6.6 million; 1991—$5.0 million; 1992—$2.9 million; 1993—$1.6 million; and 1994—$.8 million.

In addition, the future minimum commitments, as of year end 1989, for contracts to lease or manage land to grow and harvest timber through the year 2027 are as follows: 1990—$2.1 million; 1991—$2.1 million; 1992—$2.1 million; 1993—$2.2 million; and 1994—$2.2 million.

Note C—Long-Term Debt

Long-term debt consists of the following:

	(in thousands)	
	1989	1988
Bank Loans—Weighted average interest rate was 9.11% and 8.16% during 1989 and 1988, respectively	**$220,000**	$235,000
8.375% Notes Payable due 1996	**70,000**	70,000
Revenue Bonds due 2014—Average interest rate was 6.68% and 5.64% during 1989 and 1988, respectively	**34,500**	34,500
8% Revenue Bonds due through 2009	**11,665**	11,665
Other Revenue Bonds due through 2015, weighted average interest rate of 8.00% and 7.55% as of year end 1989 and 1988, respectively	**48,107**	48,965
Other indebtedness due through 2000, weighted average interest rate of 8.96% and 8.86% as of year end 1989 and 1988, respectively	**14,505**	17,368
	$398,777	$417,498

At December 30, 1989, $110 million of bank loans were in the form of unsecured notes or drafts growing out of transactions involving the domestic shipment of goods, drawn on unsecured Banker's Acceptance lines with various banks. These borrowings, as well as $110 million of loans in the form of unsecured open advance notes drawn on various banks, are supported by a long-term revolving credit agreement and accordingly are classified as long-term debt. Under the agreement, borrowings of up to $220 million, repayable in January 1991, are available to the Company at floating rates of interest.

To offset a portion of the floating rate characteristic of the bank borrowings, two interest rate conversion agreements were negotiated for an aggregate amount of $70 million. Under these agreements, the Company is required to pay interest at fixed rates averaging 8.10%. In return, the Company will receive interest payments on the same declining principal balances calculated at the 30-day commercial paper rate. These agreements expire as follows: $20 million in 1990 and $50 million in 1994.

At year end 1989, property and equipment of approximately $23.0 million was subject to liens in connection with $26.6 million of debt.

Aggregate maturities of the Parent Company's long-term debt during the next five years are as follows (in millions): 1990—$3.6; 1991—$223.1; 1992—$3.6; 1993—$2.5; 1994—$2.8. It is the Company's current intention to extend maturities by refinancing and renewing the long-term revolving credit agreements upon maturity. For an analysis of net interest expense, see page 29.

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SUMMARIZED STATEMENTS OF CASH FLOWS

Temple-Inland Financial Services Group

For the year	1989	1988	1987
		(in thousands)	
Cash Provided by (Used for) Operations			
Net income	**$ 1,200**	$ (3,863)	$ 4,899
Adjustments to reconcile net income to net cash:			
Depreciation	**2,580**	3,230	2,669
Deferred taxes and tax credits	**1,042**	2,217	2,541
Receivables and accrued investment income	**8,820**	1,487	(3,921)
Interest on policyholder accounts	**32,040**	25,461	20,288
Deferred policy acquisition costs	**(4,034)**	(3,343)	(3,669)
Cost of insurance acquired	**2,192**	4,758	8,273
Real estate held for development and sale	**(16,898)**	2,474	(6,978)
Realized investment gains	**(5,654)**	(3,909)	(15,392)
Loan inventory	**(57,758)**	(12,670)	61,511
Accounts payable and accrued expenses	**8,683**	2,564	(8,681)
Amortization of discounts on investments	**(208)**	(1,153)	(1,713)
Other	**343**	9,569	(4,660)
	(27,652)	26,822	55,167
Cash Provided by (Used for) Investments			
Purchase of investments	**(1,135,165)**	(768,280)	(349,555)
Sale or maturity of investments	**1,060,329**	695,470	275,456
Short-term investments	**(2,905)**	(5,268)	18,894
Capital expenditures	**(13,226)**	(4,852)	(612)
Cash received on disposal of NFL	**39,302**	—	—
Sale of property and equipment, net	**3,461**	117	—
Purchase of Kilgore Savings and Loan	**—**	—	(9,995)
Policy loans	**(2,096)**	3,022	10,883
	(50,300)	(79,791)	(54,929)
Cash Provided by (Used for) Financing			
Net increase in deposits	**35,667**	35,867	—
Change in policyholder accounts	**57,162**	52,702	48,375
Additions to debt	**124,321**	5,249	33,445
Payments of debt	**(124,722)**	(31,119)	(88,727)
Sale of preferred stock	**—**	—	2,270
	92,428	62,699	(4,637)
Net Increase (Decrease) in Cash	**14,476**	9,730	(4,399)
Cash at beginning of year	**19,081**	9,351	13,750
Cash at end of year	**$ 33,557**	$ 19,081	$ 9,351

See the notes to the Temple-Inland Financial Services Group summarized financial statements.

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SUMMARIZED BALANCE SHEETS
Temple-Inland Financial Services Group

At year end	1989	1988
	(in thousands)	
ASSETS		
Cash	$ 33,557	$ 19,081
Investments	808,717	1,069,095
Receivables, net of reserve of $4,716,000 in 1989 and $4,392,000 in 1988	61,803	57,853
Accrued Investment Income	13,775	17,669
Loan Inventory	100,285	42,528
Real Estate Held for Sale	69,708	65,082
Income-Producing Properties—net of allowances of $4,851,000 in 1989 and $2,541,000 in 1988	29,833	11,325
Property and Equipment—net of accumulated depreciation of $8,850,000 in 1989 and $9,706,000 in 1988	15,345	17,429
Deferred Policy Acquisition Costs	41,081	47,888
Cost of Insurance Acquired	11,365	26,062
Excess of cost over net assets acquired	10,822	26,030
Separate Account Assets	38,305	30,528
Other Assets	22,968	24,907
TOTAL ASSETS	$1,257,564	$1,455,477
LIABILITIES		
Future Policy Benefit Claims	$ 689,798	$ 934,318
Short-Term Borrowings—Note C	200,733	207,119
Long-Term Debt—Note C	30,437	24,656
Deferred Federal Income Taxes	29,799	31,248
Deposits	149,906	114,740
Liabilities Related to Separate Accounts	38,305	30,528
Other Liabilities	56,216	51,698
TOTAL LIABILITIES	1,195,194	1,394,307
SHAREHOLDER'S EQUITY	62,370	61,170
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	$1,257,564	$1,455,477

See the notes to the Temple-Inland Financial Services Group summarized financial statements.

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SUMMARIZED STATEMENTS OF INCOME

Temple-Inland Financial Services Group

For the year	1989	1988	1987
		(in thousands)	
Revenues			
Premiums—Note A	$ 80,772	$107,167	$127,167
Other	149,063	136,191	144,660
	229,835	243,358	271,827
Costs and Expenses			
Operating costs—Note A	203,115	228,730	248,988
Interest expense—Note C	19,755	20,251	15,218
	222,870	248,981	264,206
Operating Income (Loss)	6,965	(5,623)	7,621
Taxes on operating income	1,639	(1,760)	2,722
	5,326	(3,863)	4,899
Loss on disposal of NFL—net of tax—Note A and Note D	(4,126)	—	—
Net Income (Loss)	$ 1,200	$ (3,863)	$ 4,899

See the notes to the Temple-Inland Financial Services Group summarized financial statements.

Notes to the Temple-Inland Financial Services Group Summarized Financial Statements

Note A—Summary of Significant Accounting Policies

Basis of Presentation

The Temple-Inland Financial Services Group summarized financial statements include the mortgage banking, Kilgore Federal Savings and Loan, real estate development and insurance activities. See Note D regarding the disposition of the life insurance operations. 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.

Investments

Bonds, notes, redeemable preferred stocks and mortgage loans on real estate are carried at amortized cost (which approximates market), other preferred and common stocks at quoted market values, real estate loans at unpaid balance adjusted for amortization of discounts and policy loans at the respective unpaid balances.

Realized gains or losses from the sale of investments and any related Federal income taxes are included in the determination of net income. The "specific identification" method is used to determine cost of investments sold.

Recognition of Premium Income

Insurance premiums include assumptions for expected issuance and maintenance expenses, benefit reserve requirements and profit. Individual life, annuity and individual health premiums are recognized as revenue over the premium-paying period of the policies; group life and group health premiums are earned prorata over the terms of the policies. Universal life insurance premiums are recognized as premium income when received. Profits on universal life insurance are recognized in proportion to anticipated margins, as adjusted for actual experience.

Deferred Policy Acquisition Costs

Certain costs of acquiring new insurance policies have been deferred. Such costs include commissions, certain expenses of policy issuance and underwriting and other costs which vary with and are primarily related to the production of new business. These deferred policy acquisition costs are being amortized over the revenue producing period of the related policies using assumptions consistent with those used in computing future policy benefit reserves. Such charges to expense total $8 million, $12 million and $17 million in 1989, 1988 and 1987, respectively.

Future Policy Benefit Reserves

Life insurance future policy benefit reserves have been calculated using a net-level method based on reasonable assumptions for investment yields, mortality and withdrawals which contemplate the risk of adverse deviation. Universal life insurance future policy benefit reserves are carried at accumulated contract values. Future policy benefit reserves for annuities, other than structured settlements, are generally carried at accumulated values. Structured settlement annuities future policy benefit reserves are calculated based on the present value of estimated payments under terms of the contract.

Effective January 1, 1989, the Company adopted the Statement of Financial Accounting Standards No. 97, "Accounting and Reporting by Insurance Companies for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments". Revenues and expenses for 1988 and 1987 have been restated to reflect the adoption. The effect of this change in accounting reduced both revenues and expenses by $83 million for 1988 and $64 million for 1987.

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Real Estate Held for Development and Sale

Real estate held for sale and development is carried at the lower of cost or market. Interest on indebtedness, property taxes, improvements and other development costs are capitalized during the development phase.

Reinsurance

Total future policy benefit reserves are shown after deduction for reinsurance ceded to other companies on a coinsurance and yearly renewable term basis. Contingent liabilities exist with respect to this reinsurance in the event that these reinsurance companies should be unable to meet their contractual obligations.

Note B—Leases

Total rental expense was $1.5 million, $1.6 million and $2.4 million for the years 1989, 1988 and 1987, respectively.

The future minimum rental commitments, as of year end 1989, under non-cancellable operating leases were as follows: 1990—$.7 million; 1991—$.6 million; 1992—$.5 million; 1993—$.4 million; and 1994—$.4 million.

Note C—Short-Term Borrowings and Long-Term Debt

Short-term borrowing consists of the following.

	1989	1988
	(in thousands)	
Short-term borrowings:		
Secured	**$195,675**	$205,748
Unsecured	**5,058**	1,371
	$200,733	$207,119

Long-term debt consists of the following.

	1989	1988
	(in thousands)	
Long-term debt (at varying interest rates which approximate prime):		
Notes payable to banks	**$ 9,896**	$ 12,412
Other indebtedness	**20,541**	12,244
	$ 30,437	$ 24,656

To offset a portion of the floating rate characteristic of the bank borrowings, the Financial Services Group negotiated an interest rate conversion agreement for an aggregate amount of $70 million. Under this agreement, the Group is required to pay interest at a fixed rate of 10.2 percent annually. In return, the Group receives interest payments on an equal balance calculated at the 90-day LIBOR rate. This agreement expires in 1990.

Aggregate maturities of the Group's long-term debt during the next five years are as follows (in millions): 1990—$1.2; 1991—$1.3; 1992—$5.4; 1993—$1.3; 1994—$1.3.

A summary of interest paid by the Financial Services Group is shown below:

	1989	1988	1987
Corporate interest	**$13,451**	$14,354	$15,218
Interest on deposits	**6,304**	5,897	—
	19,755	20,251	15,218
Interest on policyholders' accounts	**32,040**	25,461	20,288
Other interest	**7,340**	2,190	2,356
Total interest paid	**$59,135**	$47,902	$37,862

Note D—Sale of Insurance Subsidiaries

Effective June 30, 1989, the National Fidelity Life Insurance Company subsidiary was sold for $74 million. The sales price consisted of $40 million in cash and a $34 million note payable over seven years with interest at 11 percent per annum. A loss of $4.1 million was realized including certain costs and expenses relating to the sale.

In January 1990, an agreement was entered into to sell Great American Reserve Insurance Company for approximately $145 million in cash and notes. Cash received in the transaction will be used to repay acquisition debt. A gain of approximately $10 million is anticipated if the transaction is consummated as presently structured. The closing is subject to various regulatory approvals and certain other conditions. It is presently contemplated that the closing date will be late in the first quarter of 1990. With the closing of these transactions, the Company will have completely withdrawn from the life insurance portion of its Financial Services operations.

Shown below are condensed consolidated statements of income (excluding the loss on the disposal of NFL) and balance sheets of the insurance operations.

Life Insurance
Condensed Consolidated Statements of Income

Years ended December 31	1989	1988	1987
		(in thousands)	
Revenues	**$177,453**	$ 202,358	$ 232,434
Expenses:			
Insurance policy benefits & commissions	**136,589**	163,750	180,519
Operating and administrative expenses	**24,523**	33,210	38,048
	161,112	196,960	218,567
Operating income	**16,341**	5,398	13,867
Taxes on operating income	**4,801**	2,124	5,529
Income before loss on disposal of NFL	**$ 11,540**	$ 3,274	$ 8,338

Life Insurance
Condensed Consolidated Balance Sheets

As of December 31	1989	1988	1987
		(in thousands)	
ASSETS			
Cash and investments	**$738,392**	$ 986,056	$ 908,139
Deferred acquisition costs	**52,446**	73,950	75,365
Other assets	**96,406**	114,691	121,149
Total assets	**$887,244**	$1,174,697	$1,104,653
LIABILITIES AND EQUITY			
Future policy benefits	**$685,647**	$ 917,817	$ 831,347
Other liabilities	**82,252**	82,950	95,874
Equity	**119,345**	173,930	177,432
Total liabilities and equity	**$887,244**	$1,174,697	$1,104,653

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CONSOLIDATED STATEMENTS OF CASH FLOWS
Temple-Inland Inc. and Subsidiaries

For the year	1989	1988	1987
		(in thousands)	
Cash Provided by (Used for) Operations			
Net income	**$ 207,374**	$ 199,180	$ 141,408
Adjustments to reconcile net income to net cash:			
Depreciation and depletion	**129,067**	115,289	96,795
Deferred taxes and tax credits	**37,239**	13,567	11,990
Interest on policyholder accounts	**32,040**	25,461	20,288
Receivables	**3,425**	(16,184)	(23,475)
Inventories	**(66,980)**	(19,711)	49,065
Accounts payable	**(5,218)**	(24,517)	1,840
Other	**(41,885)**	(12,423)	4,845
	295,062	280,662	302,756
Cash Provided by (Used for) Investments			
Capital expenditures	**(273,012)**	(224,032)	(149,228)
Sale of property and equipment, net	**19,083**	25,872	4,441
Investment in Guaranty Federal Savings Bank	**(50,788)**	(75,000)	—
Tax savings credited to investment in Guaranty Federal Savings Bank	**56,796**	17,012	—
Consolidation of Guaranty Federal Savings Bank	**41,236**	—	—
Purchase of investments	**(1,135,165)**	(768,280)	(349,555)
Sale or maturity of investments	**1,060,329**	695,470	275,456
Cash received on disposal of NFL	**39,302**	—	—
Other	**(5,001)**	(2,246)	29,777
	(247,220)	(331,204)	(189,109)
Cash Provided by (Used for) Financing			
Additions to debt	**289,442**	80,306	103,693
Payments of debt	**(333,270)**	(80,478)	(159,400)
Issuance of common stock for stock plans	**5,988**	3,734	11,140
Purchase of stock for treasury	**(18,404)**	(11,501)	(133,312)
Cash dividends paid to shareholders	**(31,815)**	(23,116)	(20,615)
Net increase in deposits	**35,667**	35,867	—
Change in policyholder accounts	**57,162**	52,702	48,375
Other	**5,155**	(312)	178
	9,925	57,202	(149,941)
Net Increase (Decrease) in Cash	**57,767**	6,660	(36,294)
Cash at beginning of year	**35,247**	28,587	64,881
Cash at end of year	**$ 93,014**	$ 35,247	$ 28,587

See the notes to the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Temple-Inland Inc. and Subsidiaries

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
		(in thousands)		
Balance at January 3, 1987	$24,278	$329,713	$ 574,928	$ (55)
Net income	—	—	141,408	—
Dividends paid on Common Stock—$.35 per share	—	—	(20,615)	—
Stock issued for stock plans—85,812 shares reissued from treasury at cost	254	8,542	—	2,542
Stock reacquired for treasury—5,974,928 shares at cost	—	—	—	(133,312)
Effect of five-for-four stock split	6,083	(6,083)	—	—
Stock split—cash for fractional shares	—	(198)	—	—
Balance at January 2, 1988	$30,615	$331,974	$ 695,721	$(130,825)
Net income	—	—	199,180	—
Dividends paid on Common Stock—$.42 per share	—	—	(23,116)	—
Stock issued for stock plans—175,280 shares reissued from treasury at cost	69	(543)	—	4,208
Stock reacquired for treasury—485,294 shares at cost	—	—	—	(11,501)
Balance at December 31, 1988	$30,684	$331,431	$ 871,785	$(138,118)
Net income	—	—	207,374	—
Dividends paid on Common Stock—$.58 per share	—	—	(31,815)	—
Stock issued for stock plans—348,520 shares reissued from treasury at cost	11	(1,937)	—	7,914
Stock reacquired for treasury—685,728 shares at cost	—	—	—	(18,404)
Effect of two-for-one stock split	30,695	(30,695)	—	—
Balance at December 30, 1989	$61,390	$298,799	$1,047,344	$(148,608)

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CONSOLIDATING BALANCE SHEETS

Temple-Inland Inc. and Subsidiaries

At year end 1989	Parent Company	Financial Services	Guaranty Federal	Consolidated
		(in thousands)		
ASSETS				
Cash	$ 18,221	$ 33,557	$ 41,236	$ 93,014
Investments	—	808,717	135,592	944,309
Covered Assets	—	—	1,643,461	1,643,461
Receivable from FSLIC	—	—	1,379,950	1,379,950
Loans receivable	—	—	732,838	732,838
Trade and other receivables	199,965	75,578	16,780	292,323
Inventories	166,965	100,285	—	267,250
Property and Equipment	1,550,616	15,345	17,248	1,583,209
Other Assets	84,859	224,082	42,525	312,443
Investment in Affiliates	117,834	—	—	—
Total Assets	$2,138,460	$1,257,564	$4,009,630	$7,248,797
LIABILITIES—Note A				
Deposits	$ —	$ 149,906	$2,760,396	$2,910,302
Federal Home Loan Bank Advances	—	—	1,069,374	1,069,374
Future Policy Benefit Claims	—	689,798	—	689,798
Long-Term Debt	398,777	30,437	—	429,214
Deferred Federal Income Taxes	258,184	29,799	—	287,983
Short-Term Borrowings	—	200,733	—	200,733
Other Liabilities	222,574	94,521	51,007	402,468
Total Liabilities	$ 879,535	$1,195,194	$3,880,777	$5,989,872
SHAREHOLDERS' EQUITY				
Preferred stock—par value $1 per share: authorized 25,000,000 shares; none issued				
Common stock—par value $1 per share: authorized 100,000,000 shares; issued 61,389,552 shares including shares held in the treasury—Notes A and K				61,390
Additional Paid-In Capital—Note K				298,799
Retained Earnings				1,047,344
				1,407,533
Cost of shares held in the treasury: 6,538,738 shares—Note K				(148,608)
Total Shareholders' Equity				1,258,925
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY				$7,248,797

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CONSOLIDATING BALANCE SHEETS
Temple-Inland Inc. and Subsidiaries

At year end 1988	Parent Company	Financial Services	Consolidated
		(in thousands)	
ASSETS			
Cash	$ 16,166	$ 19,081	$ 35,247
Investments	—	1,069,095	1,069,095
Trade and other receivables	194,570	75,522	270,092
Inventories	157,743	42,528	200,271
Property and Equipment	1,439,294	17,429	1,456,723
Other Assets	49,087	231,822	280,909
Investment in Affiliates	125,184	—	57,988
Total Assets	$1,982,044	$1,455,477	$3,370,325
LIABILITIES—Note A			
Deposits	$ —	$ 114,740	$ 114,740
Future Policy Benefit Claims	—	934,318	934,318
Long-Term Debt	417,498	24,656	442,154
Deferred Federal Income Taxes	216,155	31,248	247,403
Short-Term Borrowings	—	207,119	207,119
Other Liabilities	252,609	82,226	328,809
Total Liabilities	$ 886,262	$1,394,307	$2,274,543
SHAREHOLDERS' EQUITY			
Preferred stock—par value $1 per share: authorized 25,000,000 shares; none issued			
Common stock—par value $1 per share: authorized 100,000,000 shares; issued 61,368,140 shares including shares held in the treasury—Note K			30,684
Additional Paid-In Capital			331,431
Retained Earnings			871,785
			1,233,900
Cost of shares held in the treasury: 6,201,530 shares—Note K			(138,118)
Total Shareholders' Equity			1,095,782
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$3,370,325

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CONSOLIDATED STATEMENTS OF INCOME

Temple-Inland Inc. and Subsidiaries

For the year	1989	1988	1987
		(in thousands)	
Revenues			
Manufacturing net sales	$1,894,230	$1,773,460	$1,602,694
Financial services revenues	229,835	243,358	271,827
	2,124,065	2,016,818	1,874,521
Costs and Expenses			
Manufacturing costs and expenses	1,560,835	1,463,531	1,373,782
Financial services expenses	203,115	228,730	248,988
Financial services interest	19,755	20,251	15,218
	1,783,705	1,712,512	1,637,988
Operating Income	340,360	304,306	236,533
Parent Company Interest—net	(24,441)	(23,108)	(20,259)
Other	(1,716)	20,582	4,134
Income Before Taxes	314,203	301,780	220,408
Taxes on Income—Note F	106,829	102,600	79,000
Net Income	$ 207,374	$ 199,180	$ 141,408
Earnings per Share—Note A and Note K	$ 3.75	$ 3.58	$ 2.34

See the notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

Note A—Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles and with current financial reporting requirements. However, because certain assets and liabilities are in separate corporate entities, the consolidated assets are not available to satisfy all consolidated liabilities.

The consolidated financial statements include the accounts of Temple-Inland Inc. (the "Company") and all subsidiaries in which the Company has more than a 50 percent equity ownership, except the Company's investment in Guaranty. Due to many uncertainties, the Company did not initially consolidate Guaranty and accounted for its investment using the cost method adjusted for any recovery. The Company has consolidated Guaranty in its 1989 balance sheet and will fully consolidate Guaranty beginning in 1990. See Note B on page 44. All material intercompany amounts and transactions have been eliminated.

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.

Earnings Per Share

Earnings per share are based upon the weighted average number of shares outstanding, including common stock equivalents, during the period. The weighted average shares outstanding was 55,324,000 in 1989, 55,696,000 in 1988 and 60,324,000 in 1987. See Note K on page 47.

Cash Equivalents

Cash equivalents consist of investments with a maturity of three months or less.

Note B—Investment in Guaranty Federal Savings Bank

The Company initially invested $75 million for its majority interest in Guaranty in 1988, and in September 1989 made an additional capital contribution of $50 million in exchange for preferred stock.

Due to the many uncertainties surrounding operation and control of assets acquired under the FSLIC Southwest Plan, the Company did not initially consolidate Guaranty and accounted for its investment under the cost method adjusted for any recovery. Under this method, the recovery resulting from the consolidated tax benefits arising from the nontaxable FSLIC payments were credited to the Company's investment. Such benefits totaled $57 and $17 million in 1989 and 1988, respectively. During this same period, the Company did not record its pro rata share of the net income of Guaranty which amounts were not material. The Company has consolidated Guaranty in its December 30, 1989 balance sheet and plans to fully consolidate Guaranty in its financial statements beginning in 1990. Many of the uncertainties surrounding the acquisition, operation and control of the assets have been resolved. However, there continues to be uncertainty surrounding the regulatory aspects of this investment.

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The acquisition produced substantial amounts of goodwill at Guaranty and the Company. After crediting the tax benefits to the investment, there is approximately $1 million of goodwill remaining pertaining to the acquisition of Guaranty included in the 1989 year end consolidated balance sheet.

The Company has reached an agreement to purchase the interests of the minority investors for a total of $19.6 million. The transaction is scheduled to close in the first quarter of 1990. The Company has the right under certain conditions to "put" its interest in Guaranty to the minority investors and thereby limit its exposure to the write-off of its investment rather than the continuing obligation to operate the thrift. Provisions of the agreement to purchase certain minority interests allow for extension of the "put" arrangement to 1991.

The FSLIC holds warrants to acquire 20 percent of the common stock of Guaranty for nominal consideration at any time during the ten-year period following date of acquisition. The Company is currently discussing with FSLIC its intentions regarding future ownership of these warrants.

Complete financial statements for Guaranty are included on pages 48 through 56.

Note C—Long-Term Debt

See pages 35 and 39 for a description of the Company's long-term debt.

Aggregate maturities of long-term debt during the next five years are as follows (in millions): 1990—$4.8; 1991—$224.4; 1992—$9.0; 1993—$3.8; 1994—$4.1. It is the Company's current intention to extend maturities by refinancing and renewing the long-term revolving credit agreements upon maturity.

See pages 29 and 39 for a description of the Company's interest expense.

Note D—Stock Option and Purchase Plans

The Company has established stock option plans for key employees and directors. The plans provide for the granting of incentive stock options and/or non-qualified stock options, and permit the grant of stock appreciation rights with all or part of any options so granted.

Options for 979,608, 1,081,196 and 1,100,022 shares were exercisable at year end 1989, 1988 and 1987, respectively. An additional 2,818,374, 3,053,128 and 684,898 shares of common stock were available for grants at year end 1989, 1988 and 1987, respectively.

A summary of activity under the option plans is presented below:

	Common Stock	
	Number of Shares	Price Range Per Share
Outstanding at January 3, 1987	2,453,268	$ 4-$22
Granted	194,588	$22-$32
Exercised	(572,546)	$ 4-$19
Forfeited	(24,314)	$12-$22
Outstanding at January 2, 1988	2,050,996	$ 4-$32
Granted	162,780	$21-$25
Exercised	(312,506)	$ 4-$22
Forfeited	(131,010)	$12-$22
Outstanding at December 31, 1988	1,770,260	$ 5-$32
Granted	282,652	$12-$28
Exercised	(348,520)	$ 5-$32
Forfeited	(47,898)	$22-$32
Outstanding at December 30, 1989	1,656,494	$ 8-$32

Additionally, an Incentive Stock Plan provides for a maximum of 625,000 shares of common stock to be reserved for awards at the discretion of the Board of Directors. At year end 1989, awards of 140,492 shares of common stock were outstanding at an average price of $23.68 per share.

The Company has Savings and Stock Purchase Plans which permit participating employees to invest in the Company's common stock and other funds.

On February 2, 1990, options to purchase 385,578 shares of stock at a price of $30.69 per share were granted and 43,752 shares were awarded under the Incentive Stock Plan.

Note E—Pension Plans and Other Post-Retirement Benefits

The Company and its subsidiaries have several pension plans covering substantially all employees. Plans covering salaried and non-union 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 as are necessary on an actuarial basis to provide assets sufficient to meet the benefits to be paid to plan members in accordance with the requirements of ERISA.

A summary of the components of net pension cost in 1989, 1988 and 1987 follows:

	1989	1988	1987
		(in millions)	
Charges (Credits)			
Service cost—benefits earned during the period	$ 7.6	$ 8.4	$ 6.1
Interest cost on projected benefit obligation	19.5	17.8	13.6
Actual return on plan assets	(48.1)	(27.7)	(7.7)
Net amortization and deferral	20.1	1.0	(14.6)
Net Pension Credit	$ (.9)	$ (.5)	$ (2.6)

The actuarial computations for the years 1989, 1988 and 1987 assumed a discount rate on benefit obligations of 9 percent, an expected long-term rate of return on plan assets of 9 percent and annual salary/benefit increases of 5 percent to 6 percent over the average remaining service lives of employees covered by the plans.

The status of employee pension benefit plans at year end 1989 and 1988 is summarized below:

	1989	1988
	(in millions)	
Actuarial present value of benefit obligations:		
Vested benefits	$ 177.5	$ 160.9
Nonvested benefits	17.5	18.8
Accumulated benefit obligation	$ 195.0	$ 179.7
Projected benefit obligation for service rendered to date	$(241.6)	$(224.4)
Plan assets at fair value, primarily fixed income securities	313.9	269.6
Plan assets in excess of projected benefit obligation	72.3	45.2
Prior service cost not yet recognized in net periodic pension cost	.5	.5
Unrecognized net (gain) loss from past experience different from that assumed	(10.4)	13.7
Unrecognized net asset at beginning of period, less amortization to date	(48.9)	(53.8)
Net pension asset included in the balance sheet	$ 13.5	$ 5.6

The assets of the plans at December 31, 1989 include 380,998 shares of common stock of the Company having a market value of $13.2 million at that date.

In addition, certain health care and life insurance benefits are provided for retired employees. Substantially all employees may become eligible for these benefits if they reach retirement age while employed by the Company. The cost of providing the

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benefits is recognized by expensing the insurance premiums as incurred. These costs totaled approximately $1.6, $1.5 and $1.2 million in 1989, 1988 and 1987, respectively.

Note F—Taxes on Income

Taxes on income consisted of the following:

	Current	Deferred
	(in thousands)	
1989		
Federal	**$84,121**	**$22,552**
Investment tax credit deferred	**—**	**(5,847)**
State and other	**8,211**	**(2,208)**
	$92,332	**$14,497**
1988		
Federal	$66,512	$33,185
Investment tax credit deferred	—	(6,635)
State and other	11,798	(2,260)
	$78,310	$24,290
1987		
Federal	$59,269	$17,315
Investment tax credit deferred	—	(3,744)
State and other	6,440	(280)
	$65,709	$13,291

The provision for deferred income taxes reflects timing differences between financial and tax reporting related to the following items:

	1989	1988	1987
		(in thousands)	
Depreciation	**$21,126**	$17,580	$11,318
Investment tax credits	**(5,847)**	(6,635)	(3,744)
Pension expense	**2,605**	2,410	3,248
Other employee benefit plans	**528**	4,233	82
Other—net	**(3,915)**	6,702	2,387
	$14,497	$24,290	$13,291

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

	1989	1988	1987
		(in thousands)	
Taxes on income at statutory rate	**$106,829**	$102,605	$88,163
Investment tax credits	**(5,831)**	(6,522)	(6,643)
Tax benefit of capital gains	**—**	—	(2,901)
State and foreign taxes	**6,363**	6,505	4,462
All other	**(532)**	12	(4,081)
	$106,829	$102,600	$79,000

Income tax payments, net of refunds received, were $13 million, $76 million and $58 million during 1989, 1988 and 1987, respectively.

Investment tax credits were deferred and are being amortized as a reduction of income tax expense over the estimated useful lives of the related assets.

Equity in the earnings of 20-50 percent owned affiliates is reinvested; accordingly, no provision for income taxes is made on the undistributed earnings.

In December 1987, the Financial Accounting Standards Board issued Statement No. 96, "Accounting for Income Taxes." Under the guidelines, companies are required to adopt the liability method for computing deferred income taxes no later than 1992. The Company presently expects to adopt the Statement in 1992 and does not expect to restate any periods. The adoption of the new guidelines is not expected to have an adverse impact on financial position.

The Company has alternative minimum tax credits of $47 million which may be carried forward indefinitely to be utilized in years in which regular tax payable exceeds minimum tax payable. The Company has not recognized any benefit from these credits since their utilization may be limited by complex tax laws.

Note G—Business Segment Information

Refer to "Business Segments" on page 23 for information relating to Revenues and Income Before Taxes, and page 29 for information relating to Capital Expenditures for the principal segments of business for the three years 1989, 1988 and 1987.

Additional business segment information is presented below.

For the year	1989	1988	1987
		(in millions)	
Identifiable Assets			
Container and containerboard	**$1,088.0**	$ 967.9	$ 841.7
Pulp and paperboard	**245.1**	245.6	252.0
Building products	**208.4**	187.1	209.4
Timber and timberlands	**364.8**	377.8	376.7
Corporate and other activities	**75.3**	136.4	53.9
	1,981.6	1,914.8	1,733.7
Financial Services	**1,257.6**	1,455.5	1,338.3
Guaranty Federal Savings Bank*	**4,009.6**	—	—
Total	**$7,248.8**	$3,370.3	$3,072.0
Depreciation, Amortization and Depletion			
Container and containerboard	**$ 61.9**	$ 52.1	$ 34.9
Pulp and paperboard	**28.7**	28.8	30.0
Building products	**22.4**	18.8	16.9
Timber and timberlands	**11.7**	10.9	11.2
Other activities	**1.8**	1.5	1.1
	126.5	112.1	94.1
Financial Services	**2.6**	3.2	2.7
	$ 129.1	$ 115.3	$ 96.8

*Guaranty was initially consolidated at year end 1989 in the consolidating balance sheet and will be fully consolidated in the 1990 financial statements.

Note H— Summary of Quarterly Results of Operations (Unaudited)

Selected quarterly financial results for the years 1989 and 1988 are summarized below:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(in millions except per share amounts)			
1989				
Total Revenues	**$526.1**	**$537.8**	**$528.5**	**$531.6**
Manufacturing Net Sales	**462.6**	**476.6**	**479.9**	**475.1**
Manufacturing Gross Profit	**126.3**	**124.3**	**126.1**	**109.5**
Financial Services Operating Income Before Taxes	**1.4**	**2.6**	**1.5**	**1.4**
Net Income	**54.5**	**52.9**	**55.6**	**44.4**
Earnings Per Share*	**.98**	**.96**	**1.01**	**.80**
1988				
Total Revenues	$491.6	$504.7	$514.6	$505.9
Manufacturing Net Sales	425.7	448.5	454.6	444.7
Manufacturing Gross Profit	105.5	118.5	121.3	114.5
Financial Services Operating Income (Loss) Before Taxes	1.5	(1.5)	(1.8)	(3.8)
Net Income	45.6	53.1	53.0	47.5
Earnings Per Share*	.82	.96	.95	.85

*Per share amounts have been retroactively adjusted for a two-for-one stock split for shareholders of record March 1, 1990.

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Note I—Shareholder Rights Plan

During 1989, the Board of Directors adopted a Shareholder Rights Plan in which one preferred stock purchase right ("the Right") was declared as a dividend for each common share outstanding. Each one half right entitles shareholders to purchase, under certain conditions, one-hundredth of a share of newly issued Series A Junior Participating Preferred Stock at an exercise price of $200. The Rights will be exercisable only if a person or group acquires beneficial ownership of 20 percent or more of the 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 common shares. The Company will generally be entitled to redeem the Rights of $.01 per Right at any time until the 10th business day following public announcement that a 20 percent position has been acquired. The Rights will expire on February 20, 1999.

Note J—Commitments and Contingencies

There are pending against the Company and its subsidiaries lawsuits and claims 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 be material in relation to the consolidated financial position of the Company and its subsidiaries.

Note K—Subsequent Event

On February 2, 1990, the Company announced a two-for-one stock split on its common shares. The new shares will be distributed on March 15, 1990 to holders of record on March 1, 1990. At year end 1989, there were 27,425,407 shares outstanding on a historical basis, or 54,850,814 shares on a split basis.

Report of Management

Management Report on Financial Statements

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

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

Clifford J. Grum
President & Chief Executive Officer

Wayne McDonald
Executive Vice President &
Chief Financial Officer

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Temple-Inland Inc. and subsidiaries as of December 30, 1989 and December 31, 1988, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 30, 1989. 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 did not audit the 1988 and 1987 financial statements of Great American Reserve Insurance Company, a wholly-owned subsidiary, which statements reflect total assets constituting 35% in 1988, and total revenues constituting 10% in 1988 and 12% in 1987 of the related consolidated totals. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to data included for Great American Reserve Insurance Company for 1988 and 1987, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. 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 and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and, for 1988 and 1987, the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Temple-Inland Inc. and subsidiaries at December 30, 1989 and December 31, 1988, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 30, 1989, in conformity with generally accepted accounting principles.

Ernst & Young
Houston, Texas
February 16, 1990

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STATEMENTS OF OPERATIONS AND CHANGES IN RETAINED EARNINGS

Guaranty Federal Savings Bank

	Year ended December 31, 1989	Three months ended December 31, 1988
	(in thousands)	
Interest and dividend income		
Interest on covered assets (including FSLIC yield maintenance of $163,417 and $31,590 in 1989 and 1988, respectively)	**$171,632**	$43,920
Interest on FSLIC Resolution Fund notes receivable	**110,398**	24,519
Interest and dividends on noncovered assets:		
Interest and fees on loans	**103,055**	26,866
Interest and dividends on investments	**13,513**	2,469
Total interest income	**398,598**	97,774
Interest expense		
Interest on deposits	**227,596**	65,300
Interest on borrowings	**109,859**	13,341
Total interest expense	**337,455**	78,641
Net interest income	**61,143**	19,133
Provision for possible loan losses	**1,095**	—
Net interest income after provision for possible loan losses	**60,048**	19,133
Other income		
Service charges on deposits and other fees	**4,107**	864
Loan servicing fees	**2,648**	801
Gain on sale of noncovered investments	**453**	—
Gain on sale of other noncovered assets	**4,718**	213
Other	**2,486**	1,083
Total other income	**14,412**	2,961
Other expenses		
Employee compensation and benefits	**23,024**	5,628
Insurance premiums on deposits	**6,069**	1,863
Occupancy	**5,225**	1,914
Data processing	**3,931**	375
Parent tax benefit shared with FSLIC	**8,000**	1,800
Amortization of cost in excess of fair value of net assets acquired, net of reimbursements from FSLIC of $17,902 and $2,925 in 1989 and 1988, respectively	**9,922**	2,534
Other, net of reimbursements from FSLIC of $36,058 and $5,155 in 1989 and 1988, respectively	**17,249**	5,167
Total other expenses	**73,420**	19,281
Income before provision for federal income taxes	**1,040**	2,813
Federal income taxes	**—**	—
Net income	**1,040**	2,813
Retained earnings, beginning of period	**2,813**	—
Retained earnings, end of period	**$ 3,853**	$ 2,813

See notes to financial statements.

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STATEMENTS OF FINANCIAL CONDITION

Guaranty Federal Savings Bank

	December 31, 1989	December 31, 1988
	(in thousands)	
ASSETS		
Cash	**$ 41,236**	$ 46,778
Investment securities (market value of $85,720 and $60,169 at December 31, 1989 and 1988, respectively)	**85,592**	59,353
Securities purchased under agreement to resell	**50,000**	—
Loans receivable	**732,838**	940,396
Accrued interest receivable	**16,780**	21,256
Covered assets	**1,643,461**	1,642,621
Receivables from the FSLIC Resolution Fund	**1,379,950**	1,322,436
Premises and equipment	**17,248**	34,396
Other assets	**2,359**	7,812
Cost in excess of fair value of net assets acquired, net of accumulated amortization of $12,455 and $2,534 at December 31, 1989 and 1988, respectively	**40,166**	50,088
Total assets	**$4,009,630**	$4,125,136
LIABILITIES AND STOCKHOLDER'S EQUITY		
Liabilities		
Deposits	**$2,760,396**	$3,218,221
Federal Home Loan Bank advances	**1,069,374**	584,327
Securities sold under agreements to repurchase	**—**	200,803
Advance payments by borrowers for taxes and insurance	**5,104**	6,532
Accounts payable and other liabilities	**45,903**	37,440
	3,880,777	4,047,323
Stockholder's Equity		
Preferred stock, no par value, 1,000,000 shares authorized, none issued or outstanding at December 31, 1989 or 1988	**—**	—
Series A preferred stock, noncumulative, no par value (liquidation value of $100 per share), 1,000,000 shares authorized, 500,000 shares issued and outstanding at December 31, 1989; none at December 31, 1988	**50,000**	—
Common stock, par value $.01 per share, 2,000,000 shares authorized, 800,000 shares issued and outstanding at December 31, 1989 and 1988	**8**	8
Warrants to purchase common stock	**—**	—
Additional paid-in capital	**74,992**	74,992
Retained earnings	**3,853**	2,813
	128,853	77,813
CONTINGENCIES		
Total liabilities and stockholder's equity	**$4,009,630**	$4,125,136

See notes to financial statements.

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STATEMENTS OF CASH FLOWS

Guaranty Federal Savings Bank

	Year ended December 31, 1989	Three months ended December 31, 1988
	(in thousands)	
Operating activities		
Net income	**$ 1,040**	$ 2,813
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for depreciation and amortization	**3,121**	202
Amortization of purchase accounting adjustments	**(27,761)**	(11,853)
Amortization of cost in excess of fair value of net assets acquired, net of FSLIC reimbursements	**9,922**	2,534
Provision for possible loan losses	**1,095**	—
Gain on sale on noncovered investments	**(453)**	—
Gain on sale of other noncovered assets	**(4,718)**	(213)
Decrease (increase) in interest receivable	**4,476**	(21,256)
Increase in interest payable	**4,530**	2,330
Increase in receivables from FSLIC Resolution Fund	**(57,514)**	(59,468)
Other, net	**5,603**	6,357
Net cash used in operating activities	**(60,659)**	(78,554)
Investing activities		
Net increase in securities purchased under agreement to resell	**(50,000)**	—
Proceeds from sales and maturities of investment securities	**26,404**	—
Purchase of investment securities	**(53,829)**	(95)
Loans originated or acquired, net of related principal collections	**(120,072)**	(30,100)
Proceeds from sales of loans receivable	**328,755**	25,420
Reductions in covered assets	**38,177**	6,887
Net cash provided by investing activities	**169,435**	2,112
Financing activities		
Net decrease in deposits	**(446,768)**	(397,947)
Proceeds from FHLB advances	**5,013,803**	1,177,628
Repayments of FHLB advances	**(4,529,122)**	(898,470)
Net increase (decrease) in securities sold under agreements to repurchase	**(200,803)**	36,799
Net decrease in advance payments by borrowers for taxes and insurance	**(1,428)**	(8,853)
Sale of Series A preferred stock	**50,000**	—
Net cash used in financing activities	**(114,318)**	(90,843)
Decrease in cash and cash equivalents	**(5,542)**	(167,285)
Cash and cash equivalents at beginning of period	**46,778**	214,063
Cash and cash equivalents at end of period	**$ 41,236**	$ 46,778

See notes to financial statements.

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Notes to Financial Statements

Guaranty Federal Savings Bank
December 31, 1989 and 1988

Note A—Significant Accounting Policies

Basis of Presentation
These financial statements include only the accounts of Guaranty Federal Savings Bank (the "Bank"), a majority-owned subsidiary of Temple-Inland, Inc. ("Parent"). For the reasons discussed in Note C, the Bank's wholly-owned subsidiaries have not been consolidated. Instead, the Bank's investments in subsidiaries are accounted for by the equity method. Bank interest income on advances to subsidiaries and subsidiary interest expense on advances payable to the Bank have been eliminated in the determination of equity in earnings (losses) of subsidiaries.

Cash and Cash Equivalents
The Bank considers due from banks, interest bearing deposits, transit clearing items, and federal funds sold to be cash equivalents. Interest bearing deposits of $19,909,000 and $32,608,000 are included in cash at December 31, 1989 and 1988, respectively. Cash and cash equivalents of approximately $7,300,000 were pledged or otherwise restricted at December 31, 1989.

Investment and Mortgage-Backed Securities
Generally accepted accounting principles require that debt securities be accounted for based on their classification as trading, held for sale, or held for investment. Mortgage-backed securities and other investment securities, all of which management has both the positive intent and ability to hold until maturity, are carried at cost, adjusted for amortization of premiums and accretion of discounts by a method which approximates the interest method over the estimated lives of the securities.

The specific identification method is used in determining gains or losses on sales of investment securities and mortgage-backed securities.

Securities Purchased Under Agreement to Resell
At December 31, 1989, the Bank had purchased securities from Salomon Brothers, Inc. under an agreement to resell. Such securities were resold on January 2, 1990.

Loans Receivable and Accrued Interest Receivable
Interest on loans receivable is credited to income as earned. The accrual of interest is ceased when loans become 90 days delinquent. Mortgage loan discounts are amortized to income using the interest method over the estimated lives of the loans adjusted for prepayments. Unearned discounts on consumer loans are amortized to earnings over the lives of the loans using the interest method.

A provision for possible losses on non-covered loans is charged to operations based on management's evaluation of the estimated losses in the Bank's portfolio. Such evaluation includes a review of loans on which full collectibility may not be reasonably assured and considers the estimated value of the underlying collateral and other factors which, in management's judgment, deserve recognition under existing economic conditions.

Premises and Equipment
Premises and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets ranging from 3 to 40 years. Maintenance and repairs are charged to expense, and renewals and replacements are capitalized.

Investments in Real Estate
Real estate investments are carried at cost. Costs relating to the development and improvement of real estate investments and certain holding period costs are capitalized.

Loan Fees
Loan origination fees, net of direct origination and acquisition costs, are deferred and amortized using the interest method as an adjustment of the yield of the related loans.

Cost in Excess of Fair Value of Net Assets Acquired
Cost in excess of fair value of net assets acquired results from the acquisition of the net assets discussed in Note B and is amortized to expense over the estimated lives of the long-term interest bearing assets acquired using the interest method.

Federal Income Taxes
The Bank will be included in the consolidated income tax returns filed by the Parent. Under an agreement with the Parent, the Bank receives no benefit for tax losses and provides an income tax provision on its taxable income, if any, after taking into effect any tax loss carryforwards. Federal Savings and Loan Insurance Corporation ("FSLIC") assistance is not taxable for income tax purposes. See Note C for information regarding the tax-sharing agreement with the FSLIC.

FSLIC's 25 percent share of the income tax benefits recognized by the Bank's Parent in excess of a 0.10 percent reduction in guaranteed yield, plus interest, will be credited to the amount of the FSLIC assistance receivable at December 31, 1993 (fifth year-end from the September 30, 1988 acquisition date) as prescribed by the Assistance Agreement and described in Note C. This estimated five-year tax sharing amount plus interest is being charged to income over the five-year period in amounts reasonably proportional to estimated FSLIC assistance income.

Reclassification of 1988 Amounts
Certain 1988 amounts have been reclassified or restated to reflect the final purchase accounting fair value estimates or to be consistent with the 1989 presentation.

Note B—Acquisition
The Bank was capitalized on September 30, 1988, with $75,000,000 in cash and a commitment by its Parent to purchase an aggregate of approximately $50,000,000 of the Bank's preferred stock during January 1990 and 1991. The purchase of the entire amount of the preferred stock was subsequently accelerated to September 1989 at the option of the Parent. Voting rights attributable to the preferred stock are equal in stature to those rights of common stockholders. Concurrent with the initial acquisition, the FSLIC, as Receiver for Guaranty Federal Savings and Loan Association of Texas, First Federal Savings and Loan Association of Austin, Texas, and Delta Savings Association of Texas, (the "Closed Associations"), transferred to the Bank substantially all of the Closed Associations' assets, deposits, and secured liabilities. The transferred assets include an aggregate of $1,094,488,000 in notes receivable from the FSLIC contributed to the Closed Associations during the period of receivership. The Bank issued to the FSLIC warrants to purchase 20 percent of the Bank's common stock. These warrants are exercisable at $.01 per share beginning September 30, 1998, and expire on September 30, 2003. This acquisition has been accounted for as a purchase, and, accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair values considering certain financial assistance to be provided by the FSLIC.

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Note C—FSLIC Assistance

In connection with the 1988 acquisition, the Bank entered into an assistance agreement with the FSLIC (the "Assistance Agreement") whereby, for a period of ten years from the date of acquisition, the FSLIC will provide substantial financial assistance to the Bank and exert significant influences over a substantial portion of the Bank's assets. Such assets (the "Covered Assets") are generally all of the Bank's assets at the date of acquisition except cash, marketable securities, performing one- to four-family mortgage loans, assets of subsidiaries and certain premises and equipment. While assets of subsidiaries are not Covered Assets, the Bank's advances to and investments in its subsidiaries are Covered Assets and for purposes of determining FSLIC assistance are to be accounted for using the equity method of accounting.

On August 9, 1989, the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") was signed into law. Under provisions of FIRREA, the FSLIC was dissolved and its assets and liabilities (except for those expressly transferred or assumed by the Resolution Trust Corporation ["RTC"]) were transferred to the FSLIC Resolution Fund. Funding sources, including the U.S. Treasury if necessary, have been established to satisfy the FSLIC Resolution Fund liabilities; however, such funds have not, as yet, been needed or appropriated. Throughout these financial statements, the terms FSLIC and FSLIC Resolution Fund are used interchangeably to refer to the successor to the FSLIC responsible for funding the FSLIC notes and other financial obligations of the Assistance Agreement and for monitoring compliance with the Assistance Agreement.

Financial assistance includes guaranteed yields and loss coverage on Covered Assets, certain expense reimbursements and indemnification from certain claims and litigation. A substantial portion of gains on sales of Covered Assets are allocated to FSLIC. The Bank must obtain regulatory approval for substantially all matters relating to claims or litigation and the maintenance and/or disposition of Covered Assets and assets of subsidiaries. The Bank will reduce FSLIC assistance by 25 percent of the income tax benefits recognized by the Parent from the inclusion of the Bank's operations in the Parent's consolidated income tax returns. As a means of currently funding a portion of the tax benefit arrangement with the FSLIC, the Bank has agreed to reduce guaranteed yields by 0.10 percent.

Guaranteed yields are based upon Texas Cost of Funds, as defined, plus certain margins ranging from 2.40 percent to 1.70 percent, decreasing annually. FSLIC assistance is reduced by actual yields and increased by actual losses realized on Covered Assets. Equity in subsidiaries' net earnings or losses is considered either actual yields or actual losses, respectively, under terms of the Assistance Agreement.

Indemnities for claims in excess of $10 million, interest payments on FSLIC notes receivable, guaranteed yields, and actual losses are payable quarterly. At the FSLIC's option, all other FSLIC financial assistance is due either quarterly or at the expiration of the Assistance Agreement. Amounts deferred for future payment earn interest at the guaranteed yield rate.

The following summarizes the components of FSLIC assistance income (in thousands):

	Year ended December 31, 1989		
	Actual yield	FSLIC assistance	Guaranteed yield
Interest on Covered Assets:			
Loans	$ 27,002	$ 68,362	$95,364
Investments in real estate	3,789	41,761	45,550
Investments in subsidiaries	(23,833)	48,577	24,744
Accrued interest receivable	—	4,008	4,008
Other assets	1,257	709	1,966
	$ 8,215	163,417	$171,632
Losses and other reimbursable amounts:			
Loss coverage on Covered Assets		33,731	
Covered Asset expenses		2,327	
		36,058	
Amortization of cost in excess of fair value of net assets acquired		17,902	
Parent tax benefits shared with FSLIC		(8,000)	
Interest on receivables from the FSLIC Resolution Fund		110,398	
		$319,775	

	3 months ended December 31, 1988		
	Actual yield	FSLIC assistance	Guaranteed yield
Interest on Covered Assets:			
Loans	$ 14,843	$ 10,574	$25,417
Investments in real estate	679	9,744	10,423
Investments in subsidiaries	(3,817)	9,973	6,156
Accrued interest receivable	—	1,194	1,194
Other assets	625	105	730
	$ 12,330	31,590	$ 43,920
Losses and other reimbursable amounts:			
Loss coverage on Covered Assets		147	
Fee for early repayment of FHLB advances		5,008	
		5,155	
Amortization of cost in excess of fair value of net assets acquired		2,925	
Parent tax benefits shared with FSLIC		(1,800)	
Interest on receivables from the FSLIC Resolution Fund		24,519	
		$ 62,389	

The amounts receivable under the Assistance Agreement have a significant impact on the Bank's statements of financial condition and also on current and future operations. As mandated by FIRREA, the Bank's Assistance Agreement is subject to review by thrift regulators and other governmental agencies. The RTC is to exercise all the rights that FSLIC had to modify, renegotiate, or restructure the 1988 assistance agreements where savings can be realized. Bank management believes that it has properly interpreted and is complying with the terms of the Assistance Agreement. However, due to the complex nature of the Assistance Agreement, management is unable to predict the financial impact on the Bank, if any, of these reviews and any resultant negotiations.

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Note D—Investment Securities

Investment securities consists of the following (in thousands):

	December 31, 1989		December 31, 1988	
	Amortized cost	Market value	Amortized cost	Market value
U.S. Government securities	$ 1,949	$ 2,017	$23,077	$22,949
Corporate bonds	1,000	1,000	5,068	5,058
Federal Home Loan Bank stock	82,503	82,503	29,774	29,774
Other securities	140	200	1,434	2,388
	$85,592	$85,720	$59,353	$60,169

Note E—Loans Receivable

Loans receivable consists of the following (in thousands):

	December 31, 1989	December 31, 1988
One- to four-family mortgage loans	$732,250	$771,047
Construction loans	33,902	440
Mortgage-backed securities	77,695	353,846
Consumer and other loans	70,841	11,383
	914,688	1,136,716
Less:		
Participations sold	96,571	100,658
Loans in process	14,940	12
Unearned discount	1,754	242
Purchased discount:		
Loans	63,517	79,446
Mortgage-backed securities	3,748	15,962
Deferred fees	349	—
Allowance for possible losses	971	—
	181,850	196,320
	$732,838	$940,396

Changes in the allowance for possible loan losses is as follows (in thousands):

	Year ended December 31, 1989	Three months ended December 31, 1988
Balance, beginning of year	$ —	$ —
Provision for possible loan losses	1,095	—
Charge-offs, net of recoveries	(124)	—
Balance, end of year	$ 971	$ —

Mortgage-backed securities consist of Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Federal National Mortgage Association pass-through securities. The market value of mortgage-backed securities approximated $75,027,000 and $330,000,000, at December 31, 1989 and 1988, respectively.

The Bank services approximately $412,813,000 and $441,972,000 of loans for the benefit of others at December 31, 1989 and 1988, respectively.

The Bank foreclosed upon and transferred to Covered Assets approximately $19,476,000 and $3,657,000 of loans receivable during 1989 and 1988, respectively.

Note F—Covered Assets

As discussed in Note C, certain assets acquired by the Bank are considered Covered Assets and, as such, were transferred to the Bank at the Closed Associations' book values before valuation allowances. For these assets, in addition to yield assistance, the FSLIC assures the ultimate recovery of the book value.

Covered Assets consists of the following (in thousands):

	December 31, 1989	December 31, 1988
Loans:		
Commercial (principally real estate loans)	$ 420,302	$ 583,688
Construction	294,670	297,191
Consumer and other	73,578	120,733
Investments in real estate	546,969	341,707
Advances to and investments in subsidiaries	238,053	245,603
Accrued interest receivable	31,458	39,091
Other assets	38,431	14,608
	$1,643,461	$1,642,621

Investments in Real Estate

The Bank's investments in real estate are Covered Assets and consist of (in thousands):

	December 31, 1989	December 31, 1988
Real estate acquired in settlement of loans:		
Commercial	$247,402	$131,426
One- to four-family	64,517	60,059
Land and lots	107,297	37,138
Multifamily and other	121,725	96,806
	540,941	325,429
Other real estate:		
Land and lots under development	5,074	10,175
Multifamily	954	6,103
	6,028	16,278
	$546,969	$341,707

Advances to and Investments in Subsidiaries

The Bank's advances to and investment in subsidiaries are Covered Assets and consist of the following (in thousands):

	December 31, 1989	December 31, 1988
Advances payable to Bank	$686,123	$596,661
Equity (deficit)	(448,070)	(351,058)
	$238,053	$245,603

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Summarized combined financial information of subsidiaries follows (in thousands):

	December 31, 1989	December 31, 1988
Assets		
Cash	**$ 17,844**	$ 17,660
Loans and accrued interest receivable, less allowances for possible losses of $25,990 and $20,174 at December 31, 1989 and 1988, respectively	**28,834**	21,588
Investments in real estate:		
Commercial	**108,420**	78,890
Land and lots under development	**463,996**	516,946
Residential home building	**3,767**	4,573
Multifamily	**146,217**	97,474
Allowance for possible losses	**(273,093)**	(285,831)
Premises, equipment and other	**7,239**	18,131
	$503,224	$469,431
Liabilities and Equity (Deficit)		
Accrued interest and other liabilities	**$ 39,600**	$ 34,461
Notes payable to Bank, real estate mortgaged as collateral	**164,653**	59,164
Notes payable to others, real estate mortgaged as collateral	**60,918**	130,203
Advances payable to Bank	**686,123**	596,661
Equity (deficit)	**(448,070)**	(351,058)
	$503,224	$469,431

	Year ended December 31, 1989	Three months ended December 31, 1988
Revenues	**$ 42,381**	$ 10,973
Costs and expenses:		
Interest expense related to notes payable to others	**12,530**	3,315
Interest expense related to advances payable to Bank	**73,839**	16,022
Interest expense related to secured notes payable to Bank	**11,502**	1,543
Other operating expenses	**42,182**	9,932
	140,053	30,812
Bank's equity in loss before elimination of interest expense related to advances payable to Bank	**(97,672)**	(19,839)
Interest expense related to advances payable to Bank	**73,839**	16,022
Bank's equity in loss, net	**$(23,833)**	$ (3,817)

Market Value

The Bank's management estimates that the fair market value of Covered Assets without the FSLIC's assistance would be approximately $550 million and $300 million less than their carrying value at December 31, 1989 and 1988, respectively.

Note G—Receivables From the FSLIC Resolution Fund

Receivables from the FSLIC Resolution Fund consists of (in thousands):

	December 31, 1989	December 31, 1988
Initial notes receivable due for excess of liabilities assumed over assets acquired, based on June 30, 1988 amounts, interest due quarterly at Texas Cost of Funds plus .40%, due September 30, 1998	**$ 710,146**	$ 710,146
Notes receivable from sale of certain assets, interest due quarterly at Texas Cost of Funds plus certain defined margins 2.30%, due September 30, 1998	**384,342**	384,342
Estimated additional amounts receivable due for excess of liabilities assumed over assets acquired based upon September 30, 1988 amounts, interest due quarterly at Texas Cost of Funds plus certain defined margins, due September 30, 1998	**77,022**	77,022
Assistance receivable due quarterly, primarily for guaranteed yields on Covered Assets	**58,202**	34,196
Other assistance payments receivable, due either quarterly or at the expiration of the Assistance Agreement, interest (if any) payable quarterly at Texas Cost of Funds plus certain defined margins, due no later than September 30, 1988	**52,927**	2,682
Amounts to be recoverable from FSLIC for reimbursement of certain amortization of cost in excess of fair value of net assets acquired	**70,446**	89,528
Accrued interest on notes receivable	**26,865**	24,520
	$1,379,950	$1,322,436

Amounts recoverable from FSLIC under terms of the Assistance Agreement relating to cost in excess of fair value of net assets acquired were created primarily by purchase discounts on one- to four-family mortgage loans and mortgage-backed securities.

The Texas Cost of Funds applicable for each quarter during 1989 and 1988 follow:

	1989	1988
March 31	**8.16%**	N/A
June 30	**8.33%**	N/A
September 30	**8.78%**	N/A
December 31	**8.92%**	8.05%

The final determination of the principal balance of the receivable due for excess of liabilities assumed over assets acquired based upon the September 30, 1988 amounts is to be determined by FSLIC based upon audits of the Closed Associations' financial statements as of September 30, 1988. Those audits have not yet been completed. In addition, the estimated amounts of the assistance payments receivable are subject to review by the FSLIC. Bank management believes that the final determination of the amount of such receivables from FSLIC will not be materially different from that estimated.

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Note H—Premises and Equipment

Premises and equipment consists of (in thousands):

	December 31, 1989	December 31, 1988
Land	$ 3,589	$ 7,689
Buildings	9,634	21,607
Furniture, fixtures and equipment	4,721	4,480
Other	1,921	1,383
	19,865	35,159
Less accumulated depreciation and amortization	2,617	763
	$17,248	$34,396

On September 30, 1989, the Bank converted certain premises and equipment to Covered Assets under terms and conditions of the Assistance Agreement. The book value of such premises and equipment converted to Covered Assets approximated $17,872,000 at December 31, 1989. The Bank is currently leasing certain branch and home office locations, including those converted to Covered Assets, from the FSLIC at market rates. Rent expense totaled $1,453,000 and $380,000 for the year ended December 31, 1989 and for the three months ended December 31, 1988, respectively.

Note I—Deposits

Deposits consist of (in thousands):

	December 31, 1989		December 31, 1988	
	Stated rate	Amount	Stated rate	Amount
Demand accounts including money market accounts:				
Non-interest bearing	—%	$ 32,249	—%	$ 43,717
Interest bearing	7.34%	464,132	6.46%	510,293
Statement savings	5.50%	49,731	5.28%	57,241
Certificate accounts	9.09%	2,196,850	8.85%	2,578,489
		2,742,962		3,189,740
Purchase discount		17,434		28,481
		$2,760,396		$3,218,221

Maturities of certificate accounts outstanding at December 31, 1989, are as follows (in thousands):

	Certificates in amounts of $100,000 or more	Certificates in amounts less than $100,000	Total
3 months or less	$ 89,788	$ 396,766	$ 486,554
Over 3 through 6 months	97,458	437,663	535,121
Over 6 through 12 months	105,063	394,672	499,735
Over 12 months	197,394	478,046	675,440
	$489,703	$1,707,147	$2,196,850

Interest expense on deposits consists of (in thousands):

	Year ended December 31, 1989	Three months ended December 31, 1988
Interest bearing demand accounts	$ 32,810	$ 8,381
Statement savings	2,816	741
Certificate accounts	191,970	56,178
	$227,596	$65,300

The weighted average cost of deposits was 8.15 percent and 7.70 percent for the year ended December 31, 1989 and the three months ended December 31, 1988, respectively.

The Bank assumed agreements expiring in 1991 and 1992 to exchange fixed rate interest payments for variable market-indexed interest payments on notional principal amounts of $50,000,000. The Bank has not entered into any interest rate exchange agreements as an intermediary. The weighted average fixed payment rate was 8.70 percent for 1989 and 1988, and the weighted average variable payment rate, based on three-month LIBOR, was 8.375 percent and 9.00 percent, at December 31, 1989 and 1988, respectively. Purchase premiums of $667,000 and $1,025,000 relate to these agreements at December 31, 1989 and 1988, respectively.

Note J—Federal Home Loan Bank Advances

The Bank and the Federal Home Loan Bank of Dallas (the "FHLB-Dallas") have entered into an advance, collateral pledge, and security agreement. In connection therewith, the Bank has pledged its interests in the FSLIC notes receivable to the FHLB-Dallas. Additionally, advances are secured by the Bank's investment in FHLB stock, $314,042,000 of first mortgage loans and $22,553,000 of mortgage-backed securities. Interest rates at December 31, 1989 and 1988, on the advances ranged from 8.21 percent to 8.99 percent, and 8.46 percent to 10.04 percent, respectively. The advances at December 31, 1989, have the following maturities (in thousands):

One year	$ 993,000
Two years	20,000
Three years	—
Four years	10,000
Five years	50,000
Thereafter	—
	1,073,000
Less purchase premium	3,626
	$1,069,374

Note K—Securities Sold Under Agreements to Repurchase

There were no securities sold under agreements to repurchase at December 31, 1989.

At December 31, 1988, securities sold under agreements to repurchase matured through February, 1989. In connection therewith, mortgage-backed securities and U.S. Government agency bonds with a carrying value of approximately $218,868,000 and a market value of approximately $217,212,000 were reported as being held by the dealers or transfer agents. The dealers may have sold, loaned, or otherwise disposed of such securities to other parties in the normal course of their operations and sold to the Bank substantially identical securities at the maturities of the agreements.

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Note L—Income Taxes

The provision for federal income taxes differs from that computed at the statutory corporate tax rate as follows (in thousands):

	Year ended December 31, 1989	Three months ended December 31, 1988
Tax at statutory rate	$ 353	$ 956
Nontaxable FSLIC assistance	(353)	(956)
Federal income tax	$ —	$ —

Certain federal income tax returns of the Closed Associations have not yet been filed by FSLIC. Accordingly, pre-acquisition federal income tax operating loss carryforwards at December 31, 1989, may exceed $300 million and, if not utilized, will expire in 1990 through 2002. Utilization of the income tax operating loss carryforwards is subject to income tax law regulations that limit their utilization to future taxable income of the Bank.

Note M—Other Regulatory Matters

The Federal Home Loan Bank Board granted the Bank, in conjunction with the acquisition, several forbearances from regulatory requirements including reduced regulatory capital and liquidity requirements. The Bank's regulatory capital requirement was reduced to 1.25 percent of total liabilities, increasing annually to 5.0 percent of total liabilities by 1998 after which the requirement shall be the fully phased-in capital amount. Also, in connection with the Bank's capital maintenance agreement with FSLIC, the Bank may not pay dividends on its common stock in excess of 50 percent of its accumulated net income. These agreements and other forbearances, such as those relating to limits on investments in service corporations and loans to one borrower, expire at various dates throughout the ten-year period of the FSLIC Assistance Agreement.

The enactment of FIRREA in August, 1989, and subsequent memoranda issued by the Office of Thrift Supervision have indicated that the capital forbearances are no longer effective. Under FIRREA, the Bank is subject to two separate capital requirements which are based on percentages of adjusted total assets, as defined: the tangible capital ratio of 1.50 percent and the leverage ratio of 3.00 percent. Additionally, at December 31, 1989, the Bank is required to maintain capital at a level not less than 6.4 percent of risk-adjusted assets, as defined. The required level of risk-based capital increases to 7.2 percent and 8 percent of risk-adjusted assets on December 31, 1990 and 1992, respectively. Failure to meet these capital requirements subjects the Bank to growth limitations and regulatory enforcement actions. At December 31, 1989, the Bank exceeded the tangible, leverage, and risk-based capital ratios by $27.9 million, $7.3 million, and $95.6 million, respectively.

Note N—Contingencies

The FSLIC has agreed to indemnify the Bank for amounts incurred in connection with the satisfaction and defense of litigation and claims relating to the Closed Associations, Covered Assets of the Bank and for challenges to the acquisition. Additionally, any such approved expenses incurred by the Bank's subsidiaries are reimbursable from the FSLIC to the extent the FSLIC provides yield maintenance or actual loss coverage on the Bank's investments in subsidiaries.

Report of Independent Auditors

Board of Directors
Guaranty Federal Savings Bank

We have audited the accompanying statements of financial condition of Guaranty Federal Savings Bank (the "Bank"), a majority-owned subsidiary of Temple-Inland Inc. as of December 31, 1989 and 1988, and the related statements of operations and changes in retained earnings, and cash flows for the year ended December 31, 1989 and the three-month period ended December 31, 1988. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. 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.

As described in Notes C and G, in connection with the acquisition in 1988 of certain assets and liabilities of three thrifts, the Bank entered into an Assistance Agreement (the "Assistance Agreement") with the Federal Savings and Loan Insurance Corporation ("FSLIC"). Pursuant to the provisions of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), the obligations of the FSLIC have been assumed by the FSLIC Resolution Fund. The amounts receivable under the Assistance Agreement have a significant impact on the Bank's statements of financial condition as well as on current and future operations.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Guaranty Federal Savings Bank at December 31, 1989 and 1988, and the results of its operations and changes in retained earnings, and its cash flows for the year ended December 31, 1989 and the three-month period ended December 31, 1988, in conformity with generally accepted accounting principles.

Ernst + Young

Dallas, Texas
February 12, 1990

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Shareholder Information

Transfer Agent and Registrar
NCNB Texas National Bank
P.O. Box 831402
Dallas, Texas 75283-1402

Independent Accountants
Ernst & Young
Houston, Texas

Annual Meeting
The annual meeting of shareholders of Temple-Inland Inc. will be held at the Embassy Suites North Hotel (Barcelona Room), 3912 Vincennes Road, Indianapolis, Indiana on Friday, May 4, 1990 at 11:00 a.m. local time.

Stock Listing
Temple-Inland Inc. Common Stock is listed on the New York and Pacific Stock Exchanges, Ticker Symbol: TIN.

Common Stock Prices and Dividend Information*

	Price Range		Dividends
	High	**Low**	
1989			
First Quarter	**$29⅛**	**$23⅜**	**$.145**
Second Quarter	**30⅞**	**25½**	**.145**
Third Quarter	**34⅛**	**27 15/16**	**.145**
Fourth Quarter	**35½**	**28 15/16**	**.145**
Year	**35½**	**23⅜**	**.58**
1988			
First Quarter	$25	$20⅛	$.105
Second Quarter	27 7/16	21¾	.105
Third Quarter	28¼	24⅝	.105
Fourth Quarter	26 11/16	22¼	.105
Year	28¼	20⅛	.42

*Amounts have been retroactively adjusted for a two-for-one stock split declared in February 1990.

Number of Shareholders
As of December 31, 1989, there were 10,162 shareholders of record of the Company's common stock.

Dividend Reinvestment Plan
The Company offers its shareholders a convenient and economical way to increase their investment in our 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 NCNB Texas National Bank, 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 on the Plan, contact NCNB Texas National Bank, Dividend Reinvestment Department, P.O. Box 831402, Dallas, Texas 75283-1402.

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 to the Company's Shareholder Relations Department.

Mailing Address
Temple-Inland Inc.
Drawer N
Diboll, Texas 75941

Telephone Number
(409) 829-1313

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TEMPLE-INLAND INC.
1989 ANNUAL REPORT

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DIBOLL, TEXAS 75941