SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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SIC: **2631** Paperboard mills

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JANUARY 2, 1999

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-8634

TEMPLE-INLAND INC.
(Exact Name of Registrant as Specified in its Charter)

DELAWARE	75-1903917
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

303 SOUTH TEMPLE DRIVE
DIBOLL, TEXAS 75941
(Address of principal executive offices, including Zip code)
Registrant's telephone number, including area code: (409) 829-5511
Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, $1.00 PAR VALUE PER SHARE, NON-CUMULATIVE	NEW YORK STOCK EXCHANGE PACIFIC EXCHANGE
PREFERRED SHARE PURCHASE RIGHTS	NEW YORK STOCK EXCHANGE PACIFIC EXCHANGE

Securities registered pursuant to Section 12(g) of the Act:
NONE

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

The aggregate market value of the Common Stock held by non-affiliates of the registrant, based on the closing sales price of the Common Stock on the New York Stock Exchange on March 10, 1999, was $1,866,578,995. For purposes of this computation, all officers, directors, and 5 percent beneficial owners of the registrant (as indicated in Item 12) are deemed to be affiliates. Such determination should not be deemed an admission that such directors, officers, or 5 percent beneficial owners are, in fact, affiliates of the registrant.

As of March 10, 1999, 55,663,155 shares of Common Stock were outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference into the indicated part or parts of this report:

(a) Pages 25-69 of the Annual Report to Shareholders for the fiscal year ended January 2, 1999 -- Parts I and I.

(b) The Company's definitive proxy statement, dated March 26, 1999, in connection with the Annual Meeting of Shareholders to be held May 7, 1999 -- Part III.

PART I

ITEM 1. BUSINESS

INTRODUCTION:

Temple-Inland Inc. (the "Company") is a holding company that conducts all of its operations through its subsidiaries. The business of the Company is divided among three groups: (1) the Paper Group, (2) the Building Products Group, and (3) the Financial Services Group. Forest resources include approximately 2.2 million acres of timberland in Texas, Louisiana, Georgia, and Alabama.

The Company's Paper Group, operated by Inland Paperboard and Packaging, Inc. ("Inland"), consists of the corrugated packaging and bleached paperboard operations. The corrugated packaging operation is vertically integrated and consists of four linerboard mills, two corrugating medium mills, 41 box plants, and eight specialty converting plants. The bleached paperboard operation consists of one large mill located in Evadale, Texas.

The Company's Building Products Group, operated by Temple-Inland Forest Products Corporation ("Temple-Inland FPC"), manufactures a wide range of building products including lumber, plywood, particleboard, medium density fiberboard, gypsum wallboard, fiber-cement siding, and fiberboard.

The Company's Financial Services Group consists of savings bank activities, mortgage banking, real estate development, and insurance brokerage. The Company's savings bank, Guaranty Federal Bank, F.S.B. ("Guaranty"), conducts its business through 135 banking centers in Texas and California. Mortgage banking is conducted through Temple-Inland Mortgage Corporation ("Temple-Inland Mortgage"), a subsidiary of Guaranty that arranges financing of single-family mortgage loans, then sells the loans into the secondary market (primarily FNMA, FHLMC, and GNMA). Real estate operations include development of residential subdivisions, as well as the management and sale of income properties.

The Company is a Delaware corporation that was organized in 1983. Its principal subsidiaries include Inland, Temple-Inland FPC, Temple-Inland Financial Services Inc. ("Financial Services"), Guaranty, and Temple-Inland Mortgage. The Company's principal executive offices are located at 303 South Temple Drive, Diboll, Texas 75941. Its telephone number is (409) 829-5511.

FINANCIAL INFORMATION:

The results of operations including information regarding the principal business segments are shown in the following table:

TEMPLE-INLAND INC.

BUSINESS SEGMENTS

<TABLE>
<CAPTION>

	FOR THE YEAR				
	1998	1997	1996	1995	1994
	(IN MILLIONS)				
<S>	<C>	<C>	<C>	<C>	<C>
Revenues					
Paper..................................	$2,017.6	$2,062.9	$2,082.3	$2,198.4	$1,740.7
Building products......................	613.0	617.3	562.6	532.9	575.5
Other activities.......................	--	--	--	--	19.2

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Manufacturing net sales	2,630.6	2,680.2	2,644.9	2,731.3	2,335.4
Financial services	1,109.5	945.2	815.4	764.3	631.4
Total revenues	$3,740.1	$3,625.4	$3,460.3	$3,495.6	$2,966.8
Income before taxes					
Paper	$ 32.5	$ (39.0)	$ 113.0	$ 356.6	$ 73.7
Building products	112.5	131.1	102.0	67.0	138.8
Other activities	--	--	--	--	1.5
	145.0	92.1	215.0	423.6	214.0
Financial services	154.1	132.1	63.1(a)	98.1	56.3
Segment operating income	299.1	224.2	278.1	521.7	270.3
Corporate expense	(27.9)	(24.6)	(17.2)	(21.7)	(13.7)
Special charge(b)	(47.4)	--	--	--	--
Parent company interest -- net	(106.0)	(110.3)	(109.6)	(72.7)	(67.1)
Other income	6.6	5.7	4.6	3.7	3.8
Income before taxes	$ 124.4	$ 95.0	$ 155.9	$ 431.0	$ 193.3

</TABLE>

(a) Includes SAIF assessment of $43.9 million.

(b) Includes nonrecurring charges related to (1) the impairment of the Paper Group's investment in its South American corrugated packaging plants, (2) severance costs from the restructuring efforts in the Paper Group, and (3) the write-off of abandoned assets in the Paper Group and the Building Products Group.

For more information with respect to total assets, capital expenditures, depreciation, depletion, and amortization on a business segment basis, see pages 65 and 66 of the Company's 1998 Annual Report to Shareholders, which are incorporated herein by reference.

The following table shows the revenues of the Company by product:

REVENUES

<TABLE>
<CAPTION>

	FOR THE YEAR				
	1998	1997	1996	1995	1994
			(IN MILLIONS)		
<S>	<C>	<C>	<C>	<C>	<C>
Paper					
Corrugated packaging(a)	$1,641.5	$1,694.0	$1,760.6	$1,910.3	$1,499.2
Bleached paperboard	376.1	366.0	300.5	249.0	217.4
Pulp and other	--	2.9	21.2	39.1	24.1
	2,017.6	2,062.9	2,082.3	2,198.4	1,740.7
Building Products					
Pine lumber	222.7	262.1	217.4	190.1	211.9
Fiber products	64.4	66.2	73.3	59.7	66.3
Particleboard	141.5	125.0	112.2	99.1	103.0
Plywood	59.6	55.2	52.1	49.3	56.8
Gypsum wallboard	115.5	104.6	90.2	83.1	74.3
Medium density fiberboard	9.3	--	--	--	--
Retail distribution(b)	--	4.2	17.1	51.3	58.4
Other	--	--	.3	0.3	4.8
	613.0	617.3	562.6	532.9	575.5
Other activities(c)	--	--	--	--	19.2
Manufacturing net sales	2,630.6	2,680.2	2,644.9	2,731.3	2,335.4
Financial services	1,109.5	945.2	815.4	764.3	631.4
Total revenues	$3,740.1	$3,625.4	$3,460.3	$3,495.6	$2,966.8

</TABLE>

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(a) Reclassified to include revenues for 1997, 1996, 1995, and 1994 from a subsidiary that manufactured and marketed paper products for the food service industry. Related revenues were $66.3 million, $84.1 million, $80.9 million, and $57.9 million in 1997, 1996, 1995, and 1994, respectively. The Company sold substantially all the assets of this subsidiary in the fourth quarter of 1997.

(b) In October 1995, the Company sold the largest two of its five retail distribution outlets. Two more of these retail distribution outlets were sold during December 1996, and the final outlet was sold during 1997.

(c) Includes the revenues from subsidiaries engaged in the construction and maintenance of electrical distribution facilities until their operations were terminated in 1994.

The following table shows the rated annual capacities of the production facilities for, and unit sales of, the principal manufactured products.

ANNUAL CAPACITIES/UNIT SALES

<TABLE>
<CAPTION>

<S>	RATED ANNUAL CAPACITY AT YEAR END 1998 <C>	UNIT SALES 1998 <C>	1997 <C>	1996 <C>	1995 <C>	1994 <C>
		(IN THOUSANDS OF TONS)				
Paper						
Corrugated packaging	(a)	2,519	2,769	2,435	2,333	2,492
Bleached paperboard	(b)	623	635	524	400	430
Pulp	(b)	--	2	100	99	87
		(IN MILLIONS OF BOARD FEET)				
Building products						
Pine lumber	675	603	639	605	582	583
		(IN MILLIONS OF SQUARE FEET)				
Fiber products	460	423	402	457	422	441
Particleboard(c)	610	518	470	399	329	347
Plywood	265	289	281	259	217	260
Gypsum wallboard(d)	866	858	843	838	813	796
Medium density fiberboard(d)(e)	260	35	--	--	--	--

</TABLE>

(a) The annual capacity of the box plants is not given because such annual capacity is a function of the product mix, customer requirements, and the type of converting equipment installed and operating at each plant, each of which varies from time to time. The rated annual capacity of Inland's corrugating medium mills is approximately 550,000 tons per year. The rated annual capacity of the linerboard mills is approximately 2.2 million tons per year. In the second quarter of 1998, the Company closed its corrugating medium mill in Newark, California, the rated annual capacity of which was 70,000 tons.

(b) The annual capacity of the four paper machines in operation at the bleached paperboard mill is approximately 670,000 tons, which excludes the capacity of a cylinder machine at the mill that the Company decided to shut down late in 1993 due to market conditions for the grade it produced. Such capacity may vary to some degree, depending on product mix.

(c) The unit sales for the particleboard plants includes the unit sales of the Hope, Arkansas, plant, which began operations late in 1995 but did not reach full production until the fourth quarter of 1996. The unit sales for 1996 reflect the increase at the Monroeville, Alabama, plant that resulted from a renovation of this facility during 1996. The 1997 figures reflect an increase at the Diboll, Texas, and Thomson, Georgia, plants due to similar renovations during 1997.

(d) The annual capacity and unit sales figures for these product lines do not include the annual capacities and unit sales related to the Company's interest in facilities owned through joint venture interests.

(e) The annual capacity for medium density fiberboard includes the rated annual capacity for two medium density fiberboard plants acquired by the Company

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in September 1998, both of which are in the start-up phase.

NARRATIVE DESCRIPTION OF THE BUSINESS:

The business of the Company is divided among three groups: (1) the Paper Group, (2) the Building Products Group, and (3) the Financial Services Group. For 1998, the Paper Group, Building Products Group, and Financial Services Group provided 53.9 percent, 16.4 percent, and 29.7 percent, respectively, of the total consolidated net revenues of the Company.

PAPER GROUP. This group is composed of two operations: corrugated packaging and bleached paperboard.

(i) Corrugated Packaging. The corrugated packaging operation of Inland manufactures containerboard that it converts into a complete line of corrugated packaging and point-of-purchase displays. Approximately 86 percent of the containerboard produced by Inland in 1998 was converted into corrugated containers at its box plants. Inland's nationwide network of box plants produces a wide range of products from commodity brown boxes to intricate die cut containers that can be printed with multi-color graphics. Even though the corrugated box business is characterized by commodity pricing, each order for each customer is a custom order. Inland's corrugated boxes are sold to a variety of customers in the food, paper, glass containers, chemical, appliance, and plastics industries, among others.

Inland also manufactures litho-laminate corrugated packaging, high graphics folding cartons, and bulk containers constructed of multi-wall corrugated board for extra strength, which are used for bulk shipments of various materials.

In the corrugated packaging operation, Inland services about 7,000 customers with approximately 11,000 shipping destinations. The largest single customer accounted for approximately four percent and the 10 largest customers accounted for approximately 26 percent of the 1998 corrugated packaging revenues. Costs of freight and customer service requirements necessitate the location of box plants relatively close to customers. Each plant tends to service a market within a 150-mile radius of the plant.

Sales of corrugated shipping containers closely track changing population patterns and other demographics. Historically, there has been a correlation between the demand for containers and containerboard and real growth in the United States gross domestic product, particularly the non-durable goods segment.

(ii) Bleached Paperboard. The bleached paperboard operation produces various grades and weights of coated and uncoated paperboard for use in high-quality printing and publishing applications, greeting cards, office supplies, and foodware.

Bleached paperboard products are sold to a large number of customers. Sales to the largest customer of this operation accounted for approximately 13 percent of bleached paperboard sales in 1998. This level of sales is consistent with sales to this customer over the past several years. Although the loss of this customer could have a material adverse effect on this operation, it would not have a material adverse effect on the Paper Group or Temple-Inland taken as a whole. This customer is also a customer of the corrugated packaging operation, but sales to this customer represent less than four percent of the total sales of the Paper Group. The 10 largest customers accounted for approximately 54 percent of bleached paperboard sales in 1998. During 1998, sales were made to customers in 37 states, Mexico, and Puerto Rico, as well as to independent distributors through which this operation's products were exported to Asia, Japan, Central America, and South America. Contracts specifying annual tonnage quantities are maintained with several major customers.

Demand for bleached paperboard products generally correlates with real growth in retail sales of non-durable packaged products in the United States, as well as the level of fast food restaurant activity for food service grades, including cup and plate. Demand is also affected by inventory levels maintained by paperboard converters as well as a number of other factors, including changes in industry production capacity and the strength of international markets.

BUILDING PRODUCTS GROUP. The Building Products Group produces a wide variety of building products, such as lumber, plywood, particleboard, medium density fiberboard, gypsum wallboard, fiber-cement siding, and fiberboard.

Sales of building products are concentrated in the southern United States.

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No significant sales are generated under long-term contracts. Sales of most of these products are made by account managers and representatives to distributors, retailers, and O.E.M. (original equipment manufacturer) accounts. Approximately 84 percent of particleboard sales are to commercial fabricators, such as manufacturers of cabinets and furniture. The 10 largest customers accounted for approximately 22 percent of the Building Products Group's 1998 sales. The building products business is heavily dependent upon the level of residential housing expenditures, including the repair and remodeling market.

In September 1998, the Building Products Group acquired two medium density fiberboard plants from MacMillan Bloedel Limited for approximately $106 million. The plants, each of which is capable of producing 130 million square feet annually, are located in Clarion, Pennsylvania, and Pembroke, Ontario, Canada.

The Building Products Group is a 50 percent owner in three joint ventures. One of these joint ventures recently began producing medium density fiberboard at a facility in Arkansas. Another of these joint ventures began producing fiber-cement products in the first quarter of 1999 at a plant in Texas. The third joint venture was the acquisition of an existing facility for the production of gypsum wallboard and a related quarry. This joint venture also began construction in the first quarter of 1998 of a wallboard plant to be located in Tennessee, completion of which is anticipated during the second half of 1999.

The Building Products Group intends during 1999 to cease operations at its plywood plant and add a state-of-the-art sawmill at that site. This will permit the Company to optimize the use of available sawtimber and produce a higher value product.

FINANCIAL SERVICES GROUP. The Financial Services Group operates a savings bank and engages in mortgage banking, real estate development, and insurance activities.

(i) Savings Bank. Guaranty is a federally-chartered stock savings bank that conducts its business in Texas through 110 banking centers located primarily in the eastern third of Texas, including Houston, Dallas, San Antonio, and Austin. Following its acquisition of California Financial Holding Company, the parent company of Stockton Savings Bank, F.S.B., in the second quarter of 1997, Guaranty operates an additional 25 branches in the Central Valley of California. The primary activities of Guaranty include attracting savings deposits from the general public, investing in loans secured by mortgages on residential real estate, lending for the construction of real estate projects, and providing a variety of loan products to consumers and businesses.

Guaranty derives its income primarily from interest earned on real estate mortgages, commercial and business loans, consumer loans, and investment securities, as well as fees received in connection with loans and deposit services. Its major expense is the interest it pays on consumer deposits and other borrowings. The operations of Guaranty, like those of other savings institutions, are significantly influenced by general economic conditions, by the monetary, fiscal, and regulatory policies of the federal government, and by the policies of financial institution regulatory authorities. Deposit flows and costs of funds are influenced by interest rates on competing investments and general market rates of interest. Lending activities are affected by the demand for mortgage financing and for other types of loans as well as market conditions. Guaranty primarily seeks assets with interest rates that adjust periodically rather than assets with long-term fixed rates.

During the fourth quarter of 1998, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with HF Bancorp, Inc. ("HFB"), the parent corporation of Hemet Federal Savings and Loan Association ("Hemet") headquartered in Hemet, California, by which HFB will be merged into the Company or one of its subsidiaries. The transaction, which is subject to approval by the HFB stockholders and by regulatory authorities, is expected to close during the second quarter of 1999. Terms of the Merger Agreement provide for HFB stockholders to receive a combination of common stock of the Company and cash valued at $18.50 per share, for a total consideration of approximately $118 million. Subject to certain limitations, each HFB stockholder will be given the election to have the consideration for their shares paid in Company common stock, cash or a combination of the two. The Company, however, will issue no more than 1,216,470 shares of common stock in the transaction. If the HFB stockholders electing to receive shares of the Company's common stock do not represent a sufficient portion of the total consideration in order for the transaction to receive favorable tax treatment for the HFB stockholders, the entire merger consideration will

be paid in cash. When the transaction is completed, the operations of Hemet, which has approximately $1.0 billion in assets and operates 18 branches in Southern California, principally in Riverside County, Palm Springs, and San

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Diego County, will be merged into Guaranty. In connection with execution of the Merger Agreement, HFB granted the Company an option, exercisable under certain circumstances, to purchase approximately 1,273,000 shares of HFB common stock, representing approximately 19.9 percent of the shares presently outstanding, at a price of approximately $16.00 per share.

The House and Senate are discussing legislative proposals, including changes to tax laws, related to the thrift industry. At this time, the Company is not able to predict if any of these proposals will be adopted or, if adopted, the ultimate impact they might have on the Company.

In addition to other minimum capital standards, regulations of the Office of Thrift Supervision of the Department of the Treasury (the "OTS") established to ensure capital adequacy of savings institutions currently require savings institutions to maintain minimum amounts and ratios of total and Tier I capital to risk-weighted assets and of Tier I capital to adjusted tangible assets. Management believes that as of year end, Guaranty met all of its capital adequacy requirements. In order to obtain the lowest level of FDIC insurance premiums, Guaranty must meet a leverage capital ratio of at least 5 percent of adjusted total assets. At year end, Guaranty had a leverage capital ratio of 6.31 percent of adjusted total assets. Because of loan growth experienced by Guaranty in 1998, changes in asset mix in Guaranty's balance sheet, and prospective changes in Guaranty's risk-based capital calculation, Guaranty expects an increase in its capital requirements. As a result, the Company expects to increase capital in Guaranty by up to $160 million in the first quarter of 1999 in order for Guaranty to maintain its classification of "well capitalized" under OTS regulations. For additional information regarding regulatory capital requirements, see Note L to Financial Services Group Summarized Financial Statements on page 53 of the Company's 1998 Annual Report to Shareholders, which is incorporated herein by reference.

Guaranty must meet or exceed certain regulatory requirements to continue its current activities and to take certain deductions under the Internal Revenue Code. At year end, Guaranty met or exceeded these regulatory requirements and intends to continue meeting or exceeding these regulatory requirements.

(ii) Mortgage Banking. Temple-Inland Mortgage, a wholly-owned subsidiary of Guaranty, headquartered in Austin, Texas, originates, warehouses, and services FHA, VA, and conventional mortgage loans primarily on single family residential property through 78 offices located throughout the United States. Temple-Inland Mortgage originates mortgage loans for sale into the secondary market. It typically retains the servicing rights on these loans, but periodically sells some portion of its servicing to third parties. At the end of 1998, Temple-Inland Mortgage was servicing $22.9 billion in mortgage loans, including loans serviced for affiliates and approximately $1.0 billion in mortgages subject to a call option. Temple-Inland Mortgage produced $6.0 billion in mortgage loans during 1998 compared with $3.2 billion during 1997.

(iii) Real Estate Development and Income Properties. Subsidiaries of Financial Services are involved in the development of 38 residential subdivisions in Texas, Arizona, California, Colorado, Florida, Georgia, Missouri, Tennessee, and Utah. The real estate group also owns 18 commercial properties, including properties owned by subsidiaries through joint venture interests.

(iv) Insurance. Subsidiaries of Financial Services are engaged in the brokerage of property, casualty, life, and group health insurance products. One of these subsidiaries is an insurance agency that administers the marketing and distribution of several mortgage-related personal life, accident, and health insurance programs. This agency also acts as the risk management department of the Company. An affiliate of the insurance agency sells annuities through banks and savings banks, including Guaranty.

(v) Statistical Disclosures. The following tables present various statistical and financial information for the Financial Services Group.

The following schedule presents the average balances, interest income/expense, and rates earned or paid by major balance sheet category for the years 1996 through 1998:

AVERAGE BALANCE SHEETS AND ANALYSIS OF NET INTEREST SPREAD

<TABLE>
<CAPTION>

	YEAR END 1998			YEAR END 1997			YEAR END 1996		
	AVERAGE BALANCE	INTEREST	YIELD/ RATE	AVERAGE BALANCE	INTEREST	YIELD/ RATE	AVERAGE BALANCE	INTEREST	YIELD/ RATE

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(DOLLARS IN MILLIONS)

<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
ASSETS									
Interest-earning assets:									
Interest-earning deposits in other banks	$ 25.8	$ 1.4	5.27%	$ 71.0	$ 4.1	5.71%	$ 32.1	$ 2.1	6.42%
Mortgage-backed and investment securities	2,606.1	150.0	5.76%	2,802.2	161.3	5.75%	3,208.5	183.5	5.72%
Securities purchased under agreements to resell, agency discount notes, federal funds sold, and commercial paper	61.4	3.4	5.47%	332.9	18.3	5.51%	339.4	18.4	5.41%
Loans receivable and mortgage loans held for sale(1)	7,610.2	582.8	7.66%	6,618.4	524.9	7.93%	5,258.4	426.1	8.10%
Other	13.0	.6	4.80%	6.9	.4	6.22%	26.0	.7	2.91%
Total interest-earning assets	10,316.5	$738.2	7.16%	9,831.4	$709.0	7.21%	8,864.4	$630.8	7.12%
Cash	100.4			100.1			90.6		
Other FSLIC receivables	--			--			.8		
Other assets	924.2			785.6			586.0		
Total assets	$11,341.1			$10,717.1			$9,541.8		
LIABILITIES AND SHAREHOLDER'S EQUITY									
Interest-bearing liabilities:									
Deposits:									
Interest-bearing demand	$ 1,176.8	$ 27.2	2.31%	$ 1,099.6	$ 26.4	2.40%	$1,087.2	$ 26.1	2.41%
Savings deposits	214.8	4.8	2.25%	212.4	4.7	2.22%	184.6	4.2	2.28%
Time deposits	5,866.5	325.3	5.55%	5,416.4	300.1	5.54%	5,013.6	278.0	5.54%
Total interest-bearing deposits	7,258.1	357.3	4.92%	6,728.4	331.2	4.92%	6,285.4	308.3	4.91%
Advances from the Federal Home Loan Bank	1,892.3	106.6	5.63%	1,276.6	79.0	6.19%	629.1	34.0	5.41%
Securities sold under repurchase agreements	349.2	19.6	5.62%	1,297.2	67.9	5.24%	1,484.3	83.5	5.62%
Other borrowings	202.8	11.2	5.53%	147.7	10.1	6.82%	131.9	9.5	7.24%
Total interest-bearing liabilities	9,702.4	$494.7	5.10%	9,449.9	$488.2	5.17%	8,530.7	$435.3	5.10%
Noninterest-bearing demand	63.1			61.1			46.4		
Other liabilities	726.3			475.6			361.8		
Preferred stock issued by subsidiary	196.5			90.4			--		
Shareholder's equity	652.8			640.1			602.9		
Total liabilities and shareholder's equity	$11,341.1			$10,717.1			$9,541.8		
Net interest income		$243.5			$220.8			$195.5	
Net yield on interest-earning assets			2.36%			2.25%			2.20%

</TABLE>

----

(1) Nonaccruing loans are included in the average of loans receivable.

The following table provides an analysis of the changes in net interest income attributable to changes in volume of interest-earning assets or interest-bearing liabilities and to changes in rates earned or paid:

VOLUME/RATE VARIANCE ANALYSIS

<TABLE>
<CAPTION>

	1998 COMPARED WITH 1997			1997 COMPARED WITH 1996		
	INCREASE (DECREASE) DUE TO(1)			INCREASE (DECREASE) DUE TO(1)		
	VOLUME	RATE	TOTAL	VOLUME	RATE	TOTAL
	(IN MILLIONS)					

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<S> <C> <C> <C> <C> <C> <C>

Interest income:						
Interest-earning deposits in other banks	$ (2.4)	$ (.3)	$ (2.7)	$ 2.2	$(0.2)	$ 2.0
Mortgage-backed and investment securities	(11.3)	--	(11.3)	(23.3)	1.1	(22.2)
Securities purchased under agreements to resell, agency discount notes, federal funds sold, and commercial paper	(14.8)	(.1)	(14.9)	(0.4)	0.3	(0.1)
Loans receivable and mortgage loans held for sale	76.4	(18.5)	57.9	108.0	(9.2)	98.8
Other	.3	(.1)	.2	(0.8)	0.5	(0.3)
Total interest income	$ 48.2	$(19.0)	$ 29.2	$ 85.7	$(7.5)	$ 78.2
Interest expense:						
Deposits:						
Interest-bearing demand	$ 1.8	$ (1.0)	$ .8	$ 0.3	$ --	$ 0.3
Savings deposits	.1	--	.1	0.6	(0.1)	0.5
Time deposits	24.9	.3	25.2	22.3	(0.2)	22.1
Total interest on deposits	26.8	(.7)	26.1	23.2	(0.3)	22.9
Advances from the Federal Home Loan Bank	35.2	(7.6)	27.6	39.4	5.5	44.9
Securities sold under repurchase agreements	(53.0)	4.7	(48.3)	(10.0)	(5.5)	(15.5)
Other borrowings	3.3	(2.2)	1.1	1.1	(0.5)	0.6
Total interest expense	$ 12.3	$ (5.8)	$ 6.5	$ 53.7	$(0.8)	$ 52.9
Net interest income (expense)	$ 35.9	$(13.2)	$ 22.7	$ 32.0	$(6.7)	$ 25.3

</TABLE>

----

(1) The change in interest income and expense due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

The following table sets forth the carrying amount of mortgage-backed and investment securities as of the dates indicated:

TYPES OF INVESTMENTS

<TABLE>
<CAPTION>

	AT YEAR END		
	1998	1997	1996
	(IN MILLIONS)		
Held-to-Maturity:			
Mortgage-backed securities	$1,413.3	$1,768.3	$2,083.7
Available-for-Sale:			
Mortgage-backed securities	891.7	948.1	643.9
Debt securities			
Corporate bonds	2.7	3.0	3.0
Equity securities			
Federal Home Loan Bank Stock	176.7	85.7	52.6
Other	.2	.5	.3
	176.9	86.2	52.9
	$2,484.6	$2,805.6	$2,783.5

</TABLE>

The table below sets forth the maturities of mortgage-backed and investment securities as of year end 1998:

MATURITY DISTRIBUTION OF MORTGAGE-BACKED AND INVESTMENT SECURITIES

<TABLE>
<CAPTION>

MATURING -- VARIABLE/NO

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	WITHIN 1 YEAR		1-5 YEARS		5-10 YEARS		OVER 10 YEARS		MATURITY		TOTAL CARRYING
	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	VALUE
					(DOLLARS IN MILLIONS)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Held-to-Maturity:											
Mortgage-backed securities.......	$--	--	$--	--	$--	--	$ --	--	$1,413.3	5.16%	$1,413.3
Available-for-Sale:											
Mortgage-backed securities.......	--	--	--	--	--	--	--	--	891.7	6.49%	891.7
Debt securities											
Corporate bonds..........	--	--	--	--	.5	6.58%	2.2	6.56%	--	--	2.7
Equity securities											
Federal Home Loan Bank stock.....	--	--	--	--	--	--	--	--	176.7	6.00%	176.7
Other............	--	--	--	--	--	--	--	--	.2	--	.2
	--		--	--	--	--	--	--	176.9		176.9
	$--		$--		$.5		$2.2		$2,481.9		$2,484.6

</TABLE>

The following table shows the loan distribution for Financial Services:

TYPES OF LOANS

<TABLE>
<CAPTION>

	AS OF DECEMBER 31,				
	1998	1997	1996	1995	1994
			(IN MILLIONS)		
<S>	<C>	<C>	<C>	<C>	<C>
Real estate mortgage......................	$ 4,632.9	$4,525.0	$4,206.3	$3,732.6	$3,147.1
Construction and development (including residential)............................	4,702.6	2,975.1	2,152.4	1,500.6	1,022.6
Commercial and business...................	1,887.1	1,142.1	651.0	393.7	219.4
Consumer and other........................	877.3	590.2	467.2	416.0	366.0
	12,099.9	9,232.4	7,476.9	6,042.9	4,755.1
Less:					
Unfunded portion of loans...............	3,927.7	2,709.7	2,002.8	1,211.8	1,027.7
Unearned discounts......................	--	--	--	--	.6
Unamortized purchase discounts..........	(19.2)	(21.3)	(11.8)	(1.8)	(5.1)
Net deferred fees.......................	3.9	2.0	3.6	3.0	3.2
Allowance for loan losses...............	86.6	91.1	68.4	65.5	53.9
	3,999.0	2,781.5	2,063.0	1,278.5	1,080.3
	$ 8,100.9	$6,450.9	$5,413.9	$4,764.4	$3,674.8

</TABLE>

Additionally, in the commercial and business category, $825 million was to the mortgage finance industry.

The table below presents the maturity distribution of loans (excluding real estate mortgage and consumer loans) outstanding at year end 1998, based on scheduled repayments. The amounts due after one year, classified according to the sensitivity to changes in interest rates, are also provided.

MATURITIES AND SENSITIVITIES OF LOANS TO CHANGES IN INTEREST RATES

<TABLE>
<CAPTION>

	MATURING			
	WITHIN 1 YEAR	1 TO 5 YEARS	AFTER 5 YEARS	TOTAL
		(IN MILLIONS)		
<S>	<C>	<C>	<C>	<C>
Construction and development (including residential).......................................	$2,631.2	$2,071.2	$ .2	$4,702.6

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Commercial and business	966.7	901.1	19.3	1,887.1
	$3,597.9	$2,972.3	$19.5	$6,589.7
Loans maturing after 1 year with:				
Fixed interest rates	$ --	$ 7.5	$10.7	$ 18.2
Variable interest rates	--	2,964.8	8.8	2,973.6
	$ --	$2,972.3	$19.5	$2,991.8

</TABLE>

Loans accounted for on a nonaccrual basis, accruing loans that are contractually past due 90 days or more, and restructured or other potential problem loans were 0.7 percent of total loans for 1998, 1.1 percent of total loans for 1997, and less than two percent of total loans during 1996, 1995, and 1994. The aggregate amounts and the interest income foregone on such loans, therefore, are immaterial and are not disclosed.

The following tables summarize activity in the allowance for loan losses and show the allocation of the allowance for loan losses by loan type:

ANALYSIS OF THE ALLOWANCE FOR LOAN LOSSES

<TABLE>
<CAPTION>

	AT YEAR END				
	1998	1997	1996	1995	1994
	(DOLLARS IN MILLIONS)				
<S>	<C>	<C>	<C>	<C>	<C>
Balance at beginning of year	$91.1	$68.4	$ 65.5	$53.9	$ 47.9
Charge-offs:					
Real estate mortgages	(6.5)	(4.8)	(5.8)	(3.9)	(4.4)(b)
Construction and development	(.2)	(.1)	(.1)	--	--
Commercial	--	(.9)	(2.9)	(.7)	(1.1)
Consumer and other	(1.5)	(2.0)	(4.4)	(5.0)	(4.7)(b)
	(8.2)	(7.8)	(13.2)	(9.6)	(10.2)
Recoveries:					
Real estate mortgages	2.5	.9	2.1	1.1	.6
Construction and development	.1	--	--	--	--
Commercial	--	--	--	.5	.1
Consumer and other	.4	.9	.9	.8	1.4
	3.0	1.8	3.0	2.4	2.1
Net charge-offs	(5.2)	(6.0)	(10.2)	(7.2)	(8.1)(b)
Additions charged to operations	.6	(1.7)	13.8	14.6	6.5
Additions related to bulk purchases of loans, net of adjustments	.1	30.4(a)	(.7)	4.2	7.6
Balance at end of year	$86.6	$91.1	$ 68.4	$65.5	$ 53.9
Ratio of net charge-offs during the year to average loans outstanding during the year	.07%	.10%	.20%	.16%	.27%

</TABLE>

(a) Principally related to the loan portfolio from the acquisition of Stockton Savings Bank, F.S.B.

(b) Principally related to the loan portfolio from the acquisition of American Federal Bank, F.S.B.

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES
(DOLLARS IN MILLIONS)

<TABLE>
<CAPTION>

	AT YEAR END							
	1998		1997		1996		1995	
	AMOUNT OF ALLOWANCE	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT OF ALLOWANCE	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT OF ALLOWANCE	PERCENT OF LOANS TO TOTAL LOANS	AMOUNT OF ALLOWANCE	PERCENT OF LOANS TO TOTAL LOANS

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<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Real estate mortgage............	49.4	38%	$54.1	49%	$48.0	56%	$52.5	61%
Construction and development.........	3.6	39%	6.5	32%	1.9	29%	1.7	25%
Commercial and business............	13.6	16%	4.1	13%	1.6	9%	.8	7%
Consumer and other...	3.4	7%	3.2	6%	3.8	6%	4.5	7%
Unallocated..........	16.6	--	23.2	--	13.1	--	6.0	--
	$86.6	100%	$91.1	100%	$68.4	100%	$65.5	100%

<CAPTION>

	AT YEAR END	
	1994	
<S>	AMOUNT OF ALLOWANCE <C>	PERCENT OF LOANS TO TOTAL LOANS <C>
Real estate mortgage............	$36.2	66%
Construction and development.........	1.2	21%
Commercial and business............	8.6	5%
Consumer and other...	4.7	8%
Unallocated..........	3.2	--
	$53.9	100%

</TABLE>

The amount charged to operations and the related balance in the allowance for loan losses are based on periodic evaluations of the loan portfolio by management. These evaluations consider several factors, including without limitation, past loan loss experience, known and inherent risks in the portfolio, adverse situations that

may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions.

Loans receivable are assigned a risk rating to distinguish levels of credit risk and identify higher or unacceptable credit risks and deteriorating loan quality. These risk ratings are categorized as pass or criticized grade with the resultant allowance for loan losses based on this distinction. Certain loan portfolios are considered to be performance based and are graded by analyzing performance through assessment of delinquency status. The allowance for loan losses is comprised of an allowance based on criticized graded loans, a general allowance based on pass graded loans, and an unallocated allowance based on analysis of other environmental factors. The allowance for loan losses is increased by charges to income and by the portion of the purchase price related to credit risk on bulk purchases of loans and decreased by charge-offs, net of recoveries.

Allowances established on the outstanding principal balance of criticized graded loans range from 5 percent to 35 percent on Substandard classified loans, 36 percent to 70 percent on Doubtful classified loans, and 100 percent on Loss classified loans, respectively. The Financial Services Group uses general allowances for pools of loans with relatively similar risks based on management's assessment of homogenous attributes, such as product types, markets, aging, and collateral. The Financial Services Group uses information on historic trends in delinquencies, charge-offs, and recoveries to identify unfavorable trends. The analysis considers adverse trends in the migration of classifications to be an early warning of potential problems that would indicate a need to increase loss provisions over historic levels. The Financial Services Group also establishes a level of unallocated allowance to support the portfolio as a whole based on adverse conditions considered probable of resulting in losses in the loan portfolios, including certain segments or as a whole. In this category, management considers the level, severity, and trend of classified assets; level and trend of delinquent and non-accrual loans; recent loss experience trends; concentrations of credit; size of individual credit exposure; current economic conditions; and trends in portfolio volume, maturity, and composition.

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Allowances for loan losses are allocated to loan categories based on loan pools having relatively similar risks. The unallocated allowance for loan losses addresses the portfolio as a whole and is based on identifiable and probable adverse events, the occurrence of which would result in losses to the Company. The amount of unallocated allowance is determined by management on a monthly basis and is less than 20 percent of the total allowance for loan losses at December 31, 1998.

Deposits. The average amount of deposits and the average rates paid on noninterest-bearing demand deposits, interest-bearing demand deposits, savings deposits, and time deposits are presented on the schedule of average balance sheets and analysis of net interest spread of the Financial Services Group on page 9 hereof.

The amount of time deposits of $100,000 or more and related maturities at year end 1998, are disclosed in Note E to Financial Services Group Summarized Financial Statements on page 50 of the Company's 1998 Annual Report to Shareholders.

Return on Equity and Assets. The following table shows operating and capital ratios of the Financial Services Group for each of the last three years:

OPERATING AND CAPITAL RATIOS

	YEAR END		
	1998	1997	1996
Return on average assets	1.12%	1.04%	.41%*
Return on average equity	19.48%	17.41%	6.43%*
Dividend payout ratio	47.17%	246.72%	128.96%*
Equity to assets ratio	5.76%	5.97%	6.32%

----

* Includes SAIF assessment of $43.9 million. If the SAIF assessment is excluded from 1996, the operating and capital ratios for 1996 would have been .74%, 11.63%, and 70.48% for return on average assets, return on average equity, and dividend payout ratio, respectively.

Short-term borrowings. The following table shows short-term borrowings outstanding for the Financial Services Group at the end of the reported period:

SHORT TERM BORROWINGS
(IN MILLIONS)

	BALANCE AT END OF PERIOD	WEIGHTED AVERAGE INTEREST RATE AT END OF PERIOD	MAXIMUM AMOUNT OUTSTANDING DURING THE PERIOD	AVERAGE AMOUNT OUTSTANDING DURING THE PERIOD	WEIGHTED AVERAGE INTEREST RATE DURING THE PERIOD
1998					
Securities sold under agreements to repurchase	--	--	$1,254.9	$ 349.2	5.6%
Short-term FHLB advances	$2,252.0	4.9%	$2,290.0	$1,382.0	5.4%
1997					
Securities sold under agreements to repurchase	$ 270.0	5.9%	$1,696.6	$1,297.2	5.2%
Short-term FHLB advances	$1,128.5	5.9%	$1,128.5	$ 871.1	6.1%
1996					
Securities sold under agreements to repurchase	$ 959.3	5.5%	$1,992.4	$1,484.3	5.6%
Short-term FHLB advances	$ 977.6	5.5%	$1,022.6	$ 559.9	5.0%

Note: Certain short-term FHLB advances and securities sold under agreements to repurchase generally mature within thirty days of the transaction date. Average borrowings during the year were calculated based on daily average.

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RAW MATERIALS

The Company's main resource is timber, with approximately 2.2 million acres of timberland located in Texas, Louisiana, Alabama, and Georgia. In 1998, wood fiber required for the Company's paper and wood products operations was produced from these lands and as a by-product of its solid wood operations to the extent shown on the following chart:

WOOD FIBER REQUIREMENTS

RAW MATERIALS	PERCENTAGE SUPPLIED INTERNALLY
Sawtimber	61%
Pine Pulpwood	68%
Hardwood Pulpwood	18%

The balance of the wood fiber required for these operations was purchased from numerous landowners and other lumber companies. The Company also operates a eucalyptus plantation in Mexico from which it expects to begin harvesting fiber in approximately four years.

Linerboard and corrugating medium are the principal materials used by Inland to make corrugated boxes. The mills at Rome, Georgia, and Orange, Texas, are solely linerboard mills. The Ontario, California, and Maysville, Kentucky, mills are traditionally linerboard mills, but can be used to manufacture corrugating medium. The Newport, Indiana, and New Johnsonville, Tennessee, mills are solely corrugating medium mills. The principal raw material used by the Rome, Georgia, and Orange, Texas, mills is virgin fiber. The Ontario, California; Newport, Indiana; and Maysville, Kentucky, mills use only old corrugated containers ("OCC"). The mill at New Johnsonville, Tennessee, uses a combination of virgin fiber and OCC. In 1998, OCC represented approximately 46 percent of the total fiber needs of the Company's containerboard operations. The price of OCC may exhibit volatility due to normal supply and demand fluctuations for the raw material

and for the finished product. OCC is purchased by the Company and its competitors on the open market from numerous suppliers. Price fluctuations reflect the competitiveness of these markets. The Company's historical grade patterns produce more linerboard and less corrugating medium than is converted at the Company's box plants. The deficit of corrugating medium is obtained through open market purchases and/or trades and the excess linerboard is sold in the open market.

Temple-Inland FPC obtains the gypsum for its wallboard operations in Fletcher, Oklahoma, from its own quarry located nearby, and from one outside source through a long-term purchase contract. At its gypsum wallboard plant in West Memphis, Arkansas, the Company uses synthetic gypsum as a raw material. Synthetic gypsum is a by-product of coal-burning electrical power plants. The joint venture gypsum wallboard plant being built in Cumberland City, Tennessee, will also use only synthetic gypsum in its operations. The Company has entered into a long-term supply agreement for synthetic gypsum produced at a TVA electrical plant located adjacent to the joint venture plant. Synthetic gypsum acquired pursuant to this agreement will supply all the synthetic gypsum required by the joint venture plant and the West Memphis plant.

In the opinion of management, the sources outlined above will be sufficient to supply the Company's raw material needs for the foreseeable future.

ENERGY

Electricity and steam requirements at the Company's manufacturing facilities are either supplied by a local utility or generated internally through the use of a variety of fuels, including natural gas, fuel oil, coal, wood bark, and in some instances, waste products resulting from the manufacturing process. By utilizing these waste products and other wood by-products as a biomass fuel to generate electricity and steam, the Company was able to generate approximately 60 percent of its energy requirements at its mills in Rome, Georgia, Evadale, Texas, and Orange, Texas, during 1998. In most cases where natural gas or fuel oil is used as a fuel, the Company's facilities possess a dual capacity enabling the use of either fuel as a source of energy.

The natural gas needed to run the Company's natural gas fueled power boilers, package boilers, and turbine is acquired pursuant to a multiple vendor

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solicitation process that provides for the purchase of gas on an interruptible basis at favorable rates.

EMPLOYEES

At January 2, 1999, the Company and its subsidiaries had approximately 15,700 employees. Approximately 4,900 of these employees are covered by collective bargaining agreements. These agreements generally run for a term of three to six years and have varying expiration dates. The following table summarizes certain information about the collective bargaining agreements that cover a significant number of employees:

LOCATION	BARGAINING UNIT(S)	EMPLOYEES COVERED	EXPIRATION DATES
Bleached Paperboard Mill, Evadale, Texas	United Paperworkers International Union ("UPIU"), Local 801, UPIU, Local 825, and International Brotherhood of Electrical Workers ("IBEW"), Local 390	485 Hourly Production Employees, 188 Hourly Mechanical Maintenance Employees, and 67 Electrical Maintenance Employees	August 1, 2004
Linerboard Mill, Orange, Texas	UPIU, Local 1398, and UPIU, Local 391	231 Hourly Production Employees and 107 Hourly Maintenance Employees	July 31, 1999
Linerboard Mill, Rome, Georgia	UPIU, Local 804, IBEW, Local 613, United Association of Journeymen & Apprentices of the Plumbing & Pipefitting Industry of the U.S. and Canada, Local 766, and International Association of Machinists & Aerospace Workers, Local 414	313 Hourly Production Employees, 38 Electrical Maintenance Employees, and 164 Hourly Maintenance Employees	August 28, 2000
Evansville, Indiana, Louisville, Kentucky, and Middletown, Ohio, Box Plants ("Northern Multiple")	UPIU, Local 1046, UPIU, Local 1737,and UPIU, Local 114, respectively	106, 103, and 96 Hourly Production Employees, respectively	August 30, 2002
Rome, Georgia, and Orlando, Florida, Box Plants ("Southern Multiple")	UPIU Local 838 and UPIU Local 834, respectively	153 and 107 Hourly Production Employees, respectively	December 1, 2003

The Company has additional collective bargaining agreements with the employees of various of its other box plants, mills, and building products plants. These agreements each cover a relatively small number of employees and are negotiated on an individual basis at each such facility.

The Company considers its relations with its employees to be good.

ENVIRONMENTAL PROTECTION

The operations conducted by the subsidiaries of the Company are subject to federal, state, and local provisions regulating the discharge of materials into the environment and otherwise related to the protection of the environment. Compliance with these provisions, primarily the Federal Clean Air Act, Clean Water Act, Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986 ("CERCLA"), and Resource Conservation and Recovery Act ("RCRA"), has required the Company to invest substantial funds to modify facilities to assure

compliance with applicable environmental regulations. Capital expenditures directly related to environmental compliance totaled approximately $13 million during 1998. This amount does not include capital expenditures for environmental control facilities made as part of major mill modernizations and expansions or capital expenditures made for another purpose that have an indirect benefit on environmental compliance.

The Company is committed to protecting the health and welfare of its employees, the public, and the environment and strives to maintain compliance

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with all state and federal environmental regulations in a manner that is also cost effective. In the construction of new facilities and the modernization of existing facilities, the Company has used state of the art technology for its air and water emissions. These forward-looking programs are intended to minimize the impact that changing regulations have on capital expenditures for environmental compliance.

Future expenditures for environmental control facilities will depend on new laws and regulations and other changes in legal requirements and agency interpretations thereof, as well as technological advances. The Company expects the trend toward more stringent environmental regulation to continue for the foreseeable future. The trend in interpretation and application of existing regulations by regulatory authorities also appears to be toward increasing stringency particularly under RCRA with respect to certain solid wastes generated at kraft mills. Given these uncertainties, the Company currently estimates that capital expenditures for environmental purposes during the period 1999 through 2001 will average approximately $17 million each year. The estimated expenditures could be significantly higher if more stringent laws and regulations are implemented.

On November 14, 1997, the U.S. Environmental Protection Agency (the "EPA") issued extensive regulations governing air and water emissions from the pulp and paper industry (the "Cluster Rule"). According to the EPA, the technology standards in the Cluster Rule will cut the industry's toxic air pollutant emissions by almost 60 percent from current levels and virtually eliminate all dioxin discharged from pulp, paper, and paperboard mills into rivers and other surface waters. The rule also provides incentives for individual mills to adopt technologies that will lead to further reductions in toxic pollutant discharges. The EPA estimates that the industry will need to invest approximately $1.8 billion in capital expenditures and approximately $277 million per year in operating expenditures to comply with the Cluster Rule. All persons subject to the Cluster Rule, including the Company, must be in compliance with the initial requirements by April 15, 2001. The estimated expenditures disclosed above do not include expenditures that may be needed to comply with the Cluster Rule. Based upon its interpretation of the Cluster Rule as issued, the Company currently estimates that compliance with the rule may require modifications at several facilities. Some of these modifications can be included in modernization projects that will provide economic benefits to the Company. The extent of such benefits can increase these investments, but currently these expenditures are not expected to exceed a total of $110 million by the initial compliance date noted above.

RCRA establishes a regulatory program for the treatment, storage, transportation, and disposal of solid and hazardous wastes. Under RCRA, subsidiaries of the Company have prepared hazardous waste closure plans to address land disposal units containing hazardous wastes formerly managed at various facilities. These closure plans are in various states of implementation, with most sites awaiting state certification. The Company believes that the costs associated with these plans will not have a material impact on the earnings or competitive position of the Company.

In addition to these capital expenditures, the Company incurs significant ongoing maintenance costs to maintain compliance with environmental regulation. The Company, however, does not believe that these capital expenditures or maintenance costs will have a material adverse effect on the earnings of the Company. In addition, expenditures for environmental compliance should not have a material impact on the competitive position of the Company, because other companies are also subject to these regulations.

COMPETITION

All of the industries in which the Company operates are highly competitive. The level of competition in a given product or market may be affected by the strength of the dollar and other market factors including geographic location, general economic conditions, and the operating efficiencies of competitors. Factors

influencing the Company's competitive position vary depending on the characteristics of the products involved. The primary factors are product quality and performance, price, service, and product innovation.

The corrugated packaging industry is highly competitive with almost 1,500 box plants in the United States. Box plants operated by Inland and its subsidiaries accounted for approximately 7.9 percent of total industry shipments during 1998. Although corrugated packaging is dominant in the national distribution process, Inland's products also compete with various other packaging materials, including products made of paper, plastics, wood, and metals.

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Bleached paperboard produced by the Paper Group has a variety of ultimate uses and, therefore, serves diversified markets. The Company competes with larger paper producers with greater resources.

In the building materials markets, the Building Products Group competes with many companies that are substantially larger and have greater resources in the manufacturing of building materials.

Financial Services competes with commercial banks, savings and loan associations, mortgage bankers, and other lenders in its mortgage banking and consumer savings bank activities, and with real estate investment and management companies in its development activities. Mortgage banking, real estate development, and consumer savings banks are highly competitive businesses, and a number of entities with which the Company competes have greater resources.

EXECUTIVE OFFICERS

Set forth below are the names, ages, and titles of the persons who serve as executive officers of the Company:

NAME	AGE	OFFICE
Clifford J. Grum	64	Chairman of the Board and Chief Executive Officer
Kenneth M. Jastrow, II	51	President, Chief Operating Officer, and Chief Financial Officer
William B. Howes	61	Executive Vice President
Harold C. Maxwell	58	Group Vice President
Jack C. Sweeny	52	Group Vice President
Joseph E. Turk	55	Group Vice President
David H. Dolben	63	Vice President and Chief Accounting Officer
M. Richard Warner	47	Vice President, General Counsel, and Secretary
David W. Turpin	48	Treasurer

Clifford J. Grum became Chairman of the Board, Chief Executive Officer, and a Director of the Company in February 1991 after serving as President, Chief Executive Officer, and a Director since October 1983. He also serves as a Director of each of Temple-Inland FPC, Inland, Guaranty, and Financial Services. Mr. Grum has announced his intention to retire from the Company and as a Director at the end of 1999.

Kenneth M. Jastrow, II was named President, Chief Operating Officer, and a Director of the Company in February 1998, and continues to serve as the Chief Financial Officer of the Company, a position he has held since November 1991. Before being named President and Chief Operating Officer, Mr. Jastrow was a Group Vice President of the Company since 1995. He also serves as Chairman of the Board and Chief Executive Officer of Financial Services, Chairman of the Board of Guaranty, and a Director of each of Temple-Inland FPC and Inland.

William B. Howes, who was named Executive Vice President and a Director in August 1996, became a Group Vice President of the Company and the Chairman of the Board and Chief Executive Officer of Inland in July 1993 after serving as the President and Chief Operating Officer of Inland since April 1992. From August 1990 until April 1992, Mr. Howes was the Executive Vice President of Inland. Before joining Inland in

1990, Mr. Howes was an employee of Union Camp Corporation for 28 years, serving most recently as Senior Vice President.

Harold C. Maxwell became Group Vice President of the Company in May 1989. In March 1998, Mr. Maxwell was named Chairman of the Board, President, and Chief Executive Officer of Temple-Inland FPC after having served as Group Vice President -- Building Products of Temple-Inland FPC since November 1982.

Jack C. Sweeny became a Group Vice President of the Company in May 1996. He also serves as Group Vice President -- Forest and a Director of Temple-Inland FPC. From November 1982 through May 1996, Mr. Sweeny served as Vice President -- Operations of the Building Products Division of Temple-Inland FPC.

Joseph E. Turk became a Group Vice President of the Company in August 1996. He also serves as Executive Vice President and a Director of Inland. Mr. Turk has been employed by Inland since 1967 and has served in various capacities including Group Vice President -- Container Division and Division Vice President Manufacturing Services.

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David H. Dolben became Vice President of the Company in May 1987. Mr. Dolben also serves as Vice President, Treasurer, and a Director of Temple-Inland FPC and a Director of Inland.

M. Richard Warner became Vice President, General Counsel and Secretary of the Company in June 1994. From 1991 to 1994, Mr. Warner was an attorney in private practice in Lufkin, Texas. Mr. Warner served as Treasurer of the Company from January 1986 to 1990 and as Vice Chairman of Guaranty from 1990 to 1991.

David W. Turpin became Treasurer of the Company in June 1991. Mr. Turpin also serves as the Executive Vice President and Chief Financial Officer of Lumbermen's Investment Corporation, a real estate subsidiary of the Company. Mr. Turpin was first employed by the Company in December 1990 as the Senior Vice President and Treasurer of Lumbermen's Investment Corporation.

Officers are elected at the Company's Annual Meeting of Directors to serve until their successors have been elected and have qualified or as otherwise provided in the Company's Bylaws.

ITEM 2. PROPERTIES

The Company owns and operates plants, mills, and manufacturing facilities throughout the United States, three box plants in Mexico, and box plants in Argentina, Chile, and Puerto Rico. Additional descriptions as of year-end of selected properties are set forth in the following charts:

CONTAINERBOARD MILLS

LOCATION	PRODUCT	NO. OF MACHINES	RATED ANNUAL CAPACITY	1998 PRODUCTION
			(IN TONS)	
Ontario, California	Linerboard	1	325,000	282,000
Rome, Georgia	Linerboard	2	795,000	735,000
Orange, Texas	Linerboard	2	640,000	551,000
Maysville, Kentucky	Linerboard	1	405,000	381,000
Newport, Indiana	Medium	1	285,000	270,000
New Johnsonville, Tennessee	Medium	1	265,000	254,000

BLEACHED PAPERBOARD MILL

LOCATION	PRODUCT MIX		NO. OF MACHINES	RATED ANNUAL CAPACITY	1998 PRODUCTION
				(IN TONS)	
Evadale, Texas	Bleached Pulp	0.20%	4	670,000	1,322
	Food Service	38.42			249,500
	Packaging	32.73			212,574
	Office Supplies	17.81			115,667
	Specialties	9.22			59,847
	Nodular Pulp	1.62			10,507
		100%	4	670,000*	649,417

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* The production capacity may vary to some degree depending on product mix. Due to market conditions for the grade it was designed to produce, the Company decided in 1993 to no longer operate a cylinder machine at the mill.

CORRUGATED CONTAINER PLANTS*

LOCATION	CORRUGATOR SIZE	DATE ACQUIRED OR CONSTRUCTED

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LOCATION	CORRUGATOR SIZE	DATE ACQUIRED OR CONSTRUCTED
Fort Smith, Arkansas	87"	1978
Fort Smith, Arkansas(1)***	None	1996
Bell, California	97"	1974
El Centro, California(1)	87"	1990
Ontario, California	87"	1985
Santa Fe Springs, California	97"	1973
Tracy, California**	87"	1979
Wheat Ridge, Colorado	87"	1970
Orlando, Florida	98"	1955
Rome, Georgia**	87" & 98"	1955
Chicago, Illinois	87"	1958
Crawfordsville, Indiana	98"	1972
Evansville, Indiana	98"	1938
Garden City, Kansas	98"	1981
Kansas City, Kansas	87"	1981
Louisville, Kentucky	92"	1958
Minden, Louisiana	98"	1978
Minneapolis, Minnesota	87"	1959
Hattiesburg, Mississippi	87"	1965
St. Louis, Missouri	87"	1963
Spotswood, New Jersey	87"	1964
Middletown, Ohio	98"	1929
Streetsboro, Ohio	98"	1997
Biglerville, Pennsylvania	98"	1932
Hazleton, Pennsylvania	98"	1976
Vega Alta, Puerto Rico	87"	1977
Lexington, South Carolina	98"	1973
Rock Hill, South Carolina	87"	1972
Elizabethton, Tennessee	98"	1982

LOCATION	CORRUGATOR SIZE	DATE ACQUIRED OR CONSTRUCTED
Elizabethton, Tennessee(1)***	None	1990
Nashville, Tennessee(1)***	None	1998
Dallas, Texas	98"	1962
Edinburg, Texas	87"	1988
Petersburg, Virginia	87"	1991
Petersburg, Virginia(1)***	None	1998
San Jose Iturbide, Mexico	87"	1994
Monterrey, Mexico	87"	1994
Los Mochis, Sinaloa, Mexico	80"	1997
Buenos Aires, Argentina	98"	1994
Santiago, Chile	87"	1995

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* The annual capacity of Inland's box plants is not given because such annual capacity is a function of the product mix, customer requirements and the type of converting equipment installed and operating at each plant, each of which varies from time to time.

** The Tracy, California and Rome, Georgia plants each contain two corrugators.

*** Sheet plants.

(1) Leased facilities.

Additionally, Inland owns a graphics resource center in Indianapolis, Indiana, that has a 100" preprint press and also leases 50 warehouses located throughout much of the United States. Inland owns specialty converting plants in Santa Fe Springs, California; Harrington, Delaware; Indianapolis, Indiana; and Leominster, Massachusetts, and leases specialty converting plants in Buena Park, California, Santa Fe Springs, California; Ontario, California; and Rural Hall, North Carolina. Operations at a tape manufacturing facility in Milwaukee, Wisconsin, were discontinued by the Company during 1998.

BUILDING PRODUCTS

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DESCRIPTION	LOCATION	RATED ANNUAL CAPACITY (IN MILLIONS OF BOARD FEET)
Lumber	Diboll, Texas	150*
Lumber	Pineland, Texas	95
Lumber	Buna, Texas	170
Lumber	Rome, Georgia	115
Lumber	DeQuincy, Louisiana	145

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* Includes separate finger jointing capacity of 10 million board feet.

DESCRIPTION	LOCATION	RATED ANNUAL CAPACITY (IN MILLIONS OF SQUARE FEET)
Fiberboard	Diboll, Texas	460
Particleboard	Monroeville, Alabama	145
Particleboard	Thomson, Georgia	145
Particleboard	Diboll, Texas	140
Particleboard	Hope, Arkansas	180
Plywood	Pineland, Texas	265
Gypsum Wallboard	West Memphis, Arkansas	400
Gypsum Wallboard	Fletcher, Oklahoma	466
Gypsum Wallboard*	McQueeney, Texas	300
Medium Density Fiberboard	Clarion, Pennsylvania	130
Medium Density Fiberboard	Pembroke, Ontario, Canada	130
Medium Density Fiberboard*	El Dorado, Arkansas	150
Fiber-cement*	Waxahachie, Texas	126

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* This facility is owned by a joint venture in which a subsidiary of the Company has a 50 percent interest.

TIMBER AND TIMBERLANDS*
(IN ACRES)

Pine Plantations	1,431,824
Natural Pine	131,030
Hardwood	133,489
Special Use/Non-Forested	465,147
Total	2,161,490

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* Includes approximately 268,729 acres of leased land.

In the opinion of management, the Company's plants, mills, and manufacturing facilities are suitable for their purpose and adequate for the Company's business.

Through its subsidiaries, the Company owns certain of the office buildings in which various of its corporate offices are headquartered. This includes approximately 150,000 square feet of space in Diboll, Texas, approximately 130,000 square feet in Indianapolis, Indiana, and 445,000 square feet of office space in Austin, Texas.

The Company also owns 381,000 mineral acres in Texas and Louisiana. Revenue from lease and production activities on these acres totaled $3.6 million in 1998. Additionally, the Company owns 395,830 mineral acres in Alabama and Georgia, which produced no lease or production revenue in 1998.

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At year end 1998 property and equipment having a net book value of approximately $60 million were subject to liens in connection with $87 million of debt.

ITEM 3. LEGAL PROCEEDINGS

GENERAL:

The Company and its subsidiaries are involved in various legal proceedings that have arisen from time to time in the ordinary course of business. In the opinion of the Company's management, such proceedings will not be material to the business or financial condition of the Company and its subsidiaries.

ENVIRONMENTAL:

The facilities of the Company are periodically inspected by environmental authorities and must file periodic reports on the discharge of pollutants with these authorities. Occasionally, one or more of these facilities have operated in violation of applicable pollution control standards, which could subject the facilities to fines or penalties in the future. Management believes that any fines or penalties that may be imposed as a result of these violations will not have a material adverse effect on the Company's earnings or competitive position. The Company, however, has noticed an increase in the number and dollar amount of fines and penalties imposed by environmental authorities. No assurance can be given, therefore, that any fines levied against the Company in the future for any such violations will not be material.

Subsidiaries of the Company are involved in regulatory enforcement actions concerning the management of solid wastes at various facilities. These proceedings are representative of a trend the Company has observed toward more stringent application of RCRA regulations to solid wastes generated at kraft mills. In July 1993, a subsidiary's facility in Rome, Georgia, experienced a significant upset in its wastewater treatment process. This upset caused the Georgia environmental agency to order a temporary cessation of production. The Company's subsidiary has resolved its potential liability to the State of Georgia by paying a $100,000 monetary penalty and agreeing to perform certain work, but remains exposed to potential claims of the U.S. EPA and private citizens. Management believes, however, that these matters will not result in liability to an extent that would have a material adverse effect on the business or financial condition of the Company.

Under CERCLA, liability for the cleanup of a Superfund site may be imposed on waste generators, site owners and operators, and others regardless of fault or the legality of the original waste disposal activity. While joint and several liability is authorized under CERCLA, as a practical matter, the cost of cleanup is generally allocated among the many waste generators. Subsidiaries of the Company are parties to numerous proceedings relating to the cleanup of hazardous waste sites under CERCLA and similar state laws. The subsidiaries have conducted investigations of the sites and in certain instances believe that there is no basis for liability and have so informed the governmental entities. The internal investigations of the remaining sites reveal that the portion of the remediation costs for these sites to be allocated to the Company should be relatively small and will have no material impact on the Company. There can be no assurance that subsidiaries of the Company will not be named as potentially responsible parties at additional Superfund sites in the future or that the costs associated with the remediation of those sites would not be material.

All litigation has an element of uncertainty and the final outcome of any legal proceeding cannot be predicted with any degree of certainty. With these limitations in mind, the Company presently believes that any ultimate liability from the legal proceedings discussed herein would not have a material adverse effect on the business or financial condition of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company did not submit any matter to a vote of its shareholders during the fourth quarter of its last fiscal year.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

MARKET INFORMATION:

The information concerning market prices of the Company's Common Stock required by this item is incorporated by reference from page 36 of the Company's 1998 Annual Report to Shareholders furnished to the Securities and Exchange Commission pursuant to Rule 14a-3(b).

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SHAREHOLDERS:

The Company's stock transfer records indicated that as of March 10, 1999, there were approximately 6,726 holders of record of the Common Stock.

DIVIDEND POLICY:

On February 5, 1999, the Board of Directors declared a quarterly dividend on the Common Stock of $.32 per share payable on March 15, 1999, to shareholders of record on March 1, 1999. During the first two quarters of 1995, the Company paid a quarterly dividend of $.27 per share. The quarterly dividend was increased to $.30 per share beginning with the dividend payable September 15, 1995, and was increased again to $.32 per share beginning with the dividend payable September 13, 1996. The Board will review its dividend policy periodically, and the declaration of dividends will necessarily depend upon earnings and financial requirements of the Company and other factors within the discretion of its Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this item is incorporated by reference from page 36 of the Company's 1998 Annual Report to Shareholders furnished to the Securities and Exchange Commission pursuant to Rule 14a-3(b).

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this item is incorporated by reference from pages 25 through 36 of the Company's 1998 Annual Report to Shareholders furnished to the Securities and Exchange Commission pursuant to Rule 14a-3(b).

Management's Discussion and Analysis of Financial Condition and Results of Operations that is incorporated by reference into this item contains forward-looking statements that involve risks and uncertainties. The actual results achieved by the Company may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include general economic, market, or business conditions; the opportunities (or lack thereof) that may be presented to and pursued by the Company and its subsidiaries; the availability and price of raw materials used by the Company and its subsidiaries; competitive actions by other companies; changes in laws or regulations; and other factors, many of which are beyond the control of the Company and its subsidiaries.

ITEM 7.A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK INTEREST RATE RISK:

The Company is subject to interest rate risk from the utilization of financial instruments such as adjustable rate debt and other borrowings, as well as the lending and deposit gathering activities of the Financial Services Group. The following table illustrates the estimated impact on pre-tax income of immediate, parallel, and sustained shifts in interest rates for the subsequent 12 month period at year end 1998, with comparative information at year end 1997:

CHANGE IN INTEREST RATES	INCREASE/(DECREASE) IN INCOME BEFORE TAXES 1998	1997
	(IN MILLIONS)	
+2%	$(26)	$ 4
+1%	$ (1)	$ 9
0	$ --	$ --
-1%	$ 10	$(12)
-2%	$ 29	$(14)

The change in exposure to interest rate risk from year end 1997 is due primarily to the Financial Services Group entering into interest rate floor and collar agreements to hedge the prepayment risk inherent in a portion of its adjustable rate mortgage assets and an increase in the Company's adjustable rate debt. At year

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end 1997, the sensitivity of the Financial Services Group's earnings to changes in interest rates was inverse to the impact of interest changes on the Company's adjustable rate debt. By substantially decreasing the earnings volatility of the Financial Services Group to interest rate changes through the use of floor and collar agreements, the Company's sensitivity to interest rate risk at the end of 1998 is primarily driven by changes in rates on the Company's adjustable rate debt.

Additionally, the fair value (estimated at $244 million at year end 1998) of the Financial Services Group's mortgage servicing rights is also affected by changes in interest rates. The fair value of the servicing rights has declined by $26 million (10 percent) since year end 1997, due to the recent decline in interest rates, actual and estimated future prepayments, and the smaller size of the servicing portfolio. The Company estimates that a one percent decline in interest rates from current levels would decrease the fair value of the mortgage servicing rights by an additional $41 million.

FOREIGN CURRENCY RISK:

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

COMMODITY PRICE RISK:

The Company has no financial instruments subject to commodity price risks.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements of the Company and its subsidiaries required to be included in this Item 8 are set forth in Item 14 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has had no changes in or disagreements with its independent auditors to report under this item.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated herein by reference from pages 5 through 9 of the Company's definitive proxy statement, involving the election of directors, to be filed pursuant to Regulation 14A with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K (the "Definitive Proxy Statement"). Information required by this item concerning executive officers is included in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference from pages 11 through 17 of the Company's Definitive Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this item is incorporated by reference from pages 2 through 5 of the Company's Definitive Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference from page 8 of the Company's Definitive Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents Filed as Part of Report.

1. FINANCIAL STATEMENTS:

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ITEM	PAGE NUMBER

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ITEM	PAGE NUMBER
Temple-Inland Inc. and Subsidiaries	
Report of Independent Auditors	69
Consolidated Statements of Income -- for the years 1998, 1997, and 1996	54
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Summarized Statements of Cash Flows -- for the years 1998, 1997, and 1996	39
Notes to the Parent Company (Temple-Inland Inc.) Summarized Financial Statements	40-41
Financial Services Group	
Summarized Statements of Income -- for the years 1998, 1997, and 1996	42
Summarized Balance Sheets at year end 1998 and 1997	43
Summarized Statements of Cash Flows -- for the years 1998, 1997, and 1996	44
Notes to Financial Services Group Summarized Financial Statements	45-53

All financial statements listed in this item are incorporated herein by reference from the Company's 1998 Annual Report to Shareholders for the fiscal year ended January 2, 1999, and filed for purposes of those portions so incorporated as Exhibit 13. Page numbers refer to page numbers in the Company's 1998 Annual Report to Shareholders.

2. FINANCIAL STATEMENT SCHEDULE:

The following Financial Statement Schedule of the Company required by Regulation S-X and excluded from the Annual Report to Shareholders for the year ended January 2, 1999, is filed herewith at the page indicated.

ITEM	PAGE NUMBER
Temple-Inland Inc. and Subsidiaries	
Schedule II -- Valuation and Qualifying Accounts	34

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are inapplicable and, therefore, have been omitted.

3. EXHIBITS:

EXHIBIT NUMBER	EXHIBIT
3.01	-- Certificate of Incorporation of the Company(1), as amended effective May 4, 1987(2), as amended effective May 4, 1990(3)
3.02	-- By-laws of the Company as amended and restated May 3, 1991(18)
4.01	-- Form of Specimen Common Stock Certificate of the Company(4)
4.02	-- Indenture dated as of September 1, 1986, between the Registrant and Chemical Bank, as Trustee(5), as amended by First Supplemental Indenture dated as of April 15, 1988, as amended by Second Supplemental Indenture dated as of December 27, 1990(12), and as amended by Third Supplemental Indenture dated as of May 9, 1991(13)

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4.03	-- Form of Specimen Medium-Term Note of the Company(5)
4.04	-- Form of Fixed-rate Medium Term Note, Series B, of the Company(12)
4.05	-- Form of Floating-rate Medium Term Note, Series B, of the Company(12)
4.06	-- Form of 9% Note due May 1, 2001, of the Company(15)
4.07	-- Form of Fixed-rate Medium Term Note, Series D, of the Company(14)
4.08	-- Form of Floating-rate Medium Term Note, Series D, of the Company(14)
4.09	-- Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, dated February 16, 1989(6)
4.10	-- Rights Agreement, dated February 20, 1999, between the Company and First Chicago Trust Company of New York, as Rights Agent(7)
4.11	-- Form of 7.25% Note due September 15, 2004, of the Company(16)
4.12	-- Form of 8.25% Debenture due September 15, 2022, of the Company(16)
4.13	-- Form of Fixed-rate Medium Term Note, Series F, of the Company(24)
4.14	-- Form of Floating-rate Medium Term Note, Series F, of the Company(24)
10.01*	-- 1988 Stock Option Plan for Key Employees and Directors of Temple-Inland Inc. and its Subsidiaries(8)
10.02*	-- Form of Incentive Option Agreement under the 1988 Stock Option Plan(8)
10.03*	-- Form of Nonqualified Option Agreement under the 1988 Stock Option Plan(8)
10.04*	-- Temple-Inland Inc. Incentive Stock Plan(1), as amended May 6, 1988(9), as amended February 7, 1992(18)
10.05*	-- Form of Incentive Shares Agreement(10)
10.06*	-- 1988 Performance Unit Plan for Key Employees of Temple-Inland Inc. and its Subsidiaries(9), as amended February 4, 1994(20)
10.07*	-- Form of Performance Unit Rights Agreement under the Performance Unit Plan(6)
10.08	-- Assistance Agreement dated September 30, 1988, among the Federal Savings and Loan Insurance Corporation; Guaranty Federal Savings Bank, Dallas, Texas; Guaranty Holdings Inc. I; Guaranty Holdings Inc. II; Temple-Inland Inc.; Mason Best Company; and Trammell Crow Ventures 3, Ltd.(11)
10.09*	-- Temple-Inland Inc. 1993 Stock Option Plan(17)
10.10*	-- Temple-Inland Inc. 1993 Restricted Stock Plan(17)
10.11*	-- Temple-Inland Inc. 1993 Performance Unit Plan(17), as amended February 4, 1994(20)

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EXHIBIT NUMBER	EXHIBIT
10.12	-- Stock Purchase Agreement and Agreement and Plan of Reorganization by and among Guaranty, Guaranty Holdings Inc. I ("GHI"), Lone Star Technologies, Inc. ("LST"), and LSST Financial Services Corporation ("LSST Financial"), dated as of February 16, 1993(19)
10.13	-- First Amendment to Stock Purchase agreement and Agreement and Plan of Reorganization by and among Guaranty, GHI, LST and LSST Financial, dated as of April 2, 1993(19)
10.14	-- Second Amendment to Stock Purchase Agreement and Agreement and Plan of Reorganization by and among Guaranty, GHI, LST and LSST Financial, dated as of August 31, 1993(19)
10.15	-- Third Amendment to Stock Purchase Agreement and Agreement and Plan of Reorganization by and among Guaranty, GHI, LST and LSST Financial, dated as of September 30, 1993(19)
10.16	-- Holdback Escrow Agreement by and among LST, Guaranty, and Bank One, Texas, N.A. dated as of November 12, 1993(19)
10.17	-- Termination Agreement by and among Federal Deposit Insurance Corporation, as Manager of the FSLIC Resolution Fund, Guaranty Federal Bank, F.S.B., Guaranty Holdings Inc. I, and Temple-Inland Inc., dated as of October 31, 1995(21)

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10.18	-- GFB Tax Agreement by and among Federal Deposit Insurance Corporation, as Manager of the FSLIC Resolution Fund, Guaranty Federal Bank, F.S.B., Guaranty Holdings Inc. I, and Temple-Inland Inc., dated as of October 31, 1995(21)
10.19	-- Termination Agreement by and among Federal Deposit Insurance Corporation, as Manager of the FSLIC Resolution Fund, Guaranty Federal Bank, F.S.B., the surviving institution resulting from the merger of American Federal Bank, F.S.B. with and into Guaranty, which subsequently became the successor-in-interest to LSST Financial Services Corporation, Guaranty Holdings Inc. I, and Temple-Inland Inc., dated as of October 31, 1995(21)
10.20	-- AFB Tax Agreement by and among Federal Deposit Insurance Corporation, as Manager of the FSLIC Resolution Fund, Guaranty Federal Bank, F.S.B., the surviving institution resulting from the merger of American Federal Bank, F.S.B. with and into Guaranty, which subsequently became the successor-in-interest to LSST Financial Services Corporation, Guaranty Holdings Inc. I, and Temple-Inland Inc., dated as of October 31, 1995(21)
10.21	-- Agreement and Plan of Merger by and among Temple-Inland Inc., California Financial Holding Company, Guaranty Federal Bank, F.S.B., and Stockton Savings Bank, F.S.B., dated as of December 8, 1996(22)
10.22*	-- Temple-Inland Inc. 1997 Stock Option Plan(23)
10.23*	-- Temple-Inland Inc. 1997 Restricted Stock Plan(23)
10.24	-- Agreement and Plan of Merger by and among Temple-Inland Inc., HF Bancorp, Inc., Guaranty Federal Bank, F.S.B., and Hemet Federal Savings and Loan Association, dated as of November 14, 1998(25)
11	-- Statement re: Computation of Per Share Earnings for the three years ended January 2, 1999(26)
13	-- Annual Report to Shareholders for the year ended January 2, 1999. Such Report is not deemed to be filed with the Commission as part of this Annual Report on Form 10-K, except for the portions thereof expressly incorporated by reference.(26)
21	-- Subsidiaries of the Company(26)

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EXHIBIT NUMBER	EXHIBIT
<C>	<S>
23	-- Consent of Ernst & Young LLP(26)
27.1	-- Financial Data Schedule(26)
27.2	-- Restated 1998 Interim Financial Data Schedules(26)

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* Management contract or compensatory plan or arrangement.

(1) Incorporated by reference to Registration Statement No. 2-87570 on Form S-1 filed by the Company with the Commission.

(2) Incorporated by reference to Post-effective Amendment No. 2 to Registration Statement No. 2-88202 on Form S-1 filed by the Company with the Commission.

(3) Incorporated by reference to Post-Effective Amendment No. 1 to Registration Statement No. 33-25650 on Form S-8 filed by the Company with the Commission.

(4) Incorporated by reference to Registration Statement No. 33-27286 on Form S-8 filed by the Company with the Commission.

(5) Incorporated by reference to Registration Statement No. 33-8362 on Form S-1 filed by the Company with the Commission.

(6) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1988.

(7) Incorporated by reference to the Company's Registration Statement on Form 8A filed with the Commission on February 19, 1999.

(8) Incorporated by reference to Registration Statement No. 33-23132 on Form S-8 filed by the Company with the Commission.

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(9) Incorporated by reference to the Company's Definitive Proxy Statement filed with the Commission on March 18, 1988.

(10) Incorporated by reference to the Company's Form 10-K for the year ended December 31, 1983.

(11) Incorporated by reference to the Company's Form 8-K filed with the Commission on October 14, 1988.

(12) Incorporated by reference to the Company's Form 8-K filed with the Commission on December 27, 1990.

(13) Incorporated by reference to Registration Statement No. 33-40003 on Form S-3 filed by the Company with the Commission.

(14) Incorporated by reference to Registration Statement No. 33-43978 on Form S-3 filed by the Company with the Commission.

(15) Incorporated by reference to the Company's Form 8-K filed with the Commission on May 2, 1991.

(16) Incorporated by reference to Registration Statement No. 33-50880 on Form S-3 filed by the Company with the Commission.

(17) Incorporated by reference to the Company's Definitive Proxy Statement in connection with the Annual Meeting of Shareholders held May 6, 1994, and filed with the Commission on March 21, 1994.

(18) Incorporated by reference to the Company's Form 10-K for the year ended January 2, 1993.

(19) Incorporated by reference to the Company's Form 8-K filed with the Commission on November 24, 1993.

(20) Incorporated by reference to the Company's Form 10-K for the year ended January 1, 1994.

(21) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1995.

(22) Incorporated by reference to Registration Statement on Form S-4 (No. 333-21937) filed by the Company with the Commission.

(23) Incorporated by reference to the Company's Definitive Proxy Statement in connection with the Annual Meeting of Shareholders held May 2, 1997, and filed with the Commission on March 17, 1997.

(24) Incorporated by reference to the Company's Form 8-K filed with the Commission on June 2, 1998.

(25) Incorporated by reference to Registration Statement on Form S-4 (No. 333-71699) filed by the Company with the Commission.

(26) Filed herewith.

(b) Reports on Form 10-k

No reports on Form 8-K were filed during the fourth quarter of 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned thereunto authorized, on March 26, 1999.

TEMPLE-INLAND INC.
(Registrant)

By: /s/ CLIFFORD J. GRUM

Clifford J. Grum,
Chairman of the Board and
Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	CAPACITY	DATE
/s/ CLIFFORD J. GRUM Clifford J. Grum	Director, Chairman of the Board, and Chief Executive Officer	March 26, 1999
/s/ KENNETH M. JASTROW, II Kenneth M. Jastrow, II	Director, President, Chief Operating Officer, and Chief Financial Officer	March 26, 1999
/s/ DAVID H. DOLBEN David H. Dolben	Vice President and Chief Accounting Officer	March 26, 1999
/s/ ROBERT CIZIK Robert Cizik	Director	March 26, 1999
Anthony M. Frank	Director	March 1999
/s/ WILLIAM B. HOWES William B. Howes	Director	March 26, 1999
/s/ BOBBY R. INMAN Bobby R. Inman	Director	March 26, 1999
/s/ HERBERT A. SKLENAR Herbert A. Sklenar	Director	March 26, 1999
/s/ WALTER P. STERN Walter P. Stern	Director	March 26, 1999
/s/ ARTHUR TEMPLE III Arthur Temple III	Director	March 26, 1999
/s/ CHARLOTTE TEMPLE Charlotte Temple	Director	March 26, 1999
/s/ LARRY E. TEMPLE Larry E. Temple	Director	March 26, 1999

REPORT OF INDEPENDENT AUDITORS
ON FINANCIAL STATEMENT SCHEDULE

We have audited the consolidated financial statements of Temple-Inland Inc. as of January 2, 1999, and January 3, 1998, and for each of the three years in the period ended January 2, 1999, and have issued our report thereon dated January 29, 1999, which is incorporated by reference in this Annual Report (Form 10-K) from the 1998 Annual Report to Shareholders of Temple-Inland Inc. Our audits also included the financial statement schedule listed in Item 14(a) of this Form 10-K. This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Houston, Texas
January 29, 1999

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SCHEDULE II

TEMPLE-INLAND INC. AND SUBSIDIARIES
VALUATION AND QUALIFYING ACCOUNTS
(IN MILLIONS)

	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS -- DESCRIBE	DEDUCTIONS -- DESCRIBE	BALANCE AT END OF PERIOD
For the year 1998:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 9.4	$ 5.7		$ 2.2(A)	$ 12.9
Reserve for discounts and allowances	1.5		8.4(B)	9.3(C)	0.6
Allowance for loan losses	91.1	0.6	0.1(D)	5.2(A)	86.6
Allowance for unrealized losses on available-for-sale securities	5.1	0.9	(8.7)(E)		(2.7)
Allowance for unrealized losses on mortgage loans held for sale	0.4	0.0		0.3(A)	0.1
Allowance for mortgage servicing rights	0.0	16.8			16.8
Totals	$107.5	$24.0	($0.2)	$17.0	$114.3
For the year 1997:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 9.4	$ 6.8		$ 6.8(A)	$ 9.4
Reserve for discounts and allowances	1.4		7.8(B)	7.7(C)	1.5
Allowance for loan losses	68.4	(1.7)	30.4(D)	6.0(A)	91.1
Allowance for unrealized losses on available-for-sale securities	12.2	(2.5)	(4.6)(E)		5.1
Allowance for unrealized losses on mortgage loans held for sale	0.0	0.4			0.4
Totals	$ 91.4	$ 3.0	$33.6	$20.5	$107.5
For the year 1996:					
Deducted from asset accounts:					
Allowance for doubtful accounts	$ 8.3	$ 3.1		$ 2.0(A)	$ 9.4
Reserve for discounts and allowances	1.5		7.0(B)	7.1(C)	1.4
Allowance for loan losses	65.5	13.8		10.9(A)	68.4
Allowance for unrealized losses on available-for-sale securities	(1.7)		13.9(E)		12.2
Allowance for unrealized losses on mortgage loans held for sale	0.3			0.3(A)	0.0
Totals	$ 73.9	$16.9	$20.9	$20.3	$ 91.4

(A) Uncollectible accounts written off, net of recoveries.

(B) Reduction of revenues for customer discounts.

(C) Customer discounts taken.

(D) Additions related to acquisitions and bulk purchases of loans, net of adjustments.

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(E) Unrealized gains/losses.

INDEX TO EXHIBITS

EXHIBIT NUMBER	EXHIBIT
11	-- Statement re: Computation of Per Share Earnings for the three years ended January 2, 1999
13	-- Annual Report to Shareholders for the year ended January 2, 1999. Such Report is not deemed to be filed with the Commission as part of this Annual Report on Form 10-K, except for the portions thereof expressly incorporated by reference.
21	-- Subsidiaries of the Company
23	-- Consent of Ernst & Young LLP
27.1	-- Financial Data Schedule
27.2	-- Restated 1998 Interim Financial Data Schedules

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EXHIBIT (11)

TEMPLE-INLAND INC. AND SUBSIDIARIES
STATEMENT RE: COMPUTATION OF PER SHARE EARNINGS

(in millions, except for per share data)

<TABLE>
<CAPTION>

	1998	1997	1996
<S>	<C>	<C>	<C>
Numerator			
Numerator for basic and diluted earnings per share:			
Income before accounting change	$ 67.7	$ 50.8	$ 132.8
Cumulative effect of accounting change, net of tax	(3.2)	--	--
Net income	$ 64.5	$ 50.8	$ 132.8
Denominator			
Denominator for basic earnings per share-weighted average shares outstanding	55.8	56.0	55.5
Dilutive effect of stock options	.1	.2	.1
Denominator for diluted earnings per share-weighted average shares outstanding	55.9	56.2	55.6
Earnings per share:			
Basic:			
Income before accounting change	$ 1.22	$ .91	$ 2.39
Cumulative effect of accounting change, net of tax	(.06)	--	--
Net Income	$ 1.16	$ .91	$ 2.39
Diluted:			
Income before accounting change	$ 1.21	$ .90	$ 2.39
Cumulative effect of accounting			

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change, net of tax	(.06)	--	--
Net Income	$ 1.15	$ .90	$ 2.39

</TABLE>

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EXHIBIT 13.

MANAGEMENT'S DISCUSSION AND ANALYSIS
Of Financial Condition and Results of Operations

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

BUSINESS SEGMENTS

<TABLE>
<CAPTION>

For the year	1998	1997	1996	1995	1994	1993
(in millions)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
REVENUES						
Paper	$ 2,018	$ 2,063	$ 2,082	$ 2,198	$ 1,740	$ 1,572
Building products	613	617	563	533	575	497
Other activities	--	--	--	--	20	58
Manufacturing net sales	2,631	2,680	2,645	2,731	2,335	2,127
Financial services	1,109	945	815	764	632	635
Total revenues	$ 3,740	$ 3,625	$ 3,460	$ 3,495	$ 2,967	$ 2,762
INCOME BEFORE TAXES						
Paper	$ 33	$ (39)	$ 113	$ 357	$ 74	$ 6
Building products	112	131	102	67	139	102
Other activities	--	--	--	--	1	(2)
	145	92	215	424	214	106
Financial services	154	132	63(a)	98	56	68
Segment operating income	299	224	278	522	270	174
Corporate expense	(28)	(25)	(17)	(22)	(14)	(11)
Special charge	(47)	--	--	--	--	--
Parent Company interest - net	(106)	(110)	(110)	(73)	(67)	(69)
Other income	6	6	5	4	4	2
Income before taxes	$ 124	$ 95	$ 156	$ 431	$ 193	$ 96

<CAPTION>

For the year	1992	1991	1990	1989
(in millions)				
<S>	<C>	<C>	<C>	<C>
REVENUES				
Paper	$ 1,610	$ 1,519	$ 1,517	$ 1,506
Building products	409	311	305	320
Other activities	77	68	70	68
Manufacturing net sales	2,096	1,898	1,892	1,894
Financial services	638	609	509(b)	49
Total revenues	$ 2,734	$ 2,507	$ 2,401	$ 1,943
INCOME BEFORE TAXES				
Paper	$ 135	$ 156	$ 250	$ 323
Building products	40	5	9	24
Other activities	(2)	1	(2)	(1)
	173	162	257	346

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Financial services	64	54	52(b)	(2)
Segment operating income	237	216	309	344
Corporate expense	(15)	(16)	(21)	(13)
Special charge	--	--	--	--
Parent Company interest - net	(48)	(38)	(26)	(26)
Other income	3	5	7	7
Income before taxes	$ 177	$ 167	$ 269	$ 312

</TABLE>

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

(b) Includes operating results from the consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.

[PICTURE] [PICTURE]

David H. Dolben
Vice President and
Chief Accounting Officer,
Temple-Inland Inc.

M. Richard Warner
Vice President,
General Counsel and Secretary,
Temple-Inland Inc.

PAPER

The Paper Group is composed of two operations: corrugated packaging and bleached paperboard. The following table provides information on the operating earnings of this group, excluding the impact of the special charges discussed below.

<TABLE>
<CAPTION>

For the year (in millions)	1998	1997	1996
<S>	<C>	<C>	<C>
Corrugated packaging	$ 100.0	$ (11.0)	$ 165.6
Bleached paperboard	(6.4)	15.3	(8.2)
Group administration	(61.1)	(43.3)	(44.4)
Operating earnings	$ 32.5	$ (39.0)	$ 113.0

</TABLE>

CORRUGATED PACKAGING

The corrugated packaging operation manufactures linerboard and corrugating medium at six mills and converts it into corrugated shipping containers at 41 corrugated packaging plants located throughout the United States, Puerto Rico, Mexico and South America. In addition, it operates eight specialty converting plants. Operation of the Newark, California, mill and box plant was discontinued in May 1998, and the assets of the Rexford Paper Division were sold in October 1998. Operation of the Erie, Pennsylvania, box plant was discontinued in the second half of 1997. During 1997, two state-of-the-art corrugated packaging plants began operations - one in Sinaloa, Mexico, the other in Streetsboro, Ohio.

Early in 1998, the corrugated packaging operation undertook a broad-based study of how to reduce its costs and improve margins. The outgrowth of these efforts, formally referred to as Mplus 50, is an intensive program designed to decrease total cost of goods sold, boost revenues and increase organizational efficiency and effectiveness. As part of this program, this operation will measure individual business unit - instead of total system - profitability and streamline administrative support functions, while providing better management of information through improved technology. Layers of management will be reduced and some manufacturing assets will be displaced. This operation will also focus on margin improvement by targeting a more select customer base as part of this program.

A number of actions triggered by this study resulted in a special fourth quarter 1998 charge that included $13 million in severance costs and write-offs of $4.5 million of abandoned packaging assets. These initiatives, combined with a review of the South American earnings prospects in light of the Brazilian economic

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turmoil and competitive pricing environment, indicated the need for a $20 million impairment write-down of the South American operations that was also recorded in the fourth quarter of 1998. The operation is committed to achieving profitable operations in South America. Otherwise, this operation will consider other alternatives, including liquidating these investments.

Before group administrative costs and the nonrecurring items discussed above, the corrugated packaging operation had earnings of $100.0 million in 1998, compared with a loss of $11.0 million in 1997. Revenues for this operation decreased 3 percent in 1998, compared with 1997. Unit sales declined by 9 percent, more than offsetting the positive effect on revenues of improved prices. Revenues for 1997 were down 4 percent compared with 1996, reflecting the effect of a decline in prices and an improvement in volume.

Box prices in 1997 declined an average of 11 percent, following a 19 percent decline in 1996. Prices, however, improved in the latter half of 1997 and early 1998, but started retreating in the third quarter of 1998, ending the year near beginning-of-year levels. For the year, average 1998 box prices were 7 percent higher than 1997 prices.

Tons of boxes sold were down 3 percent in 1998, compared with an increase of 4 percent in 1997. This reduced growth rate was a product of both slower industry growth and the corrugated packaging operation's strategy to improve margins by exiting some low-margin business.

The average cost of old corrugated containers (OCC), the principal raw material used in approximately 46 percent of the group's containerboard production, declined by $16 per ton in 1998 after having increased by $16 per ton in 1997.

As indicated in the table below, mill production totaled 2,499,000 tons in 1998, a 262,000-ton decrease in production from 1997, of which 47,000 tons related to the permanent closure of the Newark, California, corrugating medium mill. Production of containerboard exceeded internal plant usage by 152,000 tons in 1998, 336,000 tons in 1997 and 275,000 tons in 1996. Excess production was sold in the domestic and export markets. The company curtailed production by approximately 236,000 tons in 1998, 36,000 tons in 1997 and 120,000 tons in 1996, to control inventory levels.

<TABLE>
<CAPTION>

For the year	1998	1997	1996
Mill production			
<S>	<C>	<C>	<C>
(in tons)	2,499,000	2,761,000	2,577,000

</TABLE>

Board consumption at the Mexican, Puerto Rican and South American converting facilities increased by 21,000 tons to 195,000 tons in 1998. While volumes increased in Chile, Argentina and Sinaloa, Mexico, competitive pricing pressures contributed to continued operating losses at these plants. The operations of the other two Mexican plants, located in Guanajuato and Monterrey, continued to be profitable in 1998.

The following table shows the quarterly sales of the corrugated packaging operation in tons and dollars. The totals presented include not only boxes sold, but also open market sales of linerboard and related products.

CORRUGATED PACKAGING

<TABLE>
<CAPTION>

For the year	1998	1997	1996
UNIT SALES			
<S>	<C>	<C>	<C>
(in thousands of tons)			
1st Quarter	662	647	575
2nd Quarter	628	719	608
3rd Quarter	616	706	636
4th Quarter	613	697	616
	2,519	2,769	2,435

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NET SALES (in millions)			
1st Quarter	$ 431.8	$ 411.9	$ 469.7
2nd Quarter	419.5	432.6	453.4
3rd Quarter	410.4	421.3	423.3
4th Quarter	379.8	428.2	414.2
	$ 1,641.5	$ 1,694.0	$ 1,760.6

</TABLE>

In 1998, the company sold the operating assets of its Rexford Paper Division at a small profit. Rexford had revenues of $15.2 million in 1998, $20.5 million in 1997, and $21.6 million in 1996. Also in 1998, the Newark, California, mill and box plant were closed. These closures only nominally affected revenues and earnings because the majority of the business was transferred to other operations of the group.

In October 1997, the company sold substantially all of the operating assets of its subsidiary, Temple-Inland Food Service Corporation (Food Service), for approximately book value. Food Service had revenues of $66.3 million and $84.1 million during 1997 and 1996, respectively.

BLEACHED PAPERBOARD

The bleached paperboard operation manufactures bleached paperboard at one mill in Evadale, Texas. Its products are sold to commercial printers and paperboard converters, including those serving packaging, food service and office product markets.

Before group administrative costs, the bleached paperboard operation reported a loss of $6.4 million in 1998, compared with income of $15.3 million in 1997. Average prices for bleached paperboard declined by 4 percent in 1998, compared with 1997, after having been flat the prior year. Paperboard sales volume declined by 2 percent in 1998 versus 1997, after having improved by 21 percent in 1997. Production in both 1998 and 1997 was limited to control inventory levels.

The earnings deterioration in 1998 was a direct result of the 4 percent decline in selling price and, to a lesser extent, the decline in volume. The earnings improvement in 1997 resulted primarily from the improved volume together with manufacturing costs being below 1996 levels by $16 per ton as a result of cost-reduction programs.

The following table lists the quarterly sales of the bleached paperboard operation in tons and dollars. Changes in product mix from period to period may make historical comparisons difficult.

BLEACHED PAPERBOARD
<TABLE>
<CAPTION>

For the year	1998	1997	1996
UNIT SALES (in thousands of tons)			
<S>	<C>	<C>	<C>
PAPERBOARD			
1st Quarter	158	155	108
2nd Quarter	158	178	125
3rd Quarter	168	169	149
4th Quarter	139	133	142
	623	635	524
Pulp	--	2	100
NET SALES (in millions)			
PAPERBOARD			
1st Quarter	$ 95.9	$ 87.6	$ 66.1
2nd Quarter	95.8	95.0	73.6
3rd Quarter	102.0	96.9	83.3
4th Quarter	82.4	86.5	77.5
	$ 376.1	$ 366.0	$ 300.5
Pulp and Other	$ --	$ 2.9	$ 21.2

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</TABLE>

GROUP ADMINISTRATION

The Paper Group's administrative costs were up by $17.8 million in 1998 compared with 1997, after having declined in 1997 by $1.1 million from 1996 levels. The 1998 increase was largely related to consulting and internal costs related to the company's margin-enhancement initiative and efforts related to Year 2000 compliance.

BUILDING PRODUCTS

The Building Products Group manufactures a diversified line of construction and commercial-grade building materials at 17 facilities (including three joint-venture facilities and two medium density fiberboard [MDF] facilities acquired September 30, 1998). In 1998, approximately 81 percent of its revenues were generated from wood-based materials or log residues. These products, sold to both residential and commercial market segments, include lumber, plywood, particleboard, medium density fiberboard and fiberboard. The non-wood-based business unit manufactures a variety of gypsum wallboard products that are sold to the same market segments as wood-based materials.

Excluding the special charges discussed below, the group earned $112 million in 1998, the third-highest earnings level in its history, following 1994's record earnings of $139 million and 1997's earnings of $131 million. Net manufacturing revenues in 1998 decreased $4.3 million, less than 1 percent from 1997. This slight decrease followed a 10 percent increase in 1997 over 1996. As a result of improved residential and commercial construction levels, prices advanced in 1998 across all product lines, except for fiberboard and lumber.

The following table provides information on unit sales volumes and net sales for each business unit.

BUILDING PRODUCTS

<TABLE>
<CAPTION>

For the year	1998	1997	1996
<S>	<C>	<C>	<C>
UNIT SALES*			
Pine lumber	603	639	605
Fiber products	423	402	457
Particleboard	518	470	399
Plywood	289	281	259
Gypsum wallboard	858	843	838
Medium density fiberboard	35	--	--
NET SALES (in millions)			
Pine lumber	$ 222.7	$ 262.1	$ 217.4
Fiber products	64.4	66.2	73.3
Particleboard	141.5	125.0	112.2
Plywood	59.6	55.2	52.1
Gypsum wallboard	115.5	104.6	90.2
Medium density fiberboard	9.3	--	--
Retail distribution	--	4.2	17.1
Other	--	--	0.3
	$ 613.0	$ 617.3	$ 562.6

</TABLE>

* Unit sales amounts shown are in millions of square feet, except pine lumber which is in millions of board feet.

Pine lumber shipments of 603 million board feet decreased 5.6 percent from 1997. Two major modernization projects, one at the Buna, Texas, sawmill and the other at the Diboll, Texas, sawmill, resulted in temporary production outages and reduced shipments. The modernization resulted in the abandonment of $3.4 million of machinery and equipment at the Diboll sawmill that is included in the special charge. Both plants should return to full capacity by the middle of 1999.

In keeping with its focus of maximizing the value of its timber holdings through conversion to high-value products, the Building Products Group decided to cease

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plywood production at the Pineland complex and add a state-of-the-art sawmill. This will allow the group to optimize the use of available sawtimber and result in an improved return on its timberland assets. As a result, the company recorded a write-down of $6.5 million related to certain plywood assets.

Economic recession in the Far East forced West Coast lumber producers to reduce exports and market additional products in North America. This created an oversupply in the industry and, as a result, lumber prices were negatively affected. Although first quarter lumber prices were only 1 percent below those experienced in the first quarter of 1997, second quarter prices were down 13.6 percent, third quarter prices were down 18.9 percent, and fourth quarter prices were down 9.3 percent from previous year levels. The average selling price for the year was down 10 percent from 1997.

Fiber products revenues decreased $1.8 million, or 3 percent, from 1997 despite a 5 percent increase in shipments. Weaker demand due to competition from other products led to lower pricing. Average prices for all fiber products were 7 percent lower than 1997 levels. TrimCraft(TM), the company's alternative lumber trim product, continued to gain market acceptance and shipments of the product were 28 percent higher than 1997 levels.

During 1998, construction continued on a new joint-venture fiber-cement plant in Waxahachie, Texas. The $60 million facility is designed to produce 126 million square feet of fiber-cement products annually. This state-of-the-art facility will offer a full line of fiber-cement products marketed under the trade name FORTRA(TM), to be used by builders as siding, soffit, trim, tile backer and a variety of other applications. Fiber-cement siding is a weather-stable product with increasing acceptance in the marketplace.

During 1998, construction was completed on the MDF plant in El Dorado, Arkansas. The $97 million facility, a joint-venture operation, is designed to produce 150 million square feet of MDF annually. Production began in May and the facility was still operating in the start-up phase at year end, producing only 41 percent of capacity during the last quarter of the year. This mill is anticipated to operate at almost 90 percent of capacity during 1999. MDF products are high-grade composite panels that serve as a suitable alternative to high-quality millwork lumber and as flooring substrates.

The Building Products Group purchased two MDF facilities from MacMillan Bloedel Limited in September 1998, located in Clarion, Pennsylvania, and Pembroke, Ontario, Canada. Each of these facilities has a continuous press and the design capacity to produce approximately 130 million square feet of MDF annually. Each of these mills is currently producing at less than design capacity, but should attain these levels by year end. The company's three MDF plants will be capable of supplying a major share of the growing thin MDF market due to their continuous press capabilities.

Using by-products of lumber processing, the group manufactures particleboard at four plants in Texas, Alabama, Arkansas and Georgia. The Texas and Georgia facilities experienced lost production in 1997 due to ten-week shutdowns for modernization, but were back to normal production in 1998. As a result, particleboard shipments increased 10 percent over 1997. The group also experienced an increase in the sales average for the year due to an improved product mix. Due to the increase in shipments and sales averages, revenues from particleboard rose $16.5 million, or 13 percent, from 1997. In 1997, shipments were 18 percent above, and prices were 6 percent below, 1996 levels.

Record earnings were achieved by the group's gypsum wallboard operations in 1998 as prices continued the recovery that began in 1994 and the mix of products manufactured continued to improve. Gypsum wallboard shipments of 858 million square feet were only slightly above 1997 levels, but revenues increased by $10.9 million due to an 8.5 percent increase in sales averages for the year. While gypsum wallboard demand improved in both 1996 and 1997, 1998 was a year of record demand levels as capacity utilization ratios reached 99 percent for the year. This dictated operating in a managed distribution environment for most of the year. In addition to a strong market, specialty products, including the group's Stretch 54(R) product, pre-sized to reduce material waste and application labor in houses with nine-foot-high ceilings, sustained its market share in 1998. Specialty panels in 1998 accounted for 39 percent of total shipments, compared with 40 percent in 1997.

In 1998, construction began on the gypsum wallboard plant in Cumberland City, Tennessee. The plant will operate under the Standard Gypsum LLC joint venture, an equal partnership with Caraustar Industries, Inc. This state-of-the-art facility is expected to produce in excess of 700 million square feet of gypsum wallboard annually and will utilize 100 percent flue gas desulphurization (synthetic) gypsum. This plant is being constructed adjacent to the Cumberland Fossil Plant, the Tennessee Valley Authority's (TVA) largest coal-fired steam electric plant, which will supply 100 percent of the synthetic gypsum for use in

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the production of the wallboard at this facility. The synthetic gypsum is produced as a by-product of the TVA plant's air cleaning system. Construction of this $60 million facility was about 40 percent complete at the end of 1998, and production is expected to begin during the third quarter of 1999.

TIMBER AND TIMBERLANDS

The company controls approximately 2.2 million acres of timberland in Texas, Louisiana, Georgia and Alabama. In 1998, this renewable resource provided approximately 63 percent of the pine fiber requirements necessary to operate the company's paper and solid wood converting operations.

FINANCIAL SERVICES

The company's Financial Services Group includes savings bank, mortgage banking, real estate development and insurance operations. The following selected financial information provides a detailed description of these operations.

FINANCIAL SERVICES GROUP
SELECTED FINANCIAL INFORMATION

<TABLE>
<CAPTION>

For the year or at year end (in millions)	1998	1997	1996
<S>	<C>	<C>	<C>
INCOME			
Savings bank	$ 113.5	$ 106.6	$37.5b
Mortgage banking	21.8	24.0	23.0
Real estate	13.2(a)	(3.4)	(1.7)
Insurance	5.6	4.8	4.3
Income before taxes	154.1	132.0	63.1
Taxes on income	26.9	20.6	24.3
Net income	$ 127.2	$ 111.4	$ 38.8
ASSETS			
Savings bank	$ 11,947.4	$ 10,370.6	$ 8,945.9
Mortgage banking	441.9	385.6	241.4
Real estate	319.2	280.4	287.4
Insurance	31.9	32.4	26.3
Other activities	--	--	0.1
Eliminations	(340.8)	(284.3)	(166.0)
Total assets	$ 12,399.6	$ 10,784.7	$ 9,335.1
LIABILITIES			
Savings bank	$ 11,163.9	$ 9,798.1	$ 8,509.9
Mortgage banking	358.0	303.4	177.1
Real estate	270.8	222.0	204.7
Insurance	14.5	19.7	17.7
Other activities	--	--	(0.1)
Preferred stock issued by subsidiary	225.1	150.0	--
Eliminations	(340.8)	(284.3)	(166.0)
Total liabilities	$ 11,691.5	$ 10,208.9	$ 8,743.3
EQUITY			
Savings bank	$ 558.4	$ 422.5	$ 436.0
Mortgage banking	83.9	82.2	64.3
Real estate	48.4	58.4	82.7
Insurance	17.4	12.7	8.6
Other activities	--	--	0.2
Total equity	$ 708.1	$ 575.8	$ 591.8

</TABLE>

(a) Includes $10.0 million gain from sale of an investment property.

(b) Includes a one-time SAIF assessment of $43.9 million.

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SAVINGS BANK

The company's savings bank, Guaranty Federal Bank, F.S.B. (Guaranty), conducts its business through 135 banking centers in Texas and California. The Texas operations are concentrated in the metropolitan areas of Houston, Dallas/Fort Worth, San Antonio and Austin, as well as the central and eastern regions of the state. All of Guaranty's branch locations in California are in the Central Valley area. The primary business of Guaranty is to attract savings deposits from the general public, to invest in single-family adjustable-rate mortgages, to be a major construction lender to the commercial and residential real estate industry, and to provide a variety of loan products to consumers and businesses.

GUARANTY FEDERAL BANK, F.S.B.
SELECTED FINANCIAL INFORMATION

For the year (dollars in millions)	1998	1997	1996
INCOME AND EXPENSE			
Net interest income	$ 245.3	$ 222.3	$ 193.0
Noninterest income	30.4	17.8	22.2
Noninterest expense	148.6	128.5	163.9(a)
Minority interest in income of subsidiary	13.8	6.5	--
Income before taxes	113.3	106.6	37.5
AVERAGE BALANCE SHEET			
Total earning assets	10,389.9	9,919.1	8,889.0
Loans receivable and mortgage loans held for sale	7,440.4	6,530.9	5,215.1
Mortgage-backed and investment securities	2,601.8	2,721.6	3,204.3
Deposits	7,579.3	7,090.5	6,423.9
Securities sold under repurchase agreements and FHLB advances	2,241.5	2,573.9	2,113.5
KEY RATIOS			
Yield on earning assets	7.02%	7.06%	6.96%
Cost of funds	4.82%	4.95%	4.91%
Net interest spread	2.20%	2.11%	2.05%

(a) Includes a one-time SAIF assessment of $43.9 million.

At year end 1998, loans receivable constituted 81 percent of earning assets, compared with 71 percent in the prior year. During 1998, Guaranty continued to securitize portions of its mortgage loans held in its portfolio. At year end 1998, the ratio of loans receivable to earning assets, with the inclusion of the balance of $657 million in loans securitized, was 87 percent.

Net interest income for 1998 increased $23.0 million from 1997, due primarily to the growth of net earning assets. Net interest income for 1997 increased $29.3 million from 1996. This was a result of an increase in average earning assets of $1 billion above 1996, principally due to the acquisition of Stockton Savings Bank, F.S.B. (SSB) discussed below, combined with the improved asset mix of loans.

When new loans are originated, an estimated allowance for losses is provided. Thereafter, this provision is adjusted for actual net charge-off experience and other factors. In 1998, despite overall loan portfolio growth, the allowance for loan losses as a percentage of loans receivable decreased from 1.41 percent to 1.06 percent, or 24 percent from 1997. The decrease was driven primarily by a 30 percent decline in the purchased loan portfolios over the same period and the reduction in the related allowances for those loans, as losses were less than anticipated. In 1997, the allowance for loan losses as a percentage of loans receivable increased from 1.26 percent to 1.41 percent, or 11 percent from 1996, principally due to the acquisition of SSB. The provision for loan loss decreased $15.5 million during 1997, compared with 1996, primarily related to the securitization of approximately $1 billion of mortgage loans, payoff of other notes and favorable net charge-off experience.

Management periodically reviews and adjusts pass loan loss factors in response to historical net charge-off experience. The commercial real estate portfolios

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currently have pass loan loss factors that exceed the historical loss experience. This results from these loans being relatively new and, as a result, they have not reached the state where charge-offs would have been recorded for a seasoned loan portfolio.

Noninterest income primarily includes fees collected, including service charges on deposits. In 1997, losses on the sale of certain loans and mortgage securities resulted in a net noninterest income reduction of $4.4 million from 1996. In 1998, net noninterest income increased $12.6 million from 1997 primarily because similar loan and security sales did not recur and Guaranty sold certain assets resulting in gains.

Noninterest expense for 1998 increased $20.1 million from 1997 primarily as the result of the new operations in California from the SSB acquisition and the related increase in compensation and benefits. Excluding $43.9 million related to the 1996 one-time Savings Association Insurance Fund (SAIF) assessment discussed below, noninterest expense for 1997 increased $8.5 million from 1996, which is also a result of the increased California operations, offset by reduced insurance premiums on deposits as a result of the SAIF recapitalization.

[PICTURE]

BIF/SAIF LEGISLATION

On September 30, 1996, President William J. Clinton signed the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (the Act). Among its many provisions, the Act provided for (i) the recapitalization of the SAIF to an amount sufficient to increase the SAIF's net worth to 1.25 percent of SAIF insured deposits, (ii) the reduction of SAIF insurance assessments to parity with those of the Bank Insurance Fund (BIF), and (iii) the eventual merger of the SAIF and BIF. Specifically, the statute required a one-time special assessment of SAIF members, calculated at 65.7 basis points of insured deposits, or $43.9 million for Guaranty.

Effective January 1, 1997, Guaranty was not required to pay any deposit insurance assessments, but is required to pay approximately 6.5 basis points on its insured deposits annually to repay interest on certain Financial Corporation (FICO) bond obligations. Prior to the special assessment, Guaranty was paying 23 basis points of insured deposits for insurance premiums.

ACQUISITIONS

On November 14, 1998, the company signed a definitive merger agreement to acquire all of the outstanding stock of HF Bancorp, Inc., for $18.50 per share. Total assets of HF Bancorp, Inc., the majority of which are held by its subsidiary, Hemet Federal Savings & Loan Association (Hemet), are approximately $1 billion and consist primarily of residential, consumer and construction loans, mortgage-backed securities and short-term investments. Hemet operates 18 branches in the Southern California markets of Riverside County, Palm Springs and Northern San Diego County. The purchase price of $118 million will consist of either all cash or a combination of company common stock and cash and is to be accounted for as a purchase business combination. The transaction, subject to the approval of regulatory authorities and HF Bancorp, Inc. shareholders, is anticipated to close during the second quarter of 1999.

On June 27, 1997, the company acquired all of the outstanding stock of California Financial Holding Company, the parent company of SSB, and merged the operations of SSB into Guaranty. The consideration for the transaction was $143.4 million, consisting of approximately 1,614,000 shares of Temple-Inland Inc. common stock and cash of $47.3 million. SSB operated 25 banking centers in the Central Valley area of California and had assets at acquisition totaling approximately $1.4 billion, consisting primarily of loans and securities.

LIQUIDITY, INTEREST RATE RISK MANAGEMENT AND CAPITAL

Guaranty is required by the Office of Thrift Supervision (OTS) to maintain average daily balances of statutorily defined liquid assets. During 1997, the liquid assets requirement was decreased from 5 percent to 4 percent of net withdrawable deposits and short-term borrowings.

The operations of Guaranty are subject to a risk of interest rate fluctuation to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. Because approximately 91 percent of Guaranty's assets at year end 1998 have adjustable rates, this risk is significantly mitigated.

Guaranty is also subject to prepayment risk inherent in a portion of its

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single-family adjustable-rate mortgage assets. A substantial portion of Guaranty's investments in adjustable-rate mortgage-backed securities have annual or lifetime caps that subject Guaranty to interest rate risk should rates rise above certain levels. To optimize net interest income while maintaining acceptable levels of interest rate and liquidity risk, Guaranty, from time to time, will enter into various interest rate contracts for purposes other than trading.

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

OTS regulations require savings institutions to maintain certain minimum levels of capital. Guaranty's regulatory capital exceeded all applicable capital requirements at year end 1998. Because of loan growth experienced by Guaranty in 1998, changes in asset mix in Guaranty's balance sheet and prospective changes in Guaranty's risk-based capital calculation, Guaranty expects an increase in its capital requirements. As a result, the company expects to increase capital in Guaranty by up to $160 million in order to maintain its classification of "well capitalized" under OTS regulations. Note L on page 53 contains additional information concerning Guaranty's capital requirements.

MORTGAGE BANKING

Mortgage banking is conducted through Temple-Inland Mortgage Corporation (TIMC), which arranges financing of single-family mortgage loans, then sells the loans in the secondary market (primarily FNMA, FHLMC and GNMA securities). TIMC generally retains the servicing of these loans.

A summary of selected financial information is provided below.

MORTGAGE BANKING
OPERATIONS SUMMARY

For the year (dollars in millions)	1998	1997	1996
Revenues	$ 226	$ 136	$ 95
Income before taxes	22	24	23
PORTFOLIO ROLL-FORWARD (Including loans serviced for affiliates)			
Beginning servicing	$ 26,082	$ 17,851	$ 13,460
Purchased servicing	3,536	9,497	4,888
New loans added, net of flow releases	3,375	2,600	2,265
Portfolio releases	(3,210)	--	--
Run-off	(6,897)	(3,866)	(2,762)
Ending servicing	$ 22,886	$ 26,082	$ 17,851
Portfolio growth rate	(12.3)%	46.1%	32.6%
Run-off factor	28.9%	16.8%	15.9%
Ending number of loans serviced	256,300	351,600	225,700

Mortgage loan originations increased to a record $6 billion in 1998, almost double the volume in 1997. Portfolio run-off accelerated from 16.8 percent in 1997 to 28.9 percent in 1998. In order to reduce exposure to accelerated prepayments, the servicing rights of approximately $4.5 billion ($1.3 billion of which was not transferred until 1999) of primarily seasoned and relatively high-rate loans were sold during 1998 to third parties resulting in gains of $27.6 million. At year end 1998, the reserve for impairment of the servicing portfolio was $16.8 million. No reserve for impairment was required in 1997 and 1996.

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Acquisitions of servicing totaled $3.5 billion in 1998. Overall, the servicing portfolio declined in 1998 by $3.2 billion to $22.9 billion. Servicing totaling $9.5 billion was acquired during 1997, of which $6.4 billion was associated with the acquisition of Knutson Mortgage Corporation (KMC). Servicing totaling $4.9 billion was acquired during 1996, a portion of which was acquired subject to a call option. At the end of 1998, $1 billion of the servicing portfolio was subject to the call option. The call option price, if exercised, would exceed the carrying value.

REAL ESTATE GROUP

Real estate operations conducted by Lumbermen's Investment Corporation include development of residential subdivisions as well as management and sale of income properties. Land development projects include 38 residential subdivisions in Texas, Arizona, California, Colorado, Florida, Georgia, Missouri, Tennessee and Utah. At the end of 1998, land development inventory included 1,401 residential lots (1,175 under contract), 1,803 lots under development and 5,721 acres of land. Lot sales for 1998 were 1,594, compared with 1,422 in 1997 and 1,082 in 1996.

Commercial income, shown in the table below, includes a $10 million gain in 1998 from the sale of a commercial investment property. The company owns 18 commercial properties, including two hotels, one retail center, two business parks, five parcels of commercial land, and properties owned through joint-venture interests.

Selected financial information related to these activities is shown below.

REAL ESTATE GROUP
OPERATIONS SUMMARY

For the year (in millions)	1998	1997	1996
REVENUES			
Residential	$ 58.4	$ 43.4	$ 35.9
Commercial	45.7	21.4	18.2
Interest and other	3.2	3.7	7.0
Total	$ 107.3	$ 68.5	$ 61.1
INCOME (LOSS) BEFORE TAXES			
Residential	$ 8.9	$ 2.2	$ 3.0
Commercial	19.0	4.5	2.2
Interest and other	(14.7)	(10.1)	(6.9)
Total	$ 13.2	$ (3.4)	$ (1.7)

INSURANCE

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

A summary of revenues and income before taxes is shown below.

INSURANCE
OPERATIONS SUMMARY

For the year (in millions)	1998	1997	1996

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REVENUES	$ 33.5	$ 30.4	$ 24.9
INCOME BEFORE TAXES	5.6	4.8	4.3

</TABLE>

ENVIRONMENTAL MATTERS

The company is committed to protecting the health and welfare of its employees, the public and the environment, and strives to maintain compliance with all state and federal environmental regulations in a cost-effective manner. In the construction of new facilities and the modernization of existing facilities, the company installed state-of-the-art technology for controlling air and water emissions. These forward-looking programs should minimize the impact that changing regulations have on capital expenditures for environmental compliance.

Future expenditures for environmental control facilities will depend on changing laws and regulations and technological advances. Given these uncertainties, the company estimates that capital expenditures for environmental purposes during the period 1999 through 2001 will average $17 million each year, exclusive of the expenditures for the Cluster Rule compliance discussed below.

On November 14, 1997, the U.S. Environmental Protection Agency (the EPA) issued extensive regulations governing air and water emissions from the pulp and paper industry (the Cluster Rule). According to the EPA, the technology standards in the Cluster Rule will cut the industry's toxic air pollutant emissions by almost 60 percent from current levels and virtually eliminate all dioxin discharged from pulp, paper and paperboard mills into rivers and other surface waters. The Cluster Rule also provides incentives for individual mills to adopt technologies that will lead to further reductions in toxic pollutant discharges.

The EPA estimates that the industry will need to invest approximately $1.8 billion in capital expenditures and approximately $277 million per year in operating expenditures to comply with the Cluster Rule. All persons subject to the Cluster Rule, including the company, must be in compliance with the initial requirements by April 15, 2001. The estimated expenditures disclosed above do not include expenditures that may be needed to comply with the Cluster Rule. Based upon its interpretation of the Cluster Rule as issued, the company currently estimates that compliance with the Cluster Rule may require modifications at several facilities. Some of these modifications can be included in modernization projects that will provide economic benefits to the company. Excluding these investments, environmental expenditures are not expected to exceed $110 million over the next three years.

CAPITAL RESOURCES AND LIQUIDITY

The company's financial condition continues to be strong. Internally generated funds, existing credit facilities and the capacity to issue long-term debt are sufficient to fund projected capital expenditures, service existing debt, pay dividends and meet normal working capital requirements. See Note 10 on pages 65 and 66 for a summary of capital expenditures for years 1998, 1997 and 1996. Capital expenditures of approximately $300 million are projected for 1999.

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

<TABLE>
<CAPTION>

For the year (in millions) PARENT COMPANY INTEREST - NET	1998	1997	1996
<S>	<C>	<C>	<C>
Interest expense	$ 107.5	$ 112.3	$ 112.9
Capitalized interest	(1.5)	(2.0)	(3.3)
Interest expense - net	$ 106.0	$ 110.3	$ 109.6

</TABLE>

Interest expense decreased from $112.3 million to $107.5 million in 1998, primarily as a result of lower average rates. During 1998, $90.0 million of notes payable, with interest rates averaging approximately 9 percent, and private placement debt of $80.0 million, with interest rates averaging 7 percent, were paid off and replaced with commercial paper and short-term borrowings with interest rates averaging 5.77 percent at year end 1998. Parent Company interest paid during 1998, 1997 and 1996 was $100.6 million, $104.5 million and $105.9 million, respectively.

In June 1998, the company filed a shelf registration statement registering the issuance of $500 million of its medium-term notes, Series F. The company issued approximately $300 million of these medium-term notes during the first quarter of 1999. The issued notes have a 10-year term and bear interest at approximately 6.8 percent per annum. Proceeds from the notes will be used to refund approximately $70 million of existing senior debt maturing in 1999, and to fund the cash portion of the purchase price in the Hemet transaction and the capital

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contribution the company will make to Guaranty.

In August 1995, the Board of Directors approved a stock repurchase program allowing the company to repurchase up to 2.5 million shares. In May 1998, the Board of Directors increased the stock repurchase program by an additional 2.5 million shares. At year end 1998, 2,718,400 shares had been repurchased under this program.

INCOME TAXES

The company's effective tax rate for the years 1998 and 1997 was 46 percent. The difference in the statutory rate and annual effective tax rate was primarily attributable to losses in foreign operations for which no financial benefit was recognized, and on non-deductible goodwill associated with prior years' acquisitions.

The Internal Revenue Service is examining the company's consolidated tax returns for the years 1987 through 1992. The resolution of these examinations is not expected to have a significant impact on the company's financial condition or results of operations.

YEAR 2000 COMPLIANCE

The company's three lines of business, the Paper, Building Products and Financial Services Groups, are dependent upon computer technology and programs for conducting business. Each line of business has been working for the past two years to ensure that the Year 2000 has no significant effect on its information, financial and manufacturing systems.

To date, the company has spent $6.7 million on Year 2000 compliance and estimates the total spending will be approximately $13.0 million. These costs are being expensed as incurred and are not expected to have a material impact on the company's financial position.

Year 2000 readiness for the operations in the Financial Services Group is subject to review and oversight of various regulatory agencies. All critical systems have completed testing and implementation will be completed by June 30, 1999. The critical systems are those that service its portfolio of loans, mortgages and customer deposits. Based upon project progress, the company is confident all regulatory requirements will be met and that any Year 2000 disruption is unlikely. If any disruption were to occur that significantly affected operations or customer service, the group would implement its disaster recovery contingency plans.

The Paper and Building Products Groups have found few instances of date-dependent information within their manufacturing processes. There is no indication at this time that production could be affected by date-required fields that cannot be overridden or entered manually.

A potential risk is that an external provider could have a Year 2000 related problem that would affect the ability of the company to manufacture its products or serve its customers. For instance, should a utility provider not be able to supply power needs to a facility, some impact to normal operations would be expected. Larger facilities with self-power generation would be able to continue operations with a decline in production rates until outside power is restored. The company has the flexibility to produce products in multiple geographic locations, which allows for scheduling production and shipping from alternate locations should disruptions occur.

Communications with these and other suppliers are ongoing to assess the risk to the organization and identify the company's exposure to such outside influences. The company has not identified any such risk at this time.

No interruption of services is expected within the administrative support systems. Most software for meeting business needs is purchased and Year 2000 modifications and testing is performed by the supplier. The company also tests these purchased systems for Year 2000 readiness.

While there can be no guarantee that Year 2000 problems will not occur, the company believes its efforts have addressed the risks and that contingency plans are in place for the unexpected.

NEW ACCOUNTING PRONOUNCEMENTS

Effective with the beginning of year 1998, the company adopted AICPA Statement of Position 98-5, Reporting on the Costs of Start-Up Activities, which requires that cost of start-up and training activities be expensed as incurred.

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Previously, the company had capitalized these costs and amortized them over a five-year period. The cumulative effect of adopting this change was to reduce first quarter 1998 income by $3.2 million, net of tax benefit of $2.1 million. If start-up costs had been expensed in prior years, net income would not have been materially different.

Also during 1998, the company adopted Statements of Financial Accounting Standards No. 130, Reporting Comprehensive Income; No. 131, Disclosures About Segments; and No. 132, Disclosures About Pensions and Other Postretirement Benefits. Adoption of these standards did not materially affect the company's financial statements as these standards dealt primarily with disclosure and presentation of financial information.

During 1999, the company will adopt AICPA Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use, which requires the capitalization of qualifying internal and external costs incurred during the application development stage. All costs incurred during the preliminary project stage and post-implementation stage are to be expensed as incurred. The company does not believe that adoption of this statement will have a material effect on its earnings or financial position.

The company plans to adopt Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, effective beginning of 2000. This statement will require derivative positions to be recognized in the balance sheet at fair value. The company presently utilizes derivatives to manage interest rate risk and risk in its mortgage loan production operations. The company has not yet determined the effect upon adoption of this statement on earnings or financial position.

[PICTURE]

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

The company is subject to interest rate risk from the utilization of financial instruments such as adjustable-rate debt and other borrowings, as well as the lending and deposit-gathering activities of the Financial Services Group. The following table illustrates the estimated impact on pretax income of immediate, parallel and sustained shifts in interest rates for the subsequent 12-month period at year end 1998, with comparative information at year end 1997:

<TABLE>
<CAPTION>

Change in Interest Rates	Increase (Decrease) in Income before Taxes (in millions) 1998	1997
+2%	$ (26)	$ 4
+1%	$ (1)	$ 9
0%	$ --	$ --
-1%	$ 10	$ (12)
-2 %	$ 29	$ (14)

</TABLE>

The change in exposure to interest rate risk from year end 1997 is due primarily to the Financial Services Group entering into interest rate floor and collar agreements to hedge the prepayment risk inherent in a portion of its adjustable-rate mortgage assets and an increase in the company's adjustable-rate debt. At year end 1997, the sensitivity of the Financial Services Group's earnings to changes in interest rates was inverse to the impact of interest rate changes on the company's adjustable-rate debt. By substantially decreasing the earnings volatility of the Financial Services Group to interest rate changes through the use of floor and collar agreements, the company's sensitivity to interest rate risk at the end of 1998 is primarily driven by changes in rates on the company's adjustable-rate debt.

Additionally, the fair value (estimated at $244 million at year end 1998) of the Financial Services Group's mortgage servicing rights is also affected by changes in interest rates. The fair value of the servicing rights has declined by $26 million (10 percent) since year end 1997, due to the recent decline in interest rates, actual and estimated future prepayments, and the smaller size of the servicing portfolio. The company estimates that a 1 percent decline in interest

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rates from current levels would decrease the fair value of the mortgage servicing rights by an additional $41 million.

FOREIGN CURRENCY RISK

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

COMMODITY PRICE RISK

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

SELECTED FINANCIAL DATA

For the year (dollars in millions, except per share data)	1998	1997*	1996	1995	1994	1993
Total revenues	$ 3,740	$ 3,625	$ 3,460	$ 3,495	$ 2,967	$ 2,762
Manufacturing net sales	2,631	2,680	2,645	2,731	2,335	2,127
Net income	64(a)	51	133	281	131	117(b)
Capital expenditures:						
Manufacturing	175	233	275	386	463	340
Financial services	39	18	15	34	20	14
Depreciation and depletion:						
Manufacturing	261	255	244	208	200	191
Financial services	14	13	12	8	8	6
Earnings per share:						
Basic	1.16(a)	0.91	2.39	5.02	2.35	2.12(b)
Diluted	1.15(a)	0.90	2.39	5.01	2.35	2.11(b)
Dividends per common share	1.28	1.28	1.24	1.14	1.02	1.00
Weighted average shares outstanding:						
Basic	55.8	56.0	55.5	56.0	55.8	55.3
Diluted	55.9	56.2	55.6	56.1	55.9	55.5
Common shares outstanding at year end	55.6	56.3	55.4	55.7	56.0	55.5
At year end						
Total assets	$ 15,990	$ 14,364	$ 12,947	$ 12,764	$ 12,251	$ 11,959
Long-term debt:						
Parent Company	1,583	1,438	1,522	1,489	1,316	1,045
Financial services	210	167	133	113	82	76
Preferred stock issued by subsidiary	225	150	--	--	--	--
Ratio of total debt to total capitalization - Parent Company	44%	41%	43%	43%	43%	38%
Shareholders' equity	1,998	2,045	2,015	1,975	1,783	1,700

For the year (dollars in millions, except per share data)	1992	1991	1990	1989
Total revenues	$ 2,734	$ 2,507	$ 2,401(c)	$ 1,943
Manufacturing net sales	2,096	1,898	1,892	1,894
Net income	147	138	232(c)	207
Capital expenditures:				
Manufacturing	359	378	324	260
Financial services	11	9	4	9

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Depreciation and depletion:				
Manufacturing	167	158	140	126
Financial services	5	4	5	2
Earnings per share:				
Basic	2.66	2.53	4.24(c)	3.78
Diluted	2.65	2.51	4.20(c)	3.75
Dividends per common share	0.96	0.88	0.80	0.58
Weighted average shares outstanding:				
Basic	55.1	54.8	54.9	54.9
Diluted	55.5	55.2	55.4	55.3
Common shares outstanding at year end	55.2	54.9	54.6	54.9
At year end				
Total assets	$ 10,766	$ 10,068	$ 7,834(d)	$ 2,380
Long-term debt:				
Parent Company	964	864	501	399
Financial services	99	76	94	30
Preferred stock issued by subsidiary	--	--	--	--
Ratio of total debt to total capitalization - Parent Company	38%	36%	26%	24%
Shareholders' equity	1,633	1,532	1,439	1,259

</TABLE>

* Includes effects of acquiring Stockton Savings Bank and Knutson Mortgage Company.

(a) Includes a special after-tax charge of $28.9 million, or $0.52 per share, and a $3.2 million after-tax charge, or $0.06 per share, from cumulative effect of accounting change.

(b) Includes a credit of $50 million, or $0.90 per share, from cumulative effect of accounting changes.

(c) Includes operating results from consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.

(d) Includes Savings Bank assets from consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.

COMMON STOCK PRICES AND DIVIDEND INFORMATION

<TABLE>
<CAPTION>

	1998			1997		
	PRICE RANGE			Price Range		
	HIGH	LOW	DIVIDENDS	High	Low	Dividends
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1st Quarter	$ 64-15/16	$ 50	$ 0.32	$ 57	$ 52	$ 0.32
2nd Quarter	67-1/4	52-1/8	0.32	62-1/8	49-5/8	0.32
3rd Quarter	55-15/16	42-11/16	0.32	69-7/16	56-1/8	0.32
4th Quarter	59-5/8	45-1/16	0.32	65-7/8	49-11/16	0.32
For the year	$ 67-1/4	$ 42-11/16	$ 1.28	$ 69-7/16	$ 49-5/8	$ 1.28

</TABLE>

SUMMARIZED STATEMENTS OF INCOME
PARENT COMPANY (TEMPLE-INLAND INC.)

<TABLE>
<CAPTION>

For the year	1998	1997	1996
(in millions)			
<S>	<C>	<C>	<C>
REVENUES			
Net sales	$ 2,631	$ 2,680	$ 2,645

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Financial services earnings	154	132	63
	2,785	2,812	2,708
COSTS AND EXPENSES			
Cost of sales	2,236	2,348	2,198
Selling and administrative	278	265	249
Special charge	47	--	--
	2,561	2,613	2,447
OPERATING INCOME	224	199	261
Interest expense - net	(106)	(110)	(110)
Other	6	6	5
INCOME BEFORE TAXES	124	95	156
Taxes on income	57	44	23
INCOME BEFORE ACCOUNTING CHANGE	67	51	133
Cumulative effect of accounting change, net of tax	(3)	--	--
NET INCOME	$ 64	$ 51	$ 133

</TABLE>

See the notes to the Parent Company summarized financial statements.

SUMMARIZED BALANCE SHEETS
PARENT COMPANY (TEMPLE-INLAND INC.)

<TABLE>
<CAPTION>

At year end (in millions)	1998	1997
<S>	<C>	<C>
ASSETS		
CURRENT ASSETS		
Cash	$ 15	$ 13
Receivables, less allowances of $13 in 1998 and $9 in 1997	297	281
Inventories:		
Work in process and finished goods	93	109
Raw materials	242	230
	335	339
Prepaid expenses	14	15
Total current assets	661	648
INVESTMENT IN TEMPLE-INLAND FINANCIAL SERVICES	708	576
PROPERTY AND EQUIPMENT		
Buildings	574	554
Machinery and equipment	3,829	3,689
Construction in progress	104	115
Less allowances for depreciation	(2,242)	(2,086)
	2,265	2,272
Timber and timberlands - less depletion	499	507
Land	35	34
Total property and equipment	2,799	2,813
Other Assets	174	163

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TOTAL ASSETS	$ 4,342	$ 4,200

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$ 138	$ 135
Accrued expenses	171	150
Employee compensation and benefits	28	23
Current portion of long-term debt	2	3
Total current liabilities	339	311
LONG-TERM DEBT	1,583	1,438
DEFERRED INCOME TAXES	266	252
POSTRETIREMENT BENEFITS	145	140
OTHER LIABILITIES	11	14
SHAREHOLDERS' EQUITY	1,998	2,045
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 4,342	$ 4,200

</TABLE>

See the notes to the Parent Company summarized financial statements.

<TABLE>
<CAPTION>

SUMMARIZED STATEMENTS OF CASH FLOWS
PARENT COMPANY (TEMPLE-INLAND INC.)

For the year (in millions)	1998	1997	1996
<S>	<C>	<C>	<C>
CASH PROVIDED BY (USED FOR) OPERATIONS			
Net income	$ 64	$ 51	$ 133
Adjustments to reconcile net income to net cash:			
Cumulative effect of accounting change, net of tax	3	--	--
Special charge	47	--	--
Depreciation and depletion	261	255	244
Deferred taxes	17	18	(29)
Unremitted earnings from financial services	(127)	(111)	(39)
Receivables	(12)	7	(11)
Inventories	9	(30)	23
Accounts payable and accrued expenses	(11)	(7)	(27)
Other	13	(12)	19
	264	171	313
CASH PROVIDED BY (USED FOR) INVESTMENTS			
Capital expenditures for property and equipment	(175)	(233)	(275)
Proceeds from sale of property and equipment	6	52	5
Acquisitions and joint ventures, net	(121)	(9)	(27)
Acquisition of California Financial Holding Company, net of cash acquired	--	(22)	--
Capital contributions to financial services	(44)	(25)	--
Dividends from financial services	44	275	50
	(290)	38	(247)
CASH PROVIDED BY (USED FOR) FINANCING			
Additions to debt	319	36	213
Payments of debt	(175)	(125)	(198)
Purchase of stock for treasury	(48)	(59)	(16)
Cash dividends paid to shareholders	(71)	(71)	(69)
Other	3	9	3
	28	(210)	(67)
Net increase (decrease) in cash	2	(1)	(1)
Cash at beginning of year	13	14	15
Cash at end of year	$ 15	$ 13	$ 14

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</TABLE>

See the notes to the Parent Company summarized financial statements.

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The summarized financial statements include the accounts of the Parent Company (Temple-Inland Inc.) and its manufacturing subsidiaries. Temple-Inland Financial Services, including the savings bank, mortgage banking and real estate development operations, is reflected in the summarized financial statements on the equity basis, except that related earnings are presented before tax to be consistent with the consolidated financial statements. All material intercompany amounts and transactions have been eliminated. These financial statements should be read in conjunction with Temple-Inland Inc. consolidated financial statements and Temple-Inland Financial Services summarized financial statements.

INVENTORIES

Inventories are stated at the lower of cost or market.

Cost of inventories amounting to $109.5 million at year end 1998 and $118.5 million at year end 1997 was determined by the last-in, first-out method (LIFO). The cost of the remaining inventories was determined principally by the average cost method, which approximates the first-in, first-out method (FIFO).

If the FIFO method of accounting had been applied to those inventories that were costed on the LIFO method, inventories would have been $6.9 million and $19.3 million higher than reported at year end 1998 and 1997, respectively.

PROPERTY AND EQUIPMENT

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

<TABLE>
<CAPTION>

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

</TABLE>

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

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

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

START-UP COSTS

Effective with the beginning of the year 1998, start-up costs, including training activities, are expensed as incurred instead of being deferred and amortized over a five-year period. The cumulative effect of applying this change was $3.2 million, net of tax benefit of $2.1 million, and was recognized as of the beginning of the year 1998. Had start-up costs been expensed in prior years, net income would not have been materially different.

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ENVIRONMENTAL LIABILITIES

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

REVENUE RECOGNITION

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

[PICTURE]

NOTE B - LONG-TERM DEBT

Long-term debt consists of the following:

At year end (in millions)	1998	1997
Commercial Paper, other short-term borrowings, and borrowings under bank credit agreements -- Average interest rate was 5.77% in 1998 and 5.66% in 1997	$ 264.2	$ 13.5
8.85% to 9.0% Notes Payable due 1998	--	90.0
9.0% Notes Payable due 2001	200.0	200.0
8.125% to 8.38% Notes Payable due 2006	100.0	100.0
7.25% Notes Payable due 2004	100.0	100.0
8.25% Debentures due 2022	150.0	150.0
Private placement debt -- 6.59% to 7.31% Notes due 1998 through 2007	258.0	338.0
Term Note due 2002 -- Average interest rate was 5.81% in 1998 and 5.86% in 1997	200.0	200.0
Revenue Bonds due 2007 through 2028 -- Average interest rate was 3.89% in 1998 and 3.94% in 1997	201.1	191.1
Other indebtedness due through 2006 -- Average interest rate was 6.30% in 1998 and 6.37% in 1997	111.3	58.0
	1,584.6	1,440.6
LESS: Current portion of long-term debt	(1.7)	(2.5)
	$1,582.9	$1,438.1

At year end 1998, the Parent Company had bank credit agreements totaling $580 million, with final maturities at various dates in 2000 and 2001, that support commercial paper and other short-term borrowings. In June 1998, the company filed a shelf registration statement registering the sale of up to $500 million in debt securities and issued approximately $300 million in the first quarter of 1999. Commercial paper, other short-term borrowings and borrowings under bank credit agreements totaling $264.2 million, and current maturities of medium-term

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notes totaling $70.0 million, are classified as long-term debt in accordance with the company's intent and ability to refinance such obligations on a long-term basis.

Maturities of the Parent Company's long-term debt during the next five years are as follows (in millions): 1999 - $65; 2000 - $90; 2001 - $466; 2002 - $256; and 2003 - $65. For an analysis of net interest expense, see page 33.

NOTE C - SPECIAL CHARGE

During the fourth quarter of 1998, the Parent Company recorded a special charge of $47.4 million, which included $13.0 million related to work force reductions in the Paper Group; $24.5 million related to asset impairments, principally related to the Paper Group's South American operations; and $9.9 million of asset impairments related to the Building Products Group. This charge was a result of the Paper Group's reorganization of its plant and mill operations and an assessment of its South American operations, due in part to the recent economic turmoil in that region, and the Building Products Group's sawmill conversion and modernization program.

The work force reductions affected approximately 250 employees, half of which accepted an early retirement incentive offer in December 1998. The terminated employees worked in the Paper Group's corrugated packaging operations. The special charge includes termination benefits associated with the early retirement offer and severance amounts for the involuntary terminations, most of which are expected to be paid during the first quarter of 1999.

The asset impairments represent the difference between the estimated discounted future cash flows and the asset carrying amounts. Of the total asset impairment, $7.9 million is for abandoned manufacturing assets, $6.5 million is for plant and equipment that will continue to be used, and $20.0 million is for the South American operations.

SUMMARIZED STATEMENTS OF INCOME
FINANCIAL SERVICES GROUP

<TABLE>
<CAPTION>

For the year (in millions)	1998	1997	1996
<S>	<C>	<C>	<C>
INTEREST INCOME			
Loans receivable and mortgage loans held for sale	$ 584	$ 526	$ 426
Mortgage-backed and investment securities	150	161	184
Other earning assets, including covered assets in 1996	4	22	21
Total interest income	738	709	631
INTEREST EXPENSE			
Deposits	357	331	308
Borrowed funds	137	157	127
Total interest expense	494	488	435
NET INTEREST INCOME	244	221	196
Provision for loan losses	1	(2)	14
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	243	223	182
NONINTEREST INCOME			
Loan origination, marketing and servicing fees	208	127	87
Other	163	109	97
Total noninterest income	371	236	184
NONINTEREST EXPENSE			
Compensation and benefits	174	134	105
Other	272	186	154
SAIF assessment expense	--	--	44

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Total noninterest expense	446	320	303
INCOME BEFORE TAXES AND MINORITY INTEREST	168	139	63
Minority interest in income of consolidated subsidiary	(14)	(7)	--
INCOME BEFORE TAXES	154	132	63
Taxes on income	27	21	24
NET INCOME	$ 127	$ 111	$ 39

</TABLE>

See the notes to Financial Services Group summarized financial statements.

SUMMARIZED BALANCE SHEETS
FINANCIAL SERVICES GROUP

<TABLE>
<CAPTION>

At year end (in millions)	1998	1997
<S>	<C>	<C>
ASSETS		
Cash and cash equivalents	$ 229	$ 175
Mortgage loans held for sale	621	439
Loans receivable	8,101	6,451
Mortgage-backed and investment securities	2,485	2,806
Other assets	964	914
TOTAL ASSETS	$ 12,400	$ 10,785
LIABILITIES		
Deposits	$ 7,338	$ 7,375
Securities sold under repurchase agreements	--	270
Federal Home Loan Bank advances	3,221	1,685
Other borrowings	210	167
Other liabilities	698	562
Preferred stock issued by subsidiary	225	150
TOTAL LIABILITIES	11,692	10,209
SHAREHOLDERS' EQUITY	708	576
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 12,400	$ 10,785

</TABLE>

See the notes to Financial Services Group summarized financial statements.

SUMMARIZED STATEMENTS OF CASH FLOWS
FINANCIAL SERVICES GROUP

<TABLE>
<CAPTION>

For the year (in millions)	1998	1997	1996
<S>	<C>	<C>	<C>
CASH PROVIDED BY (USED FOR) OPERATIONS			
Net income	$ 127	$ 111	$ 39
Adjustments to reconcile net income to net cash:			
Provision for amortization, depreciation and accretion	108	43	33
Gain on sales of securities available-for-sale	--	3	--
Mortgage loans held for sale	(183)	(99)	(88)

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Collections and remittances on loans serviced for others, net	129	193	(7)
Other	(99)	(70)	(65)
	82	181	(88)
CASH PROVIDED BY (USED FOR) INVESTMENTS			
Purchases of securities available-for-sale	(208)	(121)	(4)
Maturities of securities available-for-sale	300	210	98
Maturities and redemptions of securities held-to-maturity	349	308	322
Loans originated or acquired, net of principal collected on loans	(1,852)	(1,084)	(672)
Proceeds from sale of securities available-for-sale	53	844	206
Acquisitions	--	(13)	(11)
Capital expenditures for property and equipment	(39)	(18)	(15)
Other	28	28	2
	(1,369)	154	(74)
CASH PROVIDED BY (USED FOR) FINANCING			
Net increase (decrease) in deposits	(36)	128	(112)
Securities sold under repurchase agreements and short-term borrowings, net	788	(609)	285
Additions to debt	770	411	68
Payments of debt	(251)	(204)	(151)
Capital contributions from Parent Company	44	25	--
Proceeds from sale of subsidiary preferred stock	75	150	--
Dividends paid to Parent Company	(44)	(275)	(50)
Other	(5)	--	(7)
	1,341	(374)	33
Net increase (decrease) in cash and cash equivalents	54	(39)	(129)
Cash and cash equivalents at beginning of year	175	214	343
Cash and cash equivalents at end of year	$ 229	$ 175	$ 214

</TABLE>

See the notes to Financial Services Group summarized financial statements.

NOTES TO FINANCIAL
SERVICES GROUP SUMMARIZED
FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

MORTGAGE LOANS HELD FOR SALE

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

LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES

Loans receivable are stated at unpaid net principal balances, less the allowance for loan losses and net deferred loan origination fees and costs. The allowance for loan losses is increased by charges to income and by the portion of the purchase price related to credit risk on bulk purchases of loans, and decreased by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the group's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and current economic conditions.

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

Allowances established on the net outstanding principal balance of criticized graded loans range from 5 percent to 35 percent on Substandard classified loans, 36 percent to 70 percent on Doubtful classified loans, and 100 percent on Loss classified loans, respectively. The group uses general allowances for pools of loans with relatively similar risks based on management's assessment of homogeneous attributes, such as product types, markets, aging and collateral.

The group uses information on historic trends in delinquencies, charge-offs and recoveries to identify unfavorable trends. The analysis considers adverse trends in the migration of classifications to be an early warning of potential problems that would indicate a need to increase loss provisions over historic levels. The group also establishes a level of unallocated allowance to support the portfolio as a whole based on adverse conditions considered probable of resulting in losses in the loan portfolios, including certain segments or as a whole. For this portion of the allowance, group management considers the level, severity and trend of classified assets; level and trend of delinquent and non-accrual loans; recent loss experience trends; concentrations of credit; size of individual credit exposure; current economic conditions; and trends in portfolio volume, maturity and composition.

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

MORTGAGE-BACKED AND INVESTMENT SECURITIES

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

The operations of Guaranty Federal Bank (Guaranty) are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities mature or reprice at different times or in differing amounts. Guaranty is also subject to prepayment risk inherent on a portion of its adjustable-rate mortgage assets. To maintain acceptable levels of interest rate and liquidity risk, Guaranty enters into various types of interest rate contracts for purposes other than trading.

The net amount payable or receivable on interest rate contracts is recorded as an adjustment to interest income or expense (the accrual accounting method). Premiums paid for interest rate contracts, net of premiums received for those sold, are included in the carrying value of the related interest-earning assets or interest-bearing liabilities, and amortized as an adjustment to the yield of the designated assets or liabilities over the contract periods. These interest rate contracts had no significant impact on the group's effective interest yield for the years 1998, 1997 and 1996.

The company plans to adopt Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, effective

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beginning of 2000. This statement will require derivative positions to be recognized in the balance sheet at fair value. The company presently utilizes derivatives to manage interest rate risk and risk in its mortgage loan production operations. The company has not determined the effect of this statement on earnings or financial position upon adoption.

REAL ESTATE

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

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

MORTGAGE LOAN SERVICING RIGHTS

The group allocates a portion of the cost of originating a mortgage loan to the mortgage servicing right based on its fair value relative to the loan as a whole. Capitalized mortgage loan servicing rights are amortized in proportion to, and over the period of, estimated net servicing revenues.

The fair market value of originated mortgage servicing rights is estimated using buyers' quoted prices for servicing rights with similar attributes, such as loan type, principal balance, escrow and geographic location. Purchased mortgage servicing rights are recorded at cost.

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

[PICTURE]

FEDERAL INCOME TAXES

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

NOTE B - ACQUISITIONS

On November 14, 1998, the company signed a definitive merger agreement to acquire all of the outstanding stock of HF Bancorp, Inc. for $18.50 per share. Total assets, the majority of which are held by its subsidiary, Hemet Federal Savings & Loan Association (Hemet), are approximately $1 billion and consist primarily of residential, consumer and construction loans, mortgage-backed securities and short-term investments. Total liabilities approximate $0.9 billion and consist primarily of deposits. Hemet operates 18 branches in California. The purchase price of $118 million will consist of either all cash or a combination of company common stock and cash, and will be accounted for as a purchase business combination. The transaction, subject to the approval of regulatory authorities and HF Bancorp, Inc. shareholders, is anticipated to close during the second quarter of 1999.

On June 27, 1997, the company acquired all of the outstanding stock of California Financial Holding Company, the parent company of Stockton Savings Bank, F.S.B. (SSB), and merged the operations of SSB into Guaranty. Total assets and liabilities of SSB at acquisition were approximately $1.4 billion (primarily loans and securities) and $1.3 billion (primarily deposits and FHLB advances), respectively. At closing, the company issued approximately 1,614,000 shares of common stock valued at $96.1 million and paid approximately $47.3 million in cash. The excess of purchase price over the fair market value of net assets acquired of approximately $63 million is being amortized on the straight-line method over 25 years.

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Effective May 31, 1997, TIMC acquired 100 percent of the common stock of Knutson Mortgage Corporation, a corporation engaged in mortgage banking activities, for a purchase price of approximately $14.6 million. Effective February 1, 1996, TIMC acquired all of the stock of Western Cities Mortgage Corporation, a California-based mortgage banking entity, for a purchase price of $11.5 million. These transactions in 1997 and 1996 increased the production branch network by a total of 50 branches and the principal balance of the loan servicing portfolio by approximately $6.4 billion and $875 million, respectively.

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

NOTE C - LOANS RECEIVABLE

Loans receivable consisted of the following:

At year end (in millions)	1998	1997
Real estate mortgage	$ 4,632.9	$ 4,525.0
Construction and development (including residential)	4,702.6	2,975.1
Commercial and business	1,887.1	1,142.1
Consumer and other	877.3	590.2
	12,099.9	9,232.4
LESS:		
Unfunded portion of loans	3,927.7	2,709.7
Unamortized purchase premiums and discounts	(19.2)	(21.3)
Net deferred fees	3.9	2.0
Allowance for loan losses	86.6	91.1
	3,999.0	2,781.5
	$ 8,100.9	$ 6,450.9

Mortgages are primarily single-family adjustable-rate loans secured by properties located throughout the United States. Construction and development loans consist primarily of office, multi-family, retail, industrial and assisted living and are predominantly located in Texas, California, Florida, Georgia, Colorado, Illinois and Arizona. At year end 1998, the group had commitments to originate or purchase primarily variable-rate loans totaling approximately $2.0 billion. The amount to be ultimately funded is uncertain. See Note D below for information regarding mortgage loans securitized during 1998 and 1997.

Activity in the allowance for loan losses was as follows:

For the year (in millions)	1998	1997	1996
Balance, beginning of year	$ 91.1	$ 68.4	$ 65.5
Provision for loan losses	0.6	(1.7)	13.8
Additions related to acquisitions and bulk purchases of loans, net of adjustments	0.1	30.4*	(0.7)
Charge-offs, net of recoveries	(5.2)	(6.0)	(10.2)
Balance, end of year	$ 86.6	$ 91.1	$ 68.4

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</TABLE>

*Principally related to the acquisition of the loan portfolio of Stockton Savings Bank, F.S.B.

NOTE D - MORTGAGE-BACKED AND INVESTMENT SECURITIES

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

<TABLE>
<CAPTION>

At year end 1998 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
HELD-TO-MATURITY				
Mortgage-backed securities:				
FNMA certificates	$ 781.7	$ --	$ (18.1)	$ 763.6
FHLMC certificates	157.7	--	(3.6)	154.1
Collateralized mortgage obligations	184.0	--	(6.4)	177.6
Private issuer pass-through securities	290.0	--	(8.3)	281.7
	1,413.4	--	(36.4)	1,377.0
AVAILABLE-FOR-SALE				
Mortgage-backed securities:				
FNMA certificates	752.1	6.6	(2.0)	756.7
FHLMC certificates	1.7	--	--	1.7
GNMA certificates	0.1	--	--	0.1
Collateralized mortgage obligations	120.1	0.2	(0.1)	120.2
Private issuer pass-through securities	14.9	--	(2.0)	12.9
	888.9	6.8	(4.1)	891.6
Debt securities:				
Corporate securities	2.8	--	--	2.8
Equity securities, primarily Federal Home Loan Bank stock	176.9	--	--	176.9
	$ 1,068.6	$ 6.8	$ (4.1)	$ 1,071.3

</TABLE>

<TABLE>
<CAPTION>

At year end 1997 (in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
HELD-TO-MATURITY				
Mortgage-backed securities:				
FNMA certificates	$ 924.8	$ 0.1	$ (27.3)	$ 897.6
FHLMC certificates	186.9	--	(5.7)	181.2
Collateralized mortgage obligations	253.1	--	(8.7)	244.4
Private issuer pass-through securities	403.5	--	(10.1)	393.4
	1,768.3	0.1	(51.8)	1,716.6
AVAILABLE-FOR-SALE				
Mortgage-backed securities:				
FNMA certificates	892.3	2.8	(5.7)	889.4
FHLMC certificates	2.3	--	--	2.3
GNMA certificates	0.1	--	--	0.1
Collateralized mortgage obligations	1.0	0.1	--	1.1
Private issuer pass-through securities	57.8	--	(2.6)	55.2

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	953.5	2.9	(8.3)	948.1
Debt securities:				
Corporate securities	3.0	--	--	3.0
Equity securities, primarily Federal Home Loan Bank stock	85.8	0.4	--	86.2
	$ 1,042.3	$ 3.3	$ (8.3)	$ 1,037.3

</TABLE>

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

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

Guaranty securitized $164 million and $962 million of mortgage loans previously held in portfolio during 1998 and 1997, respectively. The transfer to mortgage-backed securities was recorded at the carrying value of the mortgage loans at the time of securitization. The group held $657 million and $768 million in such securities at year end 1998 and 1997, respectively.

[PICTURE]

NOTE E - DEPOSITS

Deposits consisted of the following:

<TABLE>
<CAPTION>

At year end	1998		1997	
	STATED RATE	AMOUNT	Stated Rate	Amount
(dollars in millions)				
<S>	<C>	<C>	<C>	<C>
Noninterest-bearing demand	--%	$ 152.1	--%	$ 160.0
Interest-bearing demand	2.08%	1,135.0	2.55%	1,107.7
Savings deposits	2.21%	207.3	2.27%	205.9
Time deposits	5.39%	5,843.7	5.63%	5,900.3
Deposit premium		0.3		0.9
		$ 7,338.4		$ 7,374.8

</TABLE>

Scheduled maturities of time deposits at year end 1998 are as follows:

<TABLE>
<CAPTION>

Time deposits	$100,000 OR MORE	LESS THAN $ 100,000	TOTAL
(in millions)			
<S>	<C>	<C>	<C>
3 months or less	$ 240.3	$ 1,353.5	$ 1,593.8
Over 3 through 6 months	192.3	1,125.2	1,317.5
Over 6 through 12 months	226.8	1,396.6	1,623.4
Over 12 months	178.9	1,130.1	1,309.0
	$ 838.3	$ 5,005.4	$ 5,843.7

</TABLE>

A summary of interest paid by the group is shown below:

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For the year (in millions)	1998	1997	1996
Interest on deposits	$ 356.9	$ 333.4	$ 310.8
Interest on borrowed funds	137.1	160.5	128.7
	$ 494.0	$ 493.9	$ 439.5

At year end 1998, time deposits maturity dates were as follows (in millions): 1999 - $4,534.7; 2000 - $626.2; 2001 - $374.0; 2002 - $265.9; 2003 - $40.6; 2004 and thereafter - $2.3.

NOTE F - SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

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

Information concerning borrowings under repurchase agreements is summarized as follows:

(dollars in millions)	1998	1997
AT YEAR END:		
Weighted average interest rate	--	5.90%
Mortgage-backed securities pledged to secure the agreements:		
Carrying value	$ --	$ 287.8
Estimated market value	--	281.3
FOR THE YEAR:		
Average daily balance	349.2	1,297.2
Maximum month-end balance	1,254.9	1,696.6

NOTE G - FEDERAL HOME LOAN BANK ADVANCES

Pursuant to collateral agreements with the Federal Home Loan Bank of Dallas (FHLB), advances are secured by a blanket floating lien on Guaranty's assets and by securities on deposits at the FHLB. The weighted average interest rate of the advances was 5.09 percent and 6.01 percent at year end 1998 and 1997, respectively. At year end 1998, the advances had calendar year maturity dates as follows (in millions): 1999 - $3,194.1; 2000 - $10.0; 2001 - $5.0; 2002 - $0; 2003 - $12.0; 2004 and thereafter - $0.

NOTE H - OTHER BORROWINGS

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

At year end (in millions)	1998	1997
Long-term debt with an average rate of 7.47% and 7.16% during 1998 and 1997, respectively, due through 2001	$ 170.0	$ 147.0
Long-term debt at various rates that approximate prime, secured primarily by real estate	39.8	20.5
	$ 209.8	$ 167.5

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=======   =======

</TABLE>

At year end 1998, a non-savings bank subsidiary had a $190 million credit facility that expires in 2001, with $20 million remaining unused.

Maturities of other borrowings are as follows (in millions): 1999 - $2.6; 2000 - $2.3; 2001 - $171.8; 2002 - $1.1; 2003 - $1.1; 2004 and thereafter - $30.9.

NOTE I - PREFERRED STOCK ISSUED BY SUBSIDIARY

In May 1997, Guaranty Preferred Capital Corporation (GPCC), a wholly owned subsidiary of Guaranty, issued 150,000 shares of noncumulative floating-rate preferred stock, with a liquidation preference of $1,000 per share. GPCC is a real estate investment trust (REIT) established for the purpose of acquiring, holding and managing real estate mortgage assets. Dividends on preferred stock are noncumulative and are payable when declared. If redeemed within a specified time after the tenth anniversary, the preferred stock may be redeemed for cash at the option of GPCC, in whole or in part, at a redemption price of $1,000 per share. The preferred stock is convertible to Guaranty preferred stock upon the occurrence of certain regulatory events. GPCC issued an additional $75 million of noncumulative floating-rate preferred stock on May 28, 1998.

NOTE J - MORTGAGE LOAN SERVICING

The group services mortgage loans that are owned primarily by independent investors. The group serviced approximately 256,300 and 351,600 mortgage loans aggregating $22.9 billion and $26.1 billion in outstanding principal balance as of year end 1998 and 1997, respectively.

This group is required to advance, from company funds, escrow and foreclosure costs on loans that it services. The majority of these advances are recoverable, except for certain amounts for loans serviced for GNMA, which are reserved. Market risk is assumed related to disposing of certain foreclosed VA loans. No significant losses were incurred during 1998, 1997 or 1996 in connection with this risk.

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

<TABLE>
<CAPTION>

At year end 1998 (in millions)	Purchased Loan Servicing Rights, Net	Originated Loan Servicing Rights, Net	Reserve For Impairment	Total
Balance, beginning of year	$ 159.0	$ 42.3	$ --	$ 201.3
Additions	46.5	71.7	--	118.2
Scheduled amortization	(40.2)	(15.8)	--	(56.0)
Basis in servicing sold	(23.6)	(8.8)	--	(32.4)
	141.7	89.4	--	231.1
Reserve for impairment	--	--	(16.8)	(16.8)
Balance, end of year	$ 141.7	$ 89.4	$(16.8)	$ 214.3

At year end 1997 (in millions)	Purchased Loan Servicing Rights, Net	Originated Loan Servicing Rights, Net	Reserve For Impairment	Total
Balance, beginning of year	$ 84.1	$ 24.7	--	$ 108.8
Additions	92.3(a)	22.8	--	115.1
Scheduled amortization	(17.0)	(5.2)	--	(22.2)
Basis in servicing sold	(0.4)	--	--	(0.4)
Balance, end of year	$ 159.0	$ 42.3	--	$ 201.3

</TABLE>

(a) Includes approximately $74 million relating to the acquisition of Knutson Mortgage Corporation.

During 1998, the group sold servicing rights on mortgage loans with approximately $4.5 billion in outstanding principal balance ($1.3 billion of which was not transferred until 1999), resulting in gains of $27.6 million. The

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estimated fair value of the capitalized mortgage servicing rights at year end 1998 was $217 million. Fair value was determined utilizing market-driven assumptions for prepayment speeds, discount rates and other variables.

NOTE K - INTEREST RATE RISK MANAGEMENT

In 1998, Guaranty entered into interest rate floor and collar agreements to minimize the effect a decline in interest rates might have on earnings due to acceleration of prepayments on Guaranty's mortgage assets. At year end 1998, Guaranty was a party to interest rate floors with a notional amount of $850 million and interest rate collars with a notional amount of $850 million.

The interest rate floor agreements will generate interest payments to Guaranty if the variable rate based on various Constant Maturity Swap (CMS) indices falls below the average strike rate of 5.25 percent. The interest rate collar agreements incorporate a floor from which Guaranty would receive payments if the CMS indices fall below the average strike rate of 5.02 percent and a cap that would require Guaranty to pay if the CMS indices exceed the average strike rate of 5.60 percent. The average of the CMS indices at year end 1998 was approximately 5.44 percent. These agreements mature in 1999.

Guaranty is also a party to various interest rate corridor agreements to reduce the impact of increases in interest rates on its investments in adjustable-rate mortgage-backed securities that have lifetime interest rate caps. Under these agreements with notional amounts totaling $319 million and

$379 million at year end 1998 and 1997, respectively, Guaranty simultaneously purchased and sold caps whereby it receives interest if the variable rate based on the FHLB Eleventh District Cost of Funds (EDCOF) Index (4.69 percent at year end 1998) exceeds an average strike rate of 8.80 percent, and pays interest if the same variable rate exceeds a strike rate of 11.75 percent. These agreements mature through 2003.

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

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

NOTE L - REGULATORY CAPITAL MATTERS

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

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Guaranty must meet specific capital guidelines that involve quantitative measures of Guaranty's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Guaranty's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. The payment of dividends from Guaranty is subject to proper regulatory notification.

Quantitative measures established by regulation to ensure capital adequacy require Guaranty to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital to risk-weighted assets, and of Tier I capital to adjusted tangible assets. Management believes, as of year end 1998, Guaranty met all its capital adequacy requirements.

As of year end 1998, the most recent notification from regulators categorized Guaranty as "well capitalized" under the regulatory framework for prompt corrective action. To be so categorized as "well capitalized," Guaranty must maintain minimum total risk-based, Tier I (Core) risk-based, and Tier I (Core) leverage capital ratios as set forth in the table. Because of loan growth experienced by Guaranty in 1998, changes in asset mix in Guaranty's balance sheet and prospective changes in Guaranty's risk-based capital calculation, Guaranty expects an increase in its capital requirements. As a result, the company expects to increase capital in Guaranty by up to $160 million in order to maintain its classification of "well capitalized."

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Guaranty's actual capital amounts and ratios are also presented in the table below. No amounts were deducted from capital for interest rate risk at year end 1998 or 1997.

<TABLE>
<CAPTION>

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in millions)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
At year end 1998:						
Total Risk-Based Ratio						
(Risk-based capital/total risk-weight assets)	$ 828.8	10.17%	>=$651.9	>=8.0%	>=$814.7	>=10.0%
Tier I (Core) Risk-Based Ratio						
(Core capital/total risk-weight assets)	$ 755.5	9.27%	>=$325.9	>=4.0%	>=$488.8	>= 6.0%
Tier I (Core) Leverage Ratio						
(Core capital/adjusted tangible assets)	$ 755.5	6.31%	>=$479.2	>=4.0%	>=$599.0	>= 5.0%
Tangible Ratio						
(Tangible capital/tangible assets)	$ 755.5	6.31%	>=$179.7	>=1.5%	N/A	N/A
At year end 1997:						
Total Risk-Based Ratio						
(Risk-based capital/total risk-weight assets)	$ 651.0	10.14%	>=$513.7	>=8.0%	>=$641.9	>=10.0%
Tier I (Core) Risk-Based Ratio						
(Core capital/total risk-weight assets)	$ 570.7	8.89%	>=$256.8	>=4.0%	>=$385.2	>= 6.0%
Tier I (Core) Leverage Ratio						
(Core capital/adjusted tangible assets)	$ 570.7	5.48%	>=$416.4	>=4.0%	>=$520.5	>= 5.0%
Tangible Ratio						
(Tangible capital/tangible assets)	$ 570.7	5.48%	>=$156.2	>=1.5%	N/A	N/A

</TABLE>

CONSOLIDATED STATEMENTS OF INCOME
TEMPLE-INLAND INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

For the year	1998	1997	1996
(in millions, except per share data)			
<S>	<C>	<C>	<C>
Revenues			
Manufacturing	$ 2,631	$ 2,680	$ 2,645
Financial services	1,109	945	815
	3,740	3,625	3,460
Costs and Expenses			
Manufacturing	2,514	2,613	2,447
Special charge	47	--	--
Financial services	955	813	752
	3,516	3,426	3,199
Operating Income	224	199	261
Parent Company interest, net	(106)	(110)	(110)
Other	6	6	5
Income before Taxes	124	95	156
Taxes on income	57	44	23
Income before Accounting Change	67	51	133
Cumulative effect of accounting change, net of tax	(3)	--	--
Net Income	$ 64	$ 51	$ 133
Earnings Per Share			
Basic:			
Income before accounting change	$ 1.22	$ 0.91	$ 2.39
Cumulative effect of accounting change, net of tax	(.06)	--	--

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Net Income	$ 1.16	$ 0.91	$ 2.39
Diluted:			
Income before accounting change	$ 1.21	$ 0.90	$ 2.39
Cumulative effect of accounting change, net of tax	(.06)	--	--
Net Income	$ 1.15	$ 0.90	$ 2.39

</TABLE>

See the notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
TEMPLE-INLAND INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

For the year (in millions)	1998	1997	1996
<S>	<C>	<C>	<C>
CASH PROVIDED BY (USED FOR) OPERATIONS			
Net income	$ 64	$ 51	$ 133
Adjustments to reconcile net income to net cash:			
Special charge	47	--	--
Cumulative effect of accounting change, net of tax	3	--	--
Depreciation and depletion	275	268	256
Amortization of goodwill	7	6	4
Deferred taxes	18	21	(11)
Amortization and accretion on financial instruments	90	26	20
Mortgage loans held for sale	(183)	(99)	(88)
Receivables	(12)	7	(11)
Inventories	9	(30)	23
Accounts payable and accrued expenses	(11)	(7)	(27)
Collections and remittances on loans serviced for others, net	129	193	(7)
Originated mortgage servicing rights	(72)	(23)	(18)
Other	(18)	(61)	(48)
	346	352	226
CASH PROVIDED BY (USED FOR) INVESTMENTS			
Capital expenditures for property and equipment	(214)	(251)	(290)
Proceeds from sale of property and equipment	28	53	7
Purchases of securities available-for-sale	(208)	(121)	(4)
Maturities of securities available-for-sale	300	210	98
Maturities and redemptions of securities held-to-maturity	349	308	322
Loans originated or acquired, net of principal collected on loans	(1,852)	(1,084)	(672)
Proceeds from sale of securities available-for-sale	53	844	206
Acquisitions and joint ventures, net	(121)	(22)	(38)
Acquisition of California Financial Holding Company, net of cash acquired	--	(22)	--
Other	6	27	(1)
	(1,659)	(58)	(372)
CASH PROVIDED BY (USED FOR) FINANCING			
Additions to debt	1,089	447	281
Payments of debt	(426)	(329)	(349)
Securities sold under repurchase agreements and short-term borrowings, net	788	(609)	285
Purchase of stock for treasury	(48)	(59)	(16)
Cash dividends paid to shareholders	(71)	(71)	(69)
Net increase (decrease) in deposits	(36)	128	(112)
Proceeds from sale of subsidiary preferred stock	75	150	--

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Other	(2)	9	(4)
	1,369	(334)	16
Net increase (decrease) in cash and cash equivalents	56	(40)	(130)
Cash and cash equivalents at beginning of year	188	228	358
Cash and cash equivalents at end of year	$ 244	$ 188	$ 228

</TABLE>

See the notes to the consolidated financial statements.

CONSOLIDATING BALANCE SHEETS
TEMPLE-INLAND INC. AND SUBSIDIARIES

<TABLE>
<CAPTION>

At year end 1998 (in millions)	Parent Company	Financial Services	Consolidated
<S>	<C>	<C>	<C>
ASSETS			
Cash and cash equivalents	$ 15	$ 229	$ 244
Mortgage loans held for sale	--	621	621
Loans receivable	--	8,101	8,101
Mortgage-backed and investment securities	--	2,485	2,485
Trade and other receivables	297	--	290
Inventories	335	--	335
Property and equipment	2,799	129	2,928
Other assets	188	835	986
Investment in Financial Services	708	--	--
TOTAL ASSETS	$ 4,342	$12,400	$ 15,990
LIABILITIES			
Deposits	$ --	$ 7,338	$ 7,338
Federal Home Loan Bank advances	--	3,221	3,221
Other liabilities	350	698	1,028
Long-term debt	1,583	210	1,793
Deferred income taxes	266	--	242
Postretirement benefits	145	--	145
Preferred stock issued by subsidiary	--	225	225
TOTAL LIABILITIES	$ 2,344	$11,692	$ 13,992
SHAREHOLDERS' EQUITY			
Preferred stock - par value $1 per share: authorized 25,000,000 shares; none issued			--
Common stock - par value $1 per share: authorized 200,000,000 shares; issued 61,389,552 shares including shares held in the treasury			61
Additional paid-in capital			357
Accumulated other comprehensive income (loss)			(17)
Retained earnings			1,810
			2,211
Cost of shares held in the treasury: 5,785,139 shares			(213)
TOTAL SHAREHOLDERS' EQUITY			1,998
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$ 15,990

</TABLE>

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CONSOLIDATING BALANCE SHEETS

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TEMPLE-INLAND INC. AND SUBSIDIARIES

At year end 1997 (in millions)	Parent Company	Financial Services	Consolidated
ASSETS			
Cash and cash equivalents	$ 13	$ 175	$ 188
Mortgage loans held for sale	--	439	439
Loans receivable	--	6,451	6,451
Mortgage-backed and investment securities	--	2,806	2,806
Trade and other receivables	281	--	277
Inventories	339	--	339
Property and equipment	2,813	103	2,916
Other assets	178	811	948
Investment in Financial Services	576	--	--
TOTAL ASSETS	$ 4,200	$10,785	$14,364
LIABILITIES			
Deposits	$ --	$ 7,375	$ 7,375
Securities sold under repurchase agreements and Federal Home Loan Bank advances	--	1,955	1,955
Other liabilities	325	562	871
Long-term debt	1,438	167	1,605
Deferred income taxes	252	--	223
Postretirement benefits	140	--	140
Preferred stock issued by subsidiary	--	150	150
TOTAL LIABILITIES	$ 2,155	$10,209	$12,319
SHAREHOLDERS' EQUITY			
Preferred stock - par value $1 per share: authorized 25,000,000 shares; none issued			--
Common stock - par value $1 per share: authorized 200,000,000 shares; issued 61,389,552 shares including shares held in the treasury			61
Additional paid-in capital			356
Accumulated other comprehensive income (loss)			(20)
Retained earnings			1,817
			2,214
Cost of shares held in the treasury: 5,069,011 shares			(169)
TOTAL SHAREHOLDERS' EQUITY			2,045
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			$14,364

See the notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
TEMPLE-INLAND INC. AND SUBSIDIARIES

(in millions)	Common Stock	Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
BALANCE AT YEAR END 1995	$ 61	$ 306	$ (14)	$ 1,773	$ (151)	$ 1,975
Comprehensive Income						

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Net income	--	--	--	133	--	133
Other comprehensive income:						
Unrealized gains on securities	--	--	(9)	--	--	(9)
Foreign currency translation adjustments	--	--	(1)	--	--	(1)
Total comprehensive income	--	--	--	--	--	123
Dividends paid on common stock -- $1.24 per share	--	--	--	(69)	--	(69)
Stock issued for stock plans -- 149,232 shares	--	(1)	--	--	3	2
Stock reacquired for treasury -- 358,623 shares	--	--	--	--	(16)	(16)
BALANCE AT YEAR END 1996	$ 61	$ 305	$ (24)	$ 1,837	$ (164)	$ 2,015
Comprehensive Income						
Net income	--	--	--	51	--	51
Other comprehensive income:						
Unrealized gains on securities of $3.0 million, net of reclassification adjustment for gains included in net income of $1.0 million	--	--	4	--	--	4
Total comprehensive income	--	--	--	--	--	55
Dividends paid on common stock -- $1.28 per share	--	--	--	(71)	--	(71)
Stock issued for acquisition of California Financial Holding Company -- 1,613,546 shares	--	48	--	--	48	96
Stock issued for stock plans -- 253,075 shares	--	3	--	--	6	9
Stock reacquired for treasury -- 994,830 shares	--	--	--	--	(59)	(59)
BALANCE AT YEAR END 1997	$ 61	$ 356	$ (20)	$ 1,817	$ (169)	$ 2,045
Comprehensive Income						
Net income	--	--	--	64	--	64
Other comprehensive income:						
Unrealized gains on securities of $6.0 million, net of reclassification adjustment for gains included in net income of $1.0 million	--	--	5	--	--	5
Minimum pension liability	--	--	(2)	--	--	(2)
Total comprehensive income	--	--	--	--	--	67
Dividends paid on common stock -- $1.28 per share	--	--	--	(71)	--	(71)
Stock issued for stock plans -- 134,430 shares	--	1	--	--	4	5
Stock reacquired for treasury -- 850,558 shares	--	--	--	--	(48)	(48)
BALANCE AT YEAR END 1998	$ 61	$ 357	$ (17)	$ 1,810	$ (213)	$ 1,998

</TABLE>

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NOTES TO THE CONSOLIDATED
FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, amounts due from banks, commercial paper, agency discount notes, federal funds sold, and other short-term liquid instruments with original maturities of three months or less.

TRANSLATION OF INTERNATIONAL CURRENCIES

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

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

INCOME TAXES

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

STOCK-BASED COMPENSATION

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

LONG-LIVED ASSETS

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

NOTE 2 - TAXES ON INCOME

Taxes on income from continuing operations consisted of the following:

<TABLE>

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For the year (in millions)	1998	1997	1996
Current Tax Provision:			
U.S. Federal	$ 30.8	$ 21.9	$ 27.2
State and other	7.6	2.2	6.5
	38.4	24.1	33.7
Deferred Tax Provision:			
U.S. Federal	15.5	15.2	(16.5)
State and other	0.8	4.9	5.9
	16.3	20.1	(10.6)
Provision for Income Taxes	$ 54.7	$ 44.2	$ 23.1

Earnings or losses from continuing operations consisted of the following:

For the year (in millions)	1998	1997	1996
Earnings (Losses):			
U.S.	$ 149.7	$ 104.1	$ 163.6
Non-U.S.	(30.6)	(9.1)	(7.6)
	$ 119.1	$ 95.0	$ 156.0

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

For the year (in millions)	1998	1997	1996
Taxes on income at statutory rate	$ 41.7	$ 33.3	$ 54.6
FDIC tax-sharing settlement	--	--	(31.5)
Book benefit of FDIC assistance and other permanent items	1.2	(0.8)	(11.6)
State and other taxes	4.6	5.1	8.1
Foreign losses not benefited	5.7	3.2	2.6
Goodwill	1.5	3.4	0.9
	$ 54.7	$ 44.2	$ 23.1

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

At year end (in millions)	1998	1997
Deferred Tax Liabilities:		
Depreciation	$ 399.9	$ 396.4
Timber and timberlands	40.0	41.9
Pensions	28.4	20.6
Other	69.0	63.3

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Total deferred tax liabilities	537.3	522.2
Deferred Tax Assets:		
Alternative minimum tax credits	292.9	264.3
Net operating loss carryforwards	31.6	78.0
OPEB obligations	55.7	54.6
Other	74.3	54.9
Total deferred tax assets	454.5	451.8
Valuation Allowance	(158.9)	(152.9)
Net deferred tax liability	$ 241.7	$ 223.3

</TABLE>

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

Income tax payments, net of refunds received, were $39 million, $21 million and $38 million during 1998, 1997 and 1996, respectively.

The company has domestic net operating loss carryforwards of $43 million that expire in 2009. In addition, the company has foreign net operating loss carryforwards of $35 million that expire from the year 2000 through the year 2008, and $13 million that may be carried forward indefinitely. Alternative minimum tax credits may be carried forward indefinitely.

As a result of the sale of Temple-Inland Food Service Corporation in 1997, the company realized a $2.3 million one-time increase in tax expense from non-deductible goodwill.

In connection with the acquisition of Guaranty in 1988, the company entered into an assistance agreement (Assistance Agreement) with the Federal Savings and Loan Insurance Corporation. Pursuant to the Assistance Agreement, the company received various tax benefits to be shared with the FDIC when the cash benefits were realized by the company. During the term of the Assistance Agreement, the company recorded these tax-sharing liabilities on an undiscounted basis. The company and the FDIC terminated the Assistance Agreement. As a part of this termination, the company and the FDIC agreed to a one-time payment that was based on the present value of the future liabilities. In 1996, the company recognized a credit to its tax provision of $31.5 million as a result of the completion of this transaction.

The Internal Revenue Service is examining the company's consolidated tax returns for the years 1987 through 1992. The resolution of these examinations is not expected to have a significant impact on the company's financial condition or results of operations.

[PICTURE]

NOTE 3 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and fair value of financial instruments were as follows:

<TABLE>
<CAPTION>

At year end (in millions)	1998		1997	
	CARRYING AMOUNT	FAIR VALUE	Carrying Amount	Fair Value
<S>	<C>	<C>	<C>	<C>
Financial Assets:				
Loans receivable	$ 8,100.9	$ 8,126.4	$ 6,450.9	$ 6,454.9
Mortgage-backed and investment securities	2,484.6	2,448.8	2,805.7	2,754.0
Financial Liabilities:				
Deposits	7,338.4	7,369.0	7,374.8	7,380.2
FHLB advances	3,220.9	3,223.1	1,685.0	1,687.9

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Total debt	1,794.4	1,850.8	1,608.1	1,675.8
Off-Balance-Sheet Instruments:				
Interest rate contracts	--	(4.9)	--	(2.3)
Commitments to extend credit	--	(1.6)	--	(0.7)

</TABLE>

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

NOTE 4 - SHAREHOLDER RIGHTS PLAN

During 1999, the Board of Directors extended the company's Shareholder Rights Plan in which one-half of a preferred stock purchase right (Right) was declared as a dividend for each common share outstanding. Each Right entitles shareholders to purchase, under certain conditions, one one-hundredth of a share of newly issued Series A Junior Participating Preferred Stock at an exercise price of $200. Rights will be exercisable only if a person or group acquires beneficial ownership of 20 percent or more of the 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 at $0.01 per Right at any time until the tenth business day following public announcement that a 20 percent position has been acquired. The Rights will expire on February 20, 2009.

NOTE 5 - EMPLOYEE BENEFIT PLANS

The company has pension plans covering substantially all employees. Plans covering salaried and 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 on an actuarial basis to accumulate assets sufficient to meet the benefits to be paid in accordance with the requirements of ERISA. Contributions to the plans are made to trusts for the benefit of plan participants.

The company provides medical and insurance benefits to certain eligible salaried and hourly employees who reach retirement age while employed by the company.

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

<TABLE>
<CAPTION>

At year end (in millions)	Pension Benefits 1998	Pension Benefits 1997	Postretirement Benefits 1998	Postretirement Benefits 1997
<S>	<C>	<C>	<C>	<C>
Benefit obligation at beginning of year	$ 507.3	$ 455.0	$ 114.9	$ 104.9
Service cost	14.7	13.7	3.0	2.7
Interest cost	37.0	35.5	8.3	8.3
Plan amendments	2.0	(0.4)	--	(1.6)
Actuarial (gain) loss	58.3	28.5	11.5	6.7
Termination benefits	5.8	1.3	0.8	--
Benefits paid	(28.6)	(26.3)	(6.6)	(7.0)
Retiree contributions	--	--	0.9	0.9

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Benefit obligation at end of year	$ 596.5	$ 507.3	$ 132.8	$ 114.9
Fair value of plan assets at beginning of year	$ 628.3	$ 528.2	$ --	$ --
Actual return	15.3	126.0	--	--
Benefits paid	(28.6)	(26.3)	--	--
Contributions	0.5	0.4	--	--
Fair value of plan assets at end of year	$ 615.5	$ 628.3	$ --	$ --
Funded status	$ 19.0	$ 121.0	$ (132.8)	$ (114.9)
Unrecognized net loss (gain)	41.3	(61.1)	(3.0)	(15.1)
Prior service costs not yet recognized	3.2	1.4	(9.1)	(9.9)
Unrecognized net transition obligation (asset)	(8.2)	(12.6)	--	--
Additional minimum liability	(5.3)	--	--	--
Prepaid (accrued) benefit cost	$ 50.0	$ 48.7	$ (144.9)	$ (139.9)

</TABLE>

The net prepaid pension benefit cost of $50.0 million at year end 1998 is comprised of pension plans with prepaid benefit cost totaling $75.4 million and accrued benefit liability totaling $25.4 million. Amounts applicable to the company's pension plans with accumulated benefit obligations in excess of plan assets are as follows:

<TABLE>
<CAPTION>

At year end (in millions)	1998	1997
Projected benefit obligation	$ 236.2	$ 12.8
Accumulated benefit obligation	$ 221.1	$ 9.9
Fair value of plan assets	$ 201.6	$ 0.9

</TABLE>

Significant assumptions used for the employee benefit plans follow:

<TABLE>
<CAPTION>

	Pension Benefits			Postretirement Benefits		
For the year	1998	1997	1996	1998	1997	1996
Weighted average assumptions:						
Discount rate	6.75%	7.50%	8.00%	6.75%	7.50%	8.00%
Expected long-term rate of return	9.00%	9.00%	9.00%	--	--	--
Rate of compensation increase	2.75%	3.50%	4.00%	--	--	--

</TABLE>

For measurement purposes, an 8.75 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 1999. The rate was assumed to decrease gradually to 6.0 percent for 2010, and remain at that level thereafter.

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

<TABLE>
<CAPTION>

	Pension Benefits			Postretirement Benefits		
For the year	1998	1997	1996	1998	1997	1996

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------------	----	----	----	----	----	----
(in millions)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
CHARGES (CREDITS)						
Service cost -- benefits earned during the period	$ 14.7	$ 13.7	$ 12.8	$ 3.0	$ 2.7	$ 2.7
Interest cost on projected benefit obligation	$ 37.0	35.5	32.2	8.3	8.3	8.5
Expected return on plan assets	(55.4)	(46.5)	(41.6)	--	--	--
Net amortization and deferral	(4.9)	(4.7)	(4.3)	(1.0)	(1.3)	(0.4)
Net periodic benefit cost (credit)*	$ (8.6)	$ (2.0)	$ (0.9)	$ 10.3	$ 9.7	$ 10.8

</TABLE>

*In addition, in 1998 the company recognized an additional $2.7 million relating to pension benefits and $0.8 million relating to postretirement benefits for curtailments resulting from employee terminations.

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefits. A 1 percentage point change in assumed health care cost trend rates would have the following effects:

<TABLE>
<CAPTION>

	1 Percentage Point Increase	1 Percentage Point Decrease
<S>	<C>	<C>
Effect on total of service and interest cost components for the year 1998	$ 1.1	$ (1.0)
Effect on postretirement benefit obligation at year end 1998	$ 11.2	$ (10.9)

</TABLE>

NOTE 6 - STOCK OPTION PLANS

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

A summary of stock option activity follows:

<TABLE>
<CAPTION>

For the year	1998		1997		1996	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
(shares in thousands)						
Outstanding beginning of year	1,430	$ 47	1,626	$ 45	1,404	$ 45
Granted	654	56	201	56	456	43
Exercised	(139)	38	(303)	41	(144)	32
Forfeited	(53)	50	(94)	50	(90)	48
Outstanding end of year	1,892	$ 51	1,430	$ 47	1,626	$ 45
Weighted average fair value of options granted during the year	$ 17.68		$ 18.24		$ 13.07	

</TABLE>

Options exercisable at year end were (in thousands):

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1998 - 737; 1997 - 658; and 1996 - 769. The weighted average exercise price for options exercisable at year end 1998 was $48 per share, and $46 per share for year end 1997. Exercise prices for options outstanding at year end 1998 range from $12 to $66. The weighted average remaining contractual life of these options is seven years. An additional 2,182,000 and 3,284,000 shares of common stock were available for grants at year end 1998 and 1997, respectively. A restricted stock plan also provides for a maximum of 300,000 shares of restricted common stock to be reserved for awards. At year end 1998, awards of 152,123 shares of restricted common stock were outstanding at an average price of $49.50 per share.

The fair value of the options granted in 1998, 1997 and 1996 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

For the year	1998	1997	1996
Expected dividend yield	2.0%	2.1%	2.6%
Expected stock price volatility	28.7%	27.3%	26.5%
Risk-free interest rate	4.8%	5.6%	6.5%
Expected life of options	7.0 years	8.0 years	7.0 years

Assuming that the company had accounted for its employee stock options using the fair value method and amortized such to expense over the options' vesting period, pro forma net income and diluted earnings per share would have been $61.7 million and $1.10 per diluted share in 1998; $49.1 million and $0.87 per diluted share in 1997; and $131.5 million and $2.37 per diluted share in 1996. The pro forma disclosures may not be indicative of future amounts due to changes in subjective input assumptions and because the options vest over several years with additional future option grants expected.

NOTE 7 - EARNINGS PER SHARE

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

For the year (in millions)	1998	1997	1996
Numerator for basic and diluted earnings per share:			
Income before accounting change	$ 67.7	$ 50.8	$ 132.8
Accounting change, net of tax	$ (3.2)	$ --	$ --
Net income	$ 64.5	$ 50.8	$ 132.8
Denominator for basic earnings per share--weighted average shares outstanding	55.8	56.0	55.5
Dilutive effect of stock options	0.1	0.2	0.1
Denominator for diluted earnings per share	55.9	56.2	55.6

NOTE 8 - ACCUMULATED OTHER COMPREHENSIVE INCOME

The components of other comprehensive income are as follows:

	Currency Translation Adjustments	Unrealized Gains on Available-for-Sale Securities	Minimum Pension Liability	Total

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<S>	<C>	<C>	<C>	<C>
Balance at year end 1996	$ (17)	$ (7)	$ --	$ (24)
Unrealized gains on available-for-sale securities	--	7	--	7
Deferred taxes relating to unrealized gains on available-for-sale securities	--	(3)	--	(3)
Balance at year end 1997	(17)	(3)	--	(20)
Unrealized gains on available-for-sale securities	--	8	--	8
Deferred taxes relating to unrealized gains on available-for-sale securities	--	(3)	--	(3)
Minimum pension liability	--	--	(4)	(4)
Deferred taxes relating to minimum pension liability	--	--	2	2
Balance at year end 1998	$ (17)	$ 2	$ (2)	$ (17)

</TABLE>

NOTE 9 - COMMITMENTS AND CONTINGENCIES

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

In the opinion of management, recoveries, 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 statements of the company and its subsidiaries.

NOTE 10 - SEGMENT INFORMATION

The company has three reportable segments: paper, building products and financial services. The paper segment manufactures corrugated packaging and bleached paperboard products. The building products segment manufactures a variety of building materials and manages the company's timber resources. The financial services segment operates a savings bank and also engages in mortgage banking, real estate development and insurance activities.

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

<TABLE>
<CAPTION>

For the year or at year end 1998 (in millions)	Paper	Building Products	Financial Services	Corporate and Other	Total
<S>	<C>	<C>	<C>	<C>	<C>
Revenues from external customers	$ 2,017.6	$ 613.0	$ 1,109.5	$ --	$ 3,740.1
Depreciation, depletion and amortization	206.6	52.9	18.2	4.1	281.8
Operating income	32.5	112.5	154.1	(75.3)*	223.8
Financial Services, net interest income	--	--	243.5	--	243.5
Total assets	2,486.6	1,043.2	12,399.6	60.9	15,990.3
Investment in equity method investees	7.7	29.4	2.8	--	39.9
Capital expenditures	96.5	73.1	38.9	5.6	214.1

</TABLE>

*Includes a special charge of $47.4 million, of which $37.5 million applies to

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the paper segment and $9.9 million applies to the building products segment.

(in millions)	Paper	Building Products	Financial Services	Corporate and Other	Total
For the year or at year end 1997:					
Revenues from external customers	$ 2,062.9	$ 617.3	$ 945.2	$ --	$ 3,625.4
Depreciation, depletion and amortization	204.7	50.2	15.5	3.4	273.8
Operating income	(39.0)	131.1	132.1	(24.6)	199.6
Financial Services, net interest income	--	--	220.7	--	220.7
Total assets	2,609.9	913.7	10,784.7	55.7	14,364.0
Investment in equity method investees	7.1	19.2	3.8	--	30.1
Capital expenditures	150.6	68.7	17.7	13.5	250.5
For the year or at year end 1996:					
Revenues from external customers	$ 2,082.3	$ 562.6	$ 815.4	$ --	$ 3,460.3
Depreciation, depletion and amortization	197.9	45.8	12.4	3.9	260.0
Operating income	113.0	102.0	63.1	(17.2)	260.9
Financial Services, net interest income	--	--	195.5	--	195.5
Total assets	2,701.7	870.5	9,335.1	39.8	12,947.1
Investment in equity method investees	6.2	21.2	0.9	--	28.3
Capital expenditures	143.8	122.6	15.1	8.9	290.4

[PICTURE]

The following table of data includes revenues, property and equipment based on the location of the operation.

GEOGRAPHIC INFORMATION

(in millions)	1998	1997	1996
FOR THE YEAR:			
Revenues from external customers			
United States	$ 3,629.8	$ 3,535.9	$ 3,391.0
Canada	3.6	--	--
Mexico	64.2	49.7	41.8
South America	42.5	39.8	27.5

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Total	$ 3,740.1	$ 3,625.4	$ 3,460.3
AT YEAR END:			
Property and equipment			
United States	$ 2,805.9	$ 2,847.5	$ 2,871.3
Canada	55.6	--	--
Mexico	26.6	27.9	18.5
South America	39.6	40.9	41.1
Total	$ 2,927.7	$ 2,916.3	$ 2,930.9

</TABLE>

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

Selected quarterly financial results for the years 1998 and 1997 are summarized below:

<TABLE>
<CAPTION>

(in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<S>	<C>	<C>	<C>	<C>
1998*				
Total revenues	$ 944.6	$ 940.7	$ 943.7	$ 911.1
Manufacturing net sales	682.2	671.2	667.4	609.8
Manufacturing gross profit	98.0	108.4	104.1	84.1
Financial Services operating income before taxes	36.7	41.0	36.1	40.3(a)
Net income:				
Income before accounting change	26.4	34.6	24.4	(17.7)(b)
Accounting change, net of tax	(3.2)	--	--	--
Net Income	$ 23.2	34.6	24.4	(17.7)
Earnings per share:				
Basic:				
Income before accounting change	$ 0.47	$ 0.62	$ 0.44	$ (0.32)
Accounting change, net of tax	(0.06)	--	--	--
Basic earnings per share	$ 0.41	$ 0.62	$ 0.44	$ (0.32)
Diluted:				
Income before accounting change	$ 0.47	$ 0.62	$ 0.44	$ (0.32)
Accounting change, net of tax	(0.06)	--	--	--
Diluted earnings per share	$ 0.41	$ 0.62	$ 0.44	$ (0.32)
1997				
Total revenues	$ 850.9	$ 907.9	$ 938.4	$ 928.2
Manufacturing net sales	649.0	687.1	678.2	665.9
Manufacturing gross profit	81.9	84.9	75.8	89.8
Financial Services operating income before taxes	29.5	32.4	37.4	32.8
Net income	13.2	15.6	12.6	9.4
Earnings per share:				
Basic	$ 0.24	$ 0.28	$ 0.22	$ 0.17
Diluted	$ 0.24	$ 0.28	$ 0.22	$ 0.17

</TABLE>

* First quarter 1998 restated for the cumulative after-tax effect of the change in method of accounting for start-up costs.

(a) Includes $10.0 million gain on sale of investment property.

(b) Includes special charge of $47.4 million.

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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 that evaluates and formally reports on the adequacy and effectiveness of internal accounting controls, policies and procedures.

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

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

/s/ CLIFFORD J. GRUM

Clifford J. Grum
Chairman of the Board and
Chief Executive Officer

/s/ DAVID H. DOLBEN

David H. Dolben
Vice President and
Chief Accounting Officer

REPORT OF INDEPENDENT AUDITORS

TO THE BOARD OF DIRECTORS
AND SHAREHOLDERS OF TEMPLE-INLAND INC.:

We have audited the accompanying consolidated balance sheets of Temple-Inland Inc. and subsidiaries as of January 2, 1999, and January 3, 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended January 2, 1999. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Temple-Inland Inc. and subsidiaries at January 2, 1999, and January 3, 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended January 2, 1999, in conformity with generally accepted accounting principles.

As discussed in Note A to the financial statements, in 1998 the company changed its method of accounting for start-up costs.

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/s/ ERNST & YOUNG LLP

Houston, Texas
January 29, 1999

Appendix to Exhibit 13

Page 31 Picture of family shopping for greeting cards.

Page 35 Picture of forester measuring tree.

Page 41 Picture of man standing by stack of gypsum wallboard at a construction site.

Page 47 Picture of couple in newly remodeled kitchen showing cabinets and laminate flooring.

Page 50 Picture of family at kitchen table with mortgage loan officer.

Page 61 Picture of family with sporting goods in high-graphic corrugated packaging.

Page 67 Picture of customer in pet store with pet food in high-graphic corrugated packaging.

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EXHIBIT 21

SUBSIDIARIES OF TEMPLE-INLAND INC.

Name (Jurisdiction of Incorporation)
All Subsidiaries are wholly-owned unless noted otherwise.

INLAND CONTAINER CORPORATION I (DELAWARE)

- Inland Paperboard and Packaging, Inc.(Delaware)
  - El Morro Corrugated Box Corporation (Delaware)
  - El Morro Corrugated Box Corporation (Puerto Rico)
  - Georgia Kraft Company (Delaware)
    - Sabine River & Northern Railroad Company (Texas)
  - Inland Argentina, Inc. (Delaware)
    - Inland Argentina S.A. (Argentina)
  - Inland Chile I, Inc. (Delaware)
    - Manufacturas y Embalajes Inland Chile Limitada (Chile)
  - Inland Chile II, Inc. (Delaware)
  - Inland Container FSC, Inc. (U.S. Virgin Islands)
  - Inland International Holding Company (Delaware)
    - Inland Corrugados de Mexico, S.A. de C.V. (Mexico)
      - Inland Corrugados de Guanajato, S.A. de C.V. (Mexico)
      - Inland Corrugados de Monterrey, S.A. de C.V. (Mexico)
      - Inland Corrugados de Sinaloa, S.A. de C.V. (Mexico)
    - TinCorr S.A. (Uruguay)
  - Inland Paper Company, Inc. (Indiana)
  - Wesland Container LLC (Arkansas) (50% interest)

TEMPLE-INLAND FINANCIAL HOLDINGS INC. (NEVADA)

TEMPLE-INLAND FOREST PRODUCTS CORPORATION (DELAWARE)

- The Angelina Free Press, Inc. (Texas)
- Del-Tin Fiber L.L.C. (Arkansas) (50% interest)
- Eastex Incorporated (Texas)
- Evadale Realty Company (Delaware)
  - Bestile Manufacturing Company (California)
- Fortra Fiber-Cement L.L.C. (Delaware)(50% interest)
- Home Owners Trust Company (Texas)
- Inland Eastex Extrusion Company (Delaware)
- Sabine Investment Company of Texas, Inc. (Texas)
- Scotch Investment Company (Texas)
- Scotch Properties Management Inc. (Delaware)
- Southern Pine Lumber Company (Texas)
- Southern Pine Plywood Co. (Texas)
- Standard Gypsum L.L.C. (Texas)(50% interest)
- Templar Essex Inc. (Delaware)

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Temple Associates, Inc. (Texas)
Temple-Eastex Incorporated (Delaware)
Temple Industries, Inc. (Texas)
Temple-Inland Food Service Corporation (Delaware)
Temple-Inland Forest Products International Inc. (Delaware)
Planfosur S. de R.L. de C.V. (Mexico)
Plantaciones Forestales del Sureste, S.A. de C.V. (Mexico)
Temple Pembroke Inc. (New Brunswick, Canada)
507789 N.B. Inc. (New Brunswick, Canada)
Temple-Inland Recaustisizing Company (Delaware)
Temple-Inland Recovery Company (Delaware)
Temple-Inland Stores Company (Delaware)
Temple-Inland Trading Company (Delaware)
Temple Lumber Company (Texas)(100%)
Texas Southeastern Railroad Company (Texas)
Topaz Oil Company (Texas)

SUBSIDIARIES OF TEMPLE-INLAND INC. (CONTINUED)

Name (Jurisdiction of Incorporation)
All Subsidiaries are wholly-owned unless noted otherwise.

TEMPLE-INLAND FINANCIAL SERVICES INC. (DELAWARE)

Guaranty Holdings Inc. I (Delaware)
Guaranty Federal Bank, F.S.B. (Federal)
Guaranty Group Inc. (Texas)
MBHC Inc. (Nevada)
Temple-Inland Mortgage Corporation (Nevada)
Knutson Mortgage Corporation (Delaware)
Western Cities Mortgage Corporation (California)
Participation Purchase Corporation (Nevada)
RWHC Inc.(Nevada)
Guaranty Preferred Capital Corporation (Nevada)
Stockton Financial Corporation (California)
Stockton Service Corporation (California)
501 Weber Bldg., Inc. (California)
Temple-Inland Properties Inc. (Delaware)
Texas Mezzanine Fund Inc. (Texas)
Stanford Realty Advisors, Inc. (Delaware)
LIC Investments Inc. (Delaware)
IBHC Inc. (Delaware)
Lumbermen's Investment Corporation (Delaware)

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Brehm-Aviara Group LLC (California)
CNB/LIC Investors Ltd. (Texas)
LIC Financial Corporation (Delaware)
LIC Ventures, Inc. (Delaware)
Tampa Palms Apartments, Ltd. (Florida) (69% interest)
Onion Creek Wastewater Corporation (Texas)
Olympia Joint Venture (Texas) (50% interest)
Sunbelt Insurance Company (Texas)
TEEC Inc. (Texas)
Timberline Insurance Managers, Inc. (Texas)
Premium Acceptance Corporation (Texas)
Rubiola, Blair & Associates, Inc. (Texas)
The Insurance Marketplace, Inc. (Texas)
West Houston Residential Development Partners (Texas)
(60% interest)
Temple-Inland Capital Inc. (Delaware)
Temple-Inland Life Inc. (Nevada)
Temple-Inland Insurance Corporation (Delaware)
EB Holdings Inc. (Delaware)
Temple-Inland Realty Inc. (Delaware)
Temco Associates (Georgia)(50% interest)

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EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Temple-Inland Inc. of our report dated January 29, 1999, included in the 1998 Annual Report to Shareholders of Temple-Inland Inc.

We consent to the incorporation by reference in each of the following Registration Statements filed by Temple-Inland Inc. and in each related Prospectus of our report dated January 29, 1999, with respect to the consolidated financial statements of Temple-Inland Inc. incorporated by reference in the Annual Report (Form 10-K) for the year ended January 2, 1999, and our report dated January 29, 1999, with respect to the financial statement schedule included in this Annual Report (Form 10-K) for the year ended January 2, 1999.

REGISTRATION STATEMENT NO.	PURPOSE
No. 33-23132	Registration Statement on Form S-8
No. 33-25650	Post-Effective Amendment Number 1 on Form S-8
No. 33-27286	Post-Effective Amendment Number 1 on Form S-8
No. 33-32124	Post-Effective Amendment Number 2 on Form S-8
No. 33-43802	Registration Statement on Form S-8
No. 33-48034	Registration Statement on Form S-8
No. 33-54388	Registration Statement on Form S-8
No. 33-63104	Registration Statement on Form S-8
No. 333-27469	Registration Statement on Form S-8
No. 333-52189	Registration Statement on Form S-3
No. 333-71699	Registration Statement on Form S-4

/s/ ERNST & YOUNG LLP

Houston, Texas
March 25, 1999

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