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# T E M P L E

# I N L A N D

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# A N N U A L

# R E P O R T

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*Temple-Inland Inc. is a Diboll, Texas-based holding company with major interests in paper, packaging, building products, timber and timberlands, and financial services.*

The three principal subsidiaries of the Company operate four distinct business units: Inland Container Corporation, the Corrugated Container Group; Temple-Inland Forest Products Corporation, the Bleached Paperboard Group and Building Products Group; and Temple-Inland Financial Services Inc., the Financial Services Group, which includes Guaranty Federal Bank, F.S.B., Temple-Inland Mortgage Corporation, Lumbermen's Investment Corporation and Timberline Insurance Managers, Inc.

Inland Container Corporation operates seven mills in the U.S., four of which are 100 percent recycle mills, and 48 corrugated box and specialty converting plants throughout the U.S. and in Puerto Rico, Mexico and South America. In 1995, this Group produced 2.5 million tons of containerboard (linerboard and corrugating medium) and 2.1 million tons of corrugated boxes.

Temple-Inland's bleached paperboard production is concentrated in one large mill located in Evadale, Texas. This Group operates in four distinct market segments: food service containers, office supplies, packaging and commercial printing. In 1995, this Group completed a modernization and expansion program that will allow Temple-Inland to produce approximately 9 percent of the world's bleached paperboard.

The Company's Building Products Group produces a wide range of building materials including lumber, plywood, gypsum wallboard, particleboard and fiberboard. This Group completed construction of a new particleboard plant in the fourth quarter of 1995 that will increase the Company's particleboard capacity by 50 percent.

Temple-Inland is a major landowner in the South and controls (either through fee ownership or long-term leases) approximately 1.9 million acres of forestland in Texas, Louisiana, Georgia and Alabama.

Guaranty Federal Bank, F.S.B. is headquartered in Dallas and operates 113 branches in Dallas, Fort Worth, Houston, Austin, San Antonio and surrounding areas. With over $9 billion in assets, it is the sixth largest financial institution in Texas, and the largest not owned by an out-of-state bank holding company.

Temple-Inland Mortgage Corporation operates nationally, and at year-end 1995 was servicing a mortgage portfolio of over $13 billion.

Lumbermen's Investment Corporation is involved in real estate development projects, while Timberline Insurance Managers, Inc. is operated as a general insurance agency as well as serving the Company's insurance needs.

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

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| At year end *(in millions, except per share data)* | 1995 | 1994 | *Percent Change* |
|---|---|---|---|
| **FINANCIAL HIGHLIGHTS** | | | |
| Total Revenues | **$ 3,460** | $ 2,938 | 18 % |
| Manufacturing Net Sales | **$ 2,696** | $ 2,306 | 17 % |
| Combined Operating Earnings | **$ 522** | $ 270 | 93 % |
| Net Income | **$ 281** | $ 131 | 115 % |
| Earnings Per Share | **$ 5.01** | $ 2.35 | 113 % |
| Dividends Per Share | **$ 1.14** | $ 1.02 | 12 % |
| Shareholders' Equity | **$ 1,975** | $ 1,783 | 11 % |
| Book Value Per Share | **$ 35.46** | $ 31.84 | 11 % |
| Average Shares Outstanding | **56.1** | 55.9 | – % |
| Common Shares Outstanding at Year End | **55.7** | 56.0 | (1) % |

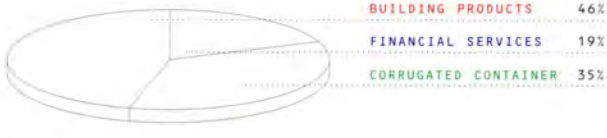
| *(in millions)* | 1995 | 1994 | *Percent Change* |
|---|---|---|---|
| **SELECTED BUSINESS SEGMENT DATA** | | | |
| MANUFACTURING NET SALES | | | |
| Corrugated Container | **$ 1,825** | $ 1,438 | 27 % |
| Bleached Paperboard | **$ 369** | $ 299 | 23 % |
| Building Products | **$ 502** | $ 549 | (9) % |
| OPERATING EARNINGS | | | |
| Corrugated Container | **$ 344** | $ 102 | 237 % |
| Bleached Paperboard | **$ 19** | $ (22) | – % |
| Building Products | **$ 61** | $ 133 | (54) % |
| Financial Services | **$ 98** | $ 56 | 75 % |

COMBINED OPERATING EARNINGS

$522 Million **1995**




$270 Million* **1994**




*Bleached paperboard did not contribute to operating earnings in 1994.

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CLIFFORD J. GRUM *Chairman and Chief Executive Officer*

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## TO OUR SHAREHOLDERS

*1995 was a record year for Temple-Inland. Financial results reached a new peak, and we achieved several important goals of our corporate strategic plan.*

Record revenues of $3.5 billion were up 18 percent from last year, and earnings per share of $5.01 were another record. Both the Corrugated Container and Financial Services Groups had record earnings, with the Building Products Group enjoying another good year despite lethargic markets throughout most of the year. The Bleached Paperboard Group returned to profitability despite expenses and inefficiencies related to the start-up of the Group's new paper machine and associated equipment.

Equally important was achieving significant elements of our strategic plan to become the most profitable company in this industry. These achievements include development of new products that generate improved margins as well as productivity efficiencies in servicing an expanding customer base. Continuous improvement programs to eliminate waste from all manufacturing entities were important to our cost structure in 1995, and further reductions are anticipated this year. With the exception of cost increases in both wood fiber and recycled containers, productivity improvements have allowed us to maintain cost increases below the level of inflation.

Being a low-cost producer is important to Temple-Inland's future success as is the commitment to be the preferred supplier to our customers. We are coupling these efforts with a market strategy to expand less cyclical product categories.

The Corrugated Container Group's efforts to increase its share of the specialty container market accelerated during the year. We will target almost doubling 1995 production to achieve the goal of increasing sales of high-graphic boxes to about one-third of output. To reach this objective, we upgraded the graphic technology of many of the Company's existing box plants in 1995 and constructed a West Coast facility at Ontario, California, for our Rand-Whitney Packaging unit. Rand-Whitney Packaging, a recognized leader in litho-laminate corrugated packaging and high-graphic folding cartons, was acquired in 1994 and is now in a position to serve customers on a national basis. In 1995, we acquired two specialty packaging companies that will complement Rand-Whitney Packaging and establish a market presence in display containers for point-of-sale merchandise in retail outlets. The Graphics Resource Center in Indianapolis, which creates design concepts for many of our specialized boxes, continued to increase its productivity and profitability.

In an effort to extend penetration of developing international markets, the Company completed a box plant in Santiago, Chile, and a new corrugated sheet plant in Los Mochis, Mexico.

In 1996, we will convert the Los Mochis facility to a full corrugated box plant, positioning the Company with three box plants in Mexico and one each in Argentina and Chile. Although production of these plants improved in 1995, they are still basically in start-up or modernization mode and should show dramatic financial improvement over the next few years. We continue to look for additional opportunities in the developing world, with the objective of having more than 10 percent of our boxes produced in international markets by the year 2000.

The $500 million modernization and expansion of our Evadale bleached paperboard mill was completed in the fourth quarter, enhancing product mix to include lighter-weight and lower-density grades, the paperboard of choice for premium packaging of upscale products. The board's high printability also offers a variety of cover grades for items such as annual reports, greeting cards and sales

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brochures. Many potential customers are already testing our new capabilities, and we expect to actively sell into these markets in 1996. New markets generally take time to develop; therefore, 1996 will be a year of transition, with production levels expanding as the year progresses. As a result of this modernization and expansion program, the Bleached Paperboard Group is poised to serve a much larger market segment with improved quality for all our products.

The construction of a new particleboard plant in Hope, Arkansas, was completed in December 1995, increasing our annual capacity of this building material by 50 percent. As this new volume is available in the first quarter of 1996, we will begin the modernization of our three existing particleboard plants to elevate their technology to current standards. After completion of these modernizations in 1997, we should have the most efficient particleboard plants in the United States for manufacture of industrial panels for quality kitchen cabinets and furniture. Expanded particleboard production is an important goal in our growth strategy to increase penetration in markets that are more stable than the traditional cyclical pattern of new residential housing.

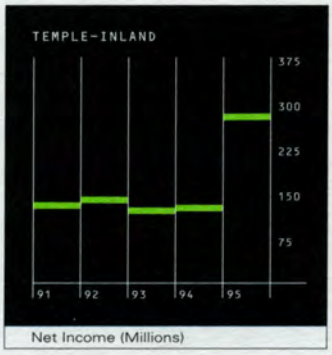
Our building material strategy includes upgrading lumber product mix and manufacturing wood substitutes to replace lumber in many commodity applications in both residential and commercial construction. An important new panel product will be introduced through a joint venture to manufacture medium-density fiberboard (MDF) in Arkansas. MDF replaces lumber as a more economical product in molding applications in both furniture and residential structures. This venture is now scheduled to be operational in 1998.

We also modified the product strategy during the year for lumber operations, the single largest contributor to the revenues of the Building Products Group. Even though about 50 percent of the logs converted to lumber by our five converting units were generated by Temple-Inland forests, raw material cost increased because the price for purchased timber from outside sources continued to escalate in 1995. Selling prices for lumber declined because of increased imports of Canadian lumber products, and profit margins were severely impacted. Most of these imports are commodity items, and we chose to modify lumber production to increase specialty grades. Actual lumber production will probably decline in 1996 as a result of this change, but profitability should improve.

An additional building material strategy was achieved by elimination of the Company's retail lumber yards in Houston, Texas, which was completed through the sale of two properties in 1995. These transactions allow us to re-deploy the proceeds received from the sale of the two properties into our manufacturing operations and eliminate competition with valued customers in this important market. The contribution of these retail units was not significant to overall results.

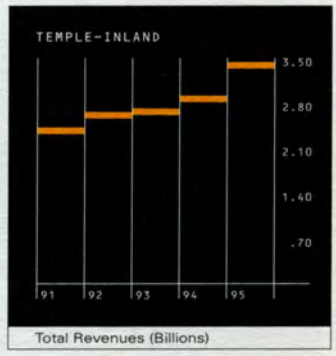
In 1988, when we acquired the initial units of Guaranty Federal Bank, the assets were largely low-quality loans and repossessed properties. The government guaranteed the collection of these assets pursuant to an Assistance Agreement, and our efforts were directed to convert them to cash with maximum savings to the FDIC. By October 1995, these assets had been substantially reduced and the government elected to repurchase the remaining assets, thereby eliminating the Assistance Agreement.

As we expanded Guaranty through acquisitions, the transactions included assumption of deposits with cash as the offsetting asset. Since we were unable to generate immediate acceptable loan volumes, the cash was invested



Net Income (Millions)

**Record revenues of $3.5 billion were up 18 percent from last year, and earnings per share of $5.01 were another record. Both the Corrugated Container and Financial Services Groups had record earnings, with the Building Products Group enjoying another good year. The Bleached Paperboard Group returned to profitability and contributed to earnings despite expenses related to the start-up of the Group's new paper machine.**



Total Revenues (Billions)

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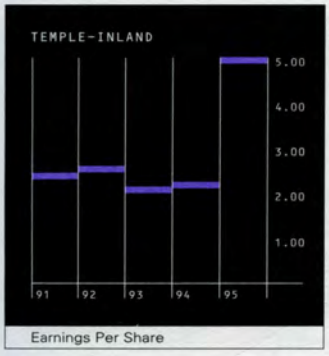
in marketable securities. The strategic goal is to convert most of the securities in this portfolio to single-family adjustable rate mortgage loans. By the end of 1995, loans exceeded securities, and we are well on the way to the goal of increasing earning power and developing a competitive and focused financial services operation. Equally important, we have continued to reduce our cost structure. Net non-interest expenses are below 100 basis points, one of the best ratios for any savings bank in the country. This cost savings was important in producing record earnings approaching $100 million in 1995.

In today's environment of change and new market development, our strategy continues to be a commitment to satisfy customers' needs for improved or new products while increasing profitability in manufacturing these items. Goals may change with new technology, but this strategy remains Temple-Inland's corporate cornerstone.

products, and this condition continued into the first quarter of 1996 at relatively static levels, probably reflecting the poor performance of the consumer segment of the economy. No doubt, profits will continue under pressure in the first half of 1996, but if the economy improves as expected, we could enjoy stronger markets in the last half of the year.

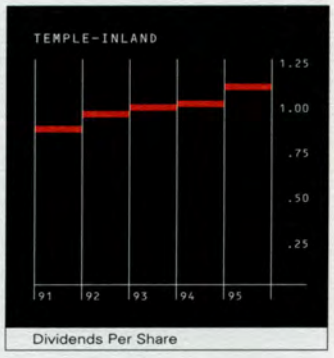
Building material markets should improve as consumer optimism recovers and mortgage rates remain attractive, which also could be beneficial to financial services.

The record results of 1995 would not have been possible without the efforts of all of our employees. I thank them for their accomplishments and especially for their commitment to build for the future. On behalf of the employees of your Corporation, we will continue our efforts to make 1996 another exceptional year.



Earnings Per Share

**The construction of a new particleboard plant in Hope, Arkansas, was completed in December 1995, increasing our annual capacity of this building material by 50 percent. As we complete the modernization of three existing particleboard plants in 1997, we should have the most efficient particleboard plants in the United States for manufacture of industrial panels for quality kitchen cabinets and furniture.**



Dividends Per Share

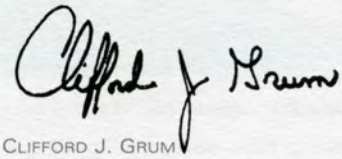
A complete review of operations, including an analysis of financial information, is available beginning on page 6 of this report.

In August, your board of directors increased the quarterly cash dividend to $.30 per share—an 11 percent increase. Cash dividends have been increased each year since Temple-Inland became an independent entity. In these 12 years, dividends have increased over 400 percent.

Also, in August, the board approved a stock repurchase program with a target of up to 2.5 million shares. Through January 1996, 648,000 shares have been repurchased.

The markets for our paper products were very strong during the first half of the year, and then began to soften as the level of growth of worldwide economies slowed. The moderate growth of the U.S. economy during the fourth quarter did not create increased demand for our

Sincerely,



CLIFFORD J. GRUM
*Chairman and Chief Executive Officer*

*February 2, 1996*

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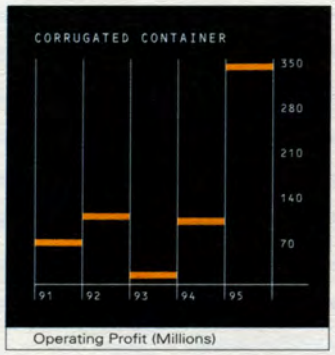
## CORRUGATED CONTAINER

Inland Container Corporation, our largest manufacturing group, posted record revenues and profits this year. Revenues of $1.8 billion were up 27 percent from 1994, and profits surged 237 percent to $344 million.

Demand for corrugated containers remained strong through the first half of the year. The resulting price increases, together with the benefits of this Group's continuous improvement programs, contributed to the record results. However, softening demand in the second half of the year required the Company to limit production to control inventory levels. Discounting of containerboard prices began in the fourth quarter.

Internal disciplines within the manufacturing entities were significant factors in achieving record results this year. Since more than 86 percent of the containerboard produced in our mills was converted into product in Company box plants, we were able to implement cost savings incrementally at all stages of the manufacturing process.

In addition, the process of continuous improvement through emphasis on quality and the elimination of waste is a key component of the Company's ability to achieve its goal of being a preferred supplier. In the last three years, these concepts have cut $70 million from our cost of doing business, with mill efficiencies saving an additional $15 million.



Operating Profit (Millions)

*"Our network of box plants and package design services offers us the competitive advantage to respond immediately to customers' needs with just-in-time deliveries of quality boxes and effective display packaging."*

While continuous improvement activities had a positive impact on earnings this year, earnings were adversely affected by increases in the price of old corrugated containers (OCC). This commodity is the principal raw material used in the Company's recycle operations and constitutes 42 percent of our total fiber needs. The price of OCC is more volatile than virgin fiber, and the substantial increase in price during 1995 reduced the profitability of these mills. However, virgin fiber, which constitutes 58 percent of our total fiber needs, did not experience a rapid increase in costs and served to stabilize total material costs.

In an attempt to further stabilize fiber costs, we are exploring several avenues to expand available sources of OCC and have also formed an intracompany task force to identify other waste papers as possible fiber sources. Technology teams will evaluate all concepts, and we will explore other sources outside normal market channels for OCC, as well.



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WILLIAM B. HOWES *Group Vice President*

< **American Sweetgum** *(Liquidambar styraciflua)* One of the most valued Southern hardwoods on Company timberlands. Grows 80 to 120 feet tall and 3 to 4 feet in diameter.

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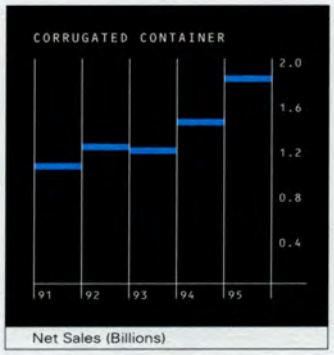
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Inland Container was formed 70 years ago to serve agricultural markets and this segment remains a significant part of our business. Additionally, the Company's box system today allows us to serve competitively a broad range of manufacturers, both domestically and internationally. Over the years, we have developed a highly efficient information and delivery system for which we have earned the reputation as the preferred supplier to many accounts.

In the current economic environment, industry has focused on the elimination of inventory as critical to success. Our network of box plants and package design services gives us the competitive advantage to respond immediately to customers' needs with just-in-time deliveries of quality boxes and effective display packaging.

Several years ago, the Company adopted a strategy to become a diversified packaging company rather than simply a producer of shipping containers. The key to this strategy is to move more production to higher-graphic specialty containers, which traditionally experience less price volatility than commodity corrugated boxes.

**Specialty packaging is a hallmark of Inland Container's marketing strategy. In-store displays enhance brand recognition at point of sale. Multi-color creative design delivers an attractive message. Specialty containers will be a significant contributor to future growth.**



Net Sales (Billions)

As an integral part of this strategy, we acquired Rand-Whitney Packaging Corporation in 1994 and expanded this operation with an additional plant in Ontario, California, this year. Rand-Whitney Packaging specializes in high-value litho-laminate corrugated packaging. In addition, in May we acquired C.B. Displays of Rural Hall, North Carolina, a producer of point-of-sale packaging. This year we also acquired a controlling interest in Wesland Container LLC of Little Rock, Arkansas, a producer of medical waste boxes.

Building on the cornerstone of the Graphics Resource Center in Indianapolis and our other specialty box plants, these acquisitions and expansions, including a new six-color press at the Pakway location in Indiana, give us the capability to provide a nationwide customer base with the entire spectrum of graphics on packaging. Many of these new containers will use the Evadale, Texas mill's new premium- coated bleachboard as a substrate.

Product marketing is aggressively focusing on point-of-sale and in-store displays to attract today's sophisticated consumer. The creative design expertise we enjoy within the specialty packaging operations presents us with a solid market presence and continuing opportunities in the high-value packaging product these discriminating customers demand. Our goal is to upgrade these containers to 30 percent of our mix primarily by directing most of our growth to these markets.

Also paramount in our long-term strategic plan is the establishment of an international business presence, focusing on selected economies with projected growth rates greater than that of the United States.

In 1995, we brought a new sheet plant operation on-line in Los Mochis, Mexico, complementing existing plants in San Jose Iturbide and Monterrey. Los Mochis will be converted to a full box plant in 1996. This plant is located in the heart of the produce region of western Mexico.

Our joint venture in Argentina continues to perform well despite a slowing in the Argentine economy. We have increased production significantly at the facility this year. This operation also gives us access to additional Latin American markets through TinCorr S.A., our subsidiary formed in Uruguay to expand our market reach.

Our box venture in Chile had an exceptional start-up this year. This operation has a $10 million box order file and was on line this harvest season to serve fruit and produce customers.

The strategy for the international group is to increase shipments from roughly 90,000 tons this year to 200,000 tons in the year 2000. This reflects the belief that in seeking single-order convenience from a preferred supplier, major global buyers of our product will employ the advantages of centralized purchasing not only in the United States but worldwide.

These efforts, domestic and global, are consistent with the commitment to be competitive, as well as unchallenged in the quality of the product we produce.

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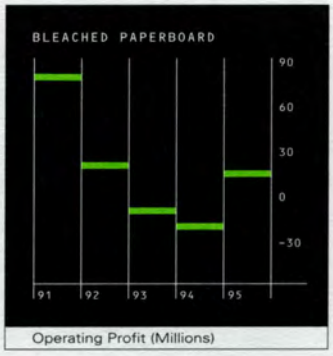
## BLEACHED PAPERBOARD

This year represented a new beginning for Temple-Inland's Bleached Paperboard Group. The recovery of the industry, following two years of decline, enabled this segment to return to profitability, earning $18.6 million, compared with a $22.1 million loss in 1994.

During the year, we started up a new coated paperboard machine and its collateral components and completed major technological upgrades on three existing paperboard machines. Product quality on each of the paperboard machines meets the highest industry standards. We are now competitive in all densities, weights and grades across the market spectrum.

Production from the Company's mill in Evadale, Texas, will account for 9 percent of the world's supply of bleached paperboard upon full realization of the benefits of the upgrades begun in 1992.

Customer preferences are changing across virtually all grades of bleached paperboard. Packaging has historically been a key component in the merchandising of products to consumers, but today's package faces new challenges. The packaging material must protect the product, while lending itself easily to conversion through high-speed production lines. In addition, both the industry and the public are seeking new ways to reduce the actual amount of fiber used. Lighter-weight board is answering this demand, and its use is producing positive results in production costs and responsible environmental stewardship. Finally, the package must attract the consumer's attention, thus becoming part of the buying decision. Enhanced graphics and innovative structural design are employed to transfer an image of premium quality to the product. The requirements are essentially the same for greeting cards, book covers and promotional material. Bleached paperboard performs well in these applications and is consistently the material of choice.



Operating Profit (Millions)

Evadale's expansion and modernization project was designed with these changing markets in mind. The new paper machine has the capability to manufacture low-density bleached paperboard, double coating one side and single coating the other. Surface coating the board with clay produces a sheet that will meet the most demanding printing and converting requirements, facilitating the diversification of Temple-Inland's product line into higher-value end-use

*"Investing $500 million is a major capital project for any corporation; for Temple-Inland, it was the price tag to remain competitive. The latest in machinery and technology was essential. Equally important were the bold new steps necessary to build production team skills, and a renewed commitment to deliver quality and consistent products to customers."*



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DAVID L. ASHCRAFT *Group Vice President*

< **Rosegum Eucalyptus** *(Eucalyptus grandis W. Hill ex Maid)* The Company's Mexican plantations will produce trees averaging 100 feet in height in seven years.

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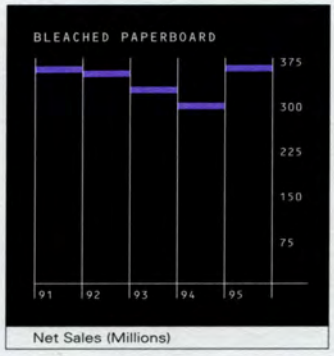


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markets. Also included in the expansion project are a state-of-the-art coating plant, currently supplying the Company's two coated paper machines, and a new poly-extrusion operation, scheduled for completion in early 1996. Poly-extruded paperboard is preferred when high graphics are needed for cups and folding cartons used in the food industry.

The primary cost element in the paperboard industry is fiber, where costs have increased over 28 percent in the last five years in a trend that is expected to continue. A key component of the Evadale modernization project was the construction of highly efficient hardwood and pine fiberlines that should significantly improve the fiber yield. These fiberlines became operational in December 1992 and March 1995, respectively. Developing fiber shortages and environmental regulations will continue to challenge the bleached paperboard industry. These new fiberlines, along with a new lime kiln and upgrades to the recovery boilers, will position the Evadale mill to meet these challenges as they unfold.

**High-end paperboard markets can be assured of consistent superior quality paperboard from our Evadale mill. Lighter-weight grades for premium packaging, extrusion coating for drink cups, and coated folding carton grades provide entrée as the preferred supplier to these important markets.**




Reinforcing the technical and mechanical upgrades of the past year have been innovative new approaches in training and organizational structure. Most notable among these is the team concept adopted in staffing the new paper machine. Charged with creating its own work system, the team developed a unique, multi-skill training and decision-making environment that could eventually be integrated into operations on all machines. Millwide, continuous improvement efforts are being facilitated by the formation of synergistic process teams.

The sales department also underwent a major redesign, shifting from the traditional geographic alignment to a concentration based upon the end markets for the Group's products.

The Evadale mill had an encouraging year during, perhaps, the most challenging operating conditions it has ever faced. The start-up of the new pine fiberline and paper machine increased production rates throughout the mill. The rebuild of one of the recovery boilers began in September 1995 and was completed in the fourth quarter. The resulting restrictions in recovery capacity changed the mill balance and complicated production scheduling. The last phase of the modernization program, the installation of a new concentrator, is scheduled for completion in the first quarter of 1996. Despite these challenges, the mill met its start-up production and quality targets.

Investing $500 million is a major capital project for any corporation; for Temple-Inland, it was the price tag to remain competitive. The latest in machinery and technology was essential. Equally important were the bold new steps necessary to build production team skills, and a renewed commitment to deliver quality and consistent products to customers.

The long-term outlook for bleached paperboard markets is favorable, and the Company is prepared to seize the opportunities the future may hold...consistently striving to meet customer expectations while being responsible stewards of the environment. The modernization and expansion project is essentially complete. Now, as operations are optimized, Temple-Inland is well positioned to become the world leader in the production of high-quality bleached paperboard.

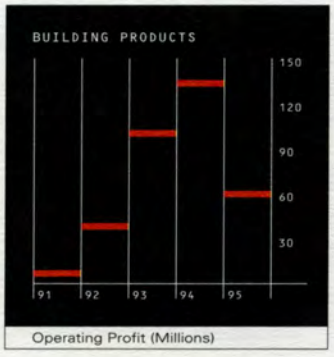
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## BUILDING PRODUCTS

The Building Products Group recorded $61 million in earnings on revenues this year of $502 million. Profits, though down dramatically from 1994, were the third highest in the Group's history.

Prices for lumber, the bellwether commodity in the Building Products Group, were substantially below last year's record levels. Particleboard and gypsum prices showed continued strength despite the weaker economic environment. Prices for panel products, although below last year's, performed better than those of solid wood. Domestic timber prices remained high across the south, and the expanded export of commodity grades of lumber from Canada to the United States continued to squeeze profit margins.

Temple-Inland's forests, however, have a unique advantage. A large inventory of premium timber on these forestlands provides a hedge to fiber shortages. As you will note elsewhere in this report, we are expanding the perpetual forest concept to enhance the standing volume of these prime trees.



Operating Profit (Millions)

To realize the highest margins from now certain higher-value fiber, we are aggressively marketing the premium grades of lumber within our product inventory. In our view, there will always be a customer base for clear dimension lumber for specialty applications. The trim ends from the manufacture of lumber also find a higher-value end use as finger-jointed studs. These can be configured to 10-foot lengths to perform efficiently in the higher ceiling applications desired by new home buyers. Other trim ends become high-value components for sills, moldings and decorative door panels. This extended market reach into specialty lumber products, next year and beyond, should favorably impact earnings.

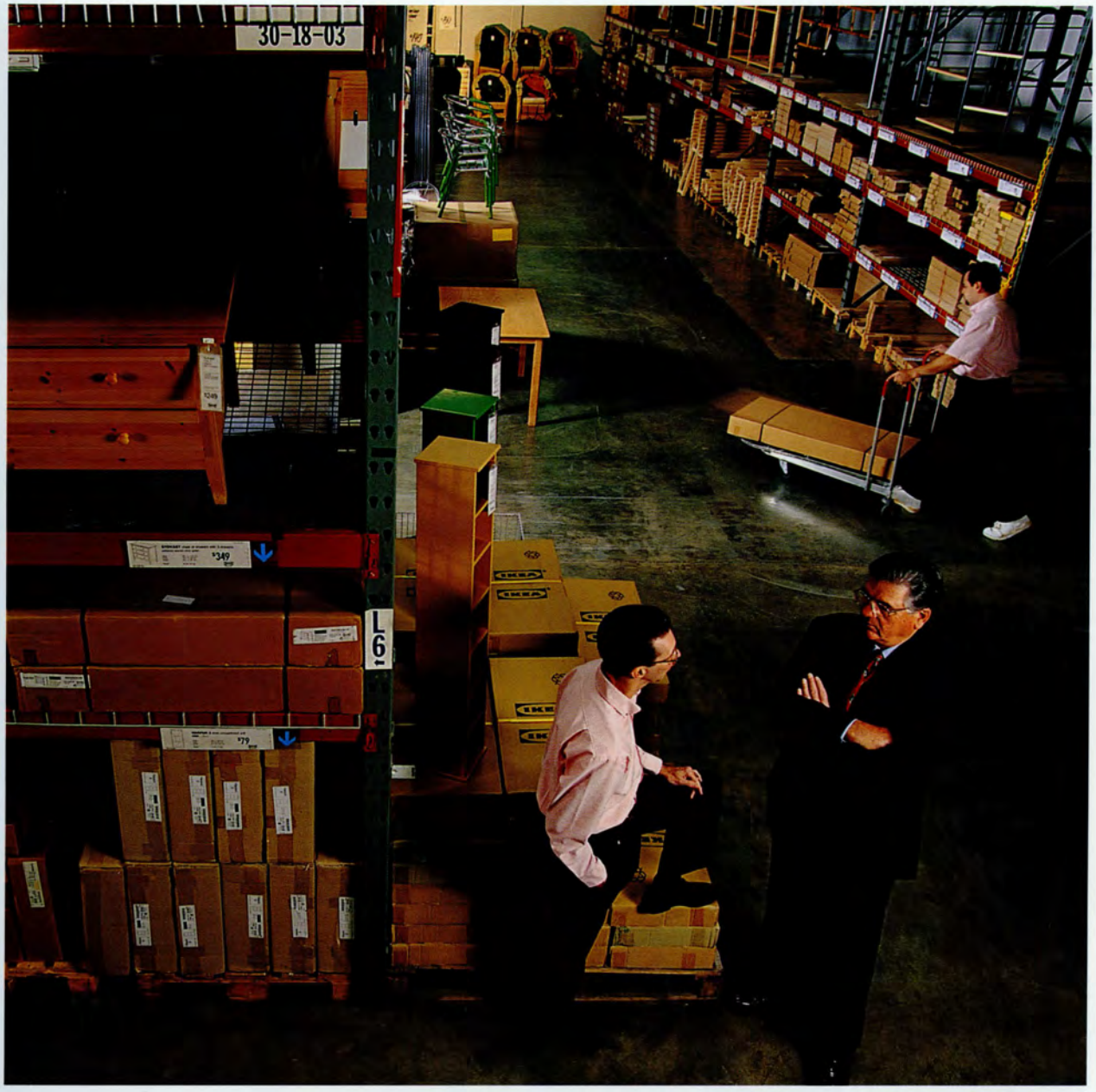
The Company's new particleboard plant in Hope, Arkansas, went on line in the fourth quarter of 1995. When fully operational in 1996, this plant will increase our present particleboard capacity by 50 percent. Just as important, the plant's state-of-the-art 9' by 25' press line will manufacture product directed to ready-to-assemble furniture manufacturers, kitchen cabinet makers and laminators/fabricators.

When the new particleboard plant in Hope reaches full capacity, the Company's three existing particleboard plants in Texas, Alabama and Georgia will be retrofitted with

*"Particleboard and fiberboard products will be at the forefront of our future production and marketing strategy in order to attract an expanded customer base, both domestically and internationally. Engineered wood composites in new construction and remodeling are an attractive alternative to the more expensive solid wood applications traditionally used today."*



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HAROLD C. MAXWELL *Group Vice President*

< **Green Ash** *(Fraxinus pennsylvanica)* Native to the Company's Alabama and Georgia forests. Grows 70 to 80 feet tall and 2 to 3 feet in diameter.

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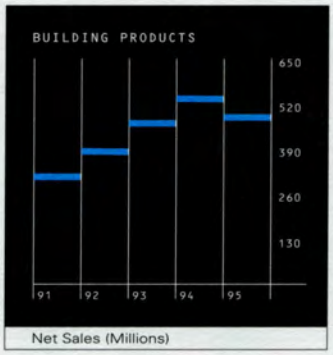
the latest technology. At full production, the new Hope mill will help fill customer order files until upgrades at the three other plants are completed in 1997.

This year we entered into a joint venture with Deltic Farm and Timber (a Murphy Oil Corporation subsidiary) to build a new medium-density fiberboard (MDF) plant in El Dorado, Arkansas. The $90 million facility will produce 150 million feet of MDF per year, and should be in production in 1998.

MDF is a superior panel product and offers a very competitive alternative to high-quality millwork lumber. Routed, painted or vinyl-wrapped, MDF is much sought after in molding markets. This is a rapidly growing opportunity, with consumption increases of more than 9 percent a year forecast for the immediate future.

Particleboard and fiberboard products will be at the forefront of our future production and marketing strategy in order to attract an expanded customer base, both domestically and internationally. Engineered wood composites in new construction and remodeling are an attractive alternative to the more expensive solid wood applications traditionally used today.

**Rigorous quality control standards have made particleboard the panel of choice for ready-to-assemble furniture. Engineered for strength and durability, particleboard is the preferred substrate for veneer and laminate applications. Particleboard cabinets and furniture are cost-effective, easy to assemble, with the eye appeal of solid wood.**



Net Sales (Millions)

Gypsum wallboard markets remained strong in 1995. Specialty products contributed to market share with a popular wallboard used in homes with 9-foot ceilings. This product, called Stretch 54®, allows use of only two 54-inch sheets to reach a 9-foot ceiling height rather than the traditional process of two 48-inch sheets and a partial portion of a third sheet. This product and a fire-rated gypsum panel pushed the Group's premium-priced specialty items to 40 percent of total product manufactured.

The employees of the Building Products Group pride themselves on a commitment to meet the needs of their customers. That commitment means creating a new culture of work ethic that reaches every skill and process at the operating, marketing and supplier level, to bring to the marketplace new product and application concepts that reflect today's lifestyle.

New product development encompasses the interchange of ideas and technology within all product lines. Collecting knowledge and analyzing data from a broad spectrum keeps us focused on development of new products of highest quality and consistent performance.

We realize the built-in advantages of owning one of the South's premier forests and an assured supply of wood fiber to fulfill demand decades into the future.

A broadened customer base is no longer married to the ups and downs of housing starts. Today's home ownership demographics define the impact remodeling and repair have as a buttress against the fluctuations of historic housing statistics. The evolution and rapid growth of ready-to-assemble furniture, kitchen cabinets and do-it-yourself panelboard and molding keep us on the edge of this exciting market trend.

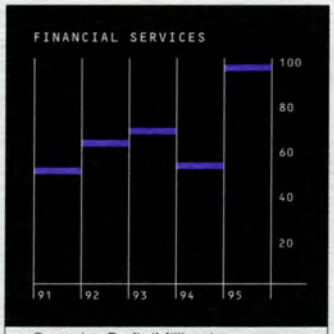
The goal in the future must be to continue the broadening process in markets, products and satisfied customers.

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## FINANCIAL SERVICES

The Financial Services Group had an exceptional year in 1995, achieving record earnings of $98.1 million, which were 75 percent higher than 1994 earnings. The Group provides a wide variety of consumer and corporate services through Guaranty Federal Bank, F.S.B.; Temple-Inland Mortgage Corporation; Lumbermen's Investment Corporation; and Timberline Insurance Managers, Inc.

The cornerstone of the Financial Services Group is Guaranty Federal Bank, F.S.B. (Guaranty), which is the sixth largest financial institution in the State of Texas and the largest owned by a Texas-based company. Temple-Inland Inc. acquired Guaranty in 1988 from the Federal Savings and Loan Insurance Corporation (FSLIC). The acquisition included deposits of approximately $2.8 billion and the operations of three insolvent thrifts. The assets consisted primarily of those guaranteed by the FSLIC, and included loans and repossessed properties to be managed by Guaranty for fees paid by FSLIC pursuant to an Assistance Agreement. The objectives were to maximize the collections on the assets, thereby minimizing the loss to the federal government, and to use Guaranty's deposit base to build a valuable financial services franchise for the Company.



Operating Profit (Millions)

Today, Guaranty has assets of approximately $9.0 billion and deposits in excess of $6.3 billion. Through acquisitions, Guaranty has added 21 financial institutions to its franchise and now serves more than 550,000 customer accounts with 113 banking centers. With its facilities concentrated in the major metropolitan areas of Texas—Dallas/Fort Worth, Houston, Austin and San Antonio, as well as other cities in the eastern half of the state—Guaranty is positioned to provide services to more than half of the state's population of 20 million people.

In October, Guaranty achieved a strategic goal when it negotiated an early termination of the Assistance Agreement, which governed Guaranty's asset management operations for the federal government. Guaranty had reduced its portfolio of guaranteed assets to a level where it became advantageous for the FDIC to acquire the remaining assets and conclude its assistance.

To maximize earnings, Guaranty has a strategic goal to convert its mortgage-backed securities portfolio to a quality diversified loan portfolio with improved volumes and

*"Guaranty has one of the most experienced lending staffs in the country, and has developed a nationwide portfolio, with lending offices in Texas, California and Illinois. Guaranty is one of the top five mortgage warehouse lenders in the United States, and is a national leader in real estate construction financing..."*



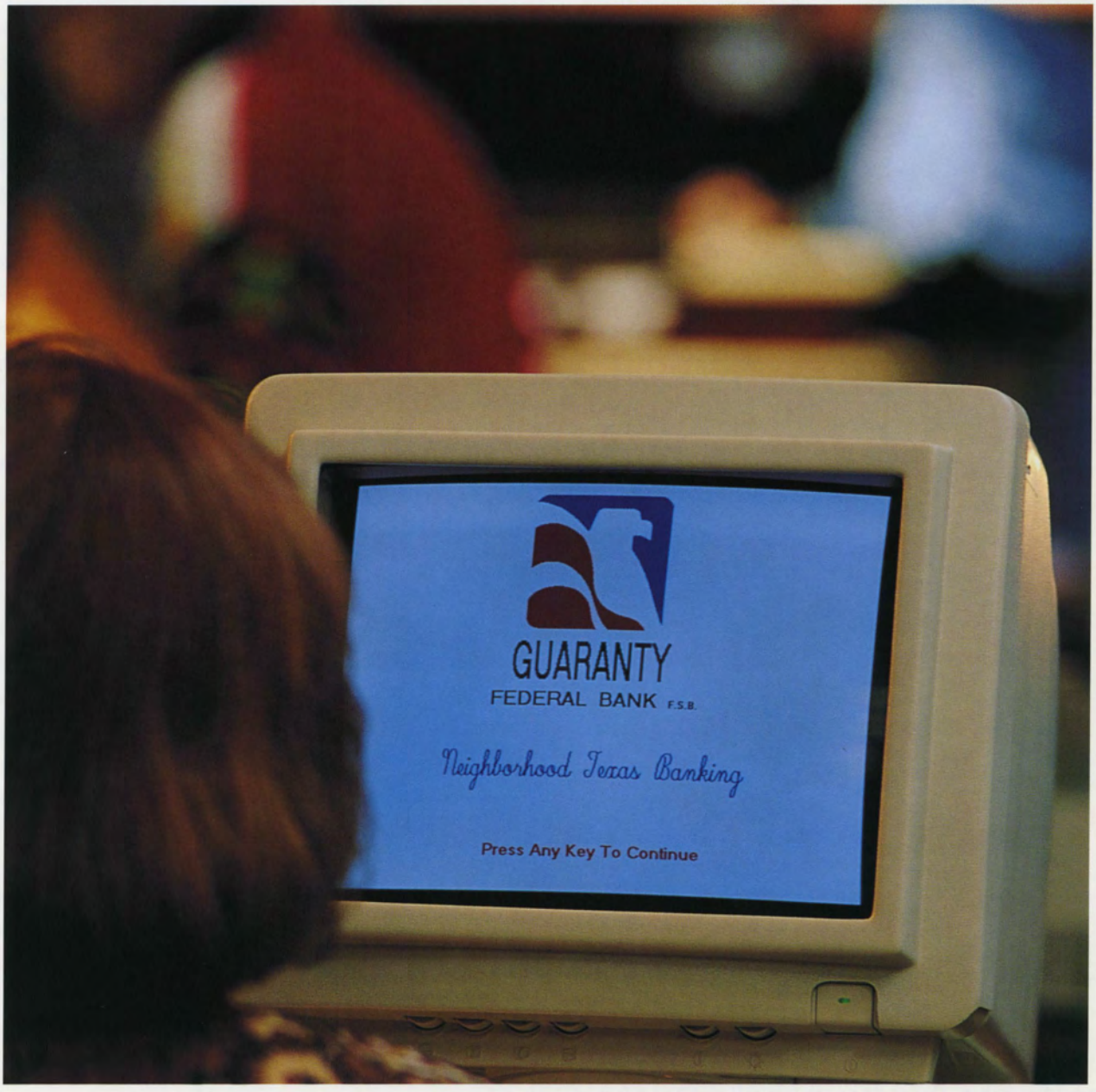
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KENNETH M. JASTROW, II *Group Vice President*

< **White Oak** *(Quercus alba)* Grows 80 to 100 feet tall and 3 to 4 feet in diameter. It is the most wide-ranging oak species on Company timberlands. Acorns provide food for wildlife.

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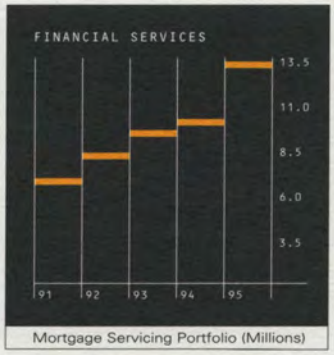
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margins. The loan portfolio increased by over $1.0 billion during the year, expanding to 57 percent of the earning assets. Guaranty's key ratios are significantly better than industry standards, with non-performing assets-to-total loans at 0.86 percent, compared to a national average of 1.98 percent.

A major part of Guaranty's program to convert its mortgage-backed securities portfolio to a diversified loan portfolio is to acquire high-quality, single-family adjustable-rate loans on a national basis. Since 1993, Guaranty has acquired over $3.0 billion in adjustable rate loans from a nationwide network of mortgage banking firms. Today, the single-family portfolio includes adjustable rate loans from nearly every state, thereby diversifying the risk of temporary downturns in regional economies.

Guaranty has one of the most experienced lending staffs in the country and has developed a nationwide portfolio, with lending offices in Texas, California and Illinois. Guaranty is one of the top five mortgage warehouse lenders in the United States and is a national leader in real estate construction financing, with a broad geographical diversification of both residential and commercial loans covering 20 states from coast to coast. Restructuring of Guaranty's corporate banking and consumer lending during 1995 has positioned those divisions for product diversification and key growth in the future.

**With deposits in excess of $6.3 billion, Guaranty's mission is to maintain its competitive advantage through expanding product diversification. Our 550,000 customer accounts in Texas are the benchmark to future growth, with a stated strategic goal to enhance our position as one of the lowest-cost producers in the banking industry.**



Mortgage Servicing Portfolio (Millions)

Guaranty seeks to maintain its competitive advantage by being one of the lowest-cost producers of banking services in the industry. In 1995, Guaranty achieved a net non-interest expense of 0.92 percent of average assets, which is among the lowest for financial institutions nationwide. Additional efficiencies and cost savings are expected by the consolidation of certain operational and administrative functions at the Financial Services Group's new headquarters in Austin, Texas.

The Financial Services Group's Temple-Inland Mortgage Corporation (TIMC) is one of the nation's largest home lenders. It experienced an excellent year, especially considering the slow market for fixed rate mortgages during the first half of 1995. Activity increased in the last half of the year as interest rates declined. TIMC today services more than $13 billion in residential mortgages related to homes owned by more than 160,000 families in all 50 states. The company has 22 loan production branch offices nationwide. TIMC's loan servicing and loan production costs are among the lowest in the industry.

The Financial Services Group's insurance agency, Timberline Insurance Managers, Inc., continued to grow and expand its services during the year. Timberline is one of the five largest insurance agencies in the State of Texas and is in the top 50 nationwide. It provides a full range of insurance products, including personal and commercial lines, annuities, life and health insurance and risk-advisory services to corporations and financial institutions.

Real Estate operations, conducted by Lumbermen's Investment Corporation, include development of residential subdivisions and the development, management and sale of income properties. The Company's projects are concentrated in Texas, with recent investments in Florida and Colorado.

The Financial Services Group is positioned to provide growth unrelated to the normal economic cycles affecting Temple-Inland's paper and forest products operations. Continued growth at its banking and mortgage banking institutions, productivity improvements, high levels of service provided by employees, and a focused business strategy are expected to produce strong customer loyalty and high returns on investment for the Company.

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## FORESTS

For many decades, Temple-Inland timberlands in Texas, Louisiana, Alabama and Georgia have been managed as "perpetual forests." This renewable resource of 1.8 million fee acres provides 45 percent of the sawtimber requirements of our sawmills and more than half of the residual fiber and pulpwood necessary to operate our papermills, particleboard and fiberboard plants. These lands are a major corporate asset and provide a solid base on which to assure future growth.

Southern timberlands are the primary regional source of fiber in the United States today, and Company timberlands are located in prime growing areas convenient to Temple-Inland plants and mills.

Complementing the fiber inventory on Company lands is the availability of timber from small private landowners in all operating areas. These ownerships are important as a source of future fiber supply, and Temple-Inland provides professional expertise to landowners in the efficient management of their timberlands.

Of major significance to future resource management has been the rapid increase in timber values in the past decade. Sawtimber prices have doubled in the past seven years. These values follow a simple supply-and-demand equation and reflect a very real fiber shortage worldwide. This trend is not expected to change in the future.



Forestland Ownership

This scenario presents some very profitable opportunities in the future management of Temple-Inland's 1.8 million acres of fee-owned timberland.

Meeting future needs is predicated on producing the highest-value timber and consistently larger volumes of fiber per acre.

Typically, across the south, timber growth is about one cord per acre per year. By applying more intensive forest management, this base yield may increase to 1.5 or more cords annually. This large gain in total volume will be attained through more intensive management practices and additional capital investment on Company lands.

The economics of today's forest management will allow us to implement proven technology not previously affordable. Fertilization utilizing environmentally friendly components that will enhance growth while restoring fallow acres to timber production will increase existing inventory.

*"Southern timberlands are the primary regional source of fiber in the United States today, and Company timberlands are located in prime growing areas convenient to Temple-Inland plants and mills... Meeting future needs is predicated on producing the highest-value timber and consistently larger volumes of fiber per acre."*



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GLENN A. CHANCELLOR *Group Vice President, Temple-Inland Forest Products Corporation*

< **Loblolly Pine** *(Pinus taeda)* The most dominant of Southern pines on Temple-Inland forests. It grows 90 to 110 feet tall and 2 to 3 feet in diameter.

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Based on the results from pilot operations begun last year, Temple-Inland will dedicate selected areas of timberlands to the growth of "sudden sawlogs." This concept requires one major thinning of an existing plantation and pruning of standing trees to a height of 26 feet. The increased spacing produces larger diameters, clearer wood and a higher-value product at the mill. One big plus for this system is the park-like appearance of the stand following treatment. This creates improved wildlife habitat for many species and is also pleasing to the eye of the casual viewer.

Another modification of the existing "perpetual forest" concept is in the area of "intensive pulpwood." These areas will be located near pulp mills, planted to more seedlings per acre, and harvested in 22-year cycles. We anticipate more cords per acre at harvest.

We expect to put 20 percent of our pine acreage under the sudden sawlog system, 10 percent into intensive pulpwood, and the remainder in the standard 35-year rotation system. This conversion is scheduled for full implementation beginning in 1997. The combined potential benefit is 12 percent additional fiber growth from Company lands and a more valuable log for the manufacture of lumber.

**Temple-Inland forests inventory millions of board feet of high-value sawtimber for conversion to specialty grades of lumber in our sawmills. Pruning of these stands produces premium lumber, adding significantly to end-product value. Solid lumber manufacture is important to our future, and the intensive management we practice from seedling to harvest ensures the commitment made more than 100 years ago to nurture a "perpetual forest" to support our plants and mills.**

Although pine is the dominant species on Company lands, the status and projections for hardwood inventory are also at the center of forest management and planning. Utilized by Temple-Inland primarily at the Evadale, Texas, mill, hardwood is vital to the paper grades manufactured there.

Hardwood growing sites require more moisture than pine, and only a limited amount of our Texas-Louisiana acreage is suitable for growing hardwood. Even though we are improving the growing capacity of these lands, the available inventory will not suffice to provide the future needs of the consuming mills in the region. To help overcome the hardwood deficit, we have elected to grow eucalyptus trees in Mexico, and these plantations will be a meaningful source of fiber for the Evadale mill after the year 2000.

Parallel with fiber growth goals are the attention and commitment we dedicate to wildlife and other natural co-habitants of Temple-Inland forestlands. As the largest non-governmental landowner in Texas, Temple-Inland recognizes a responsibility, both to the land and to the public. The Company views its holdings as a single forest for timber, wildlife habitat, recreational uses and environmental values.

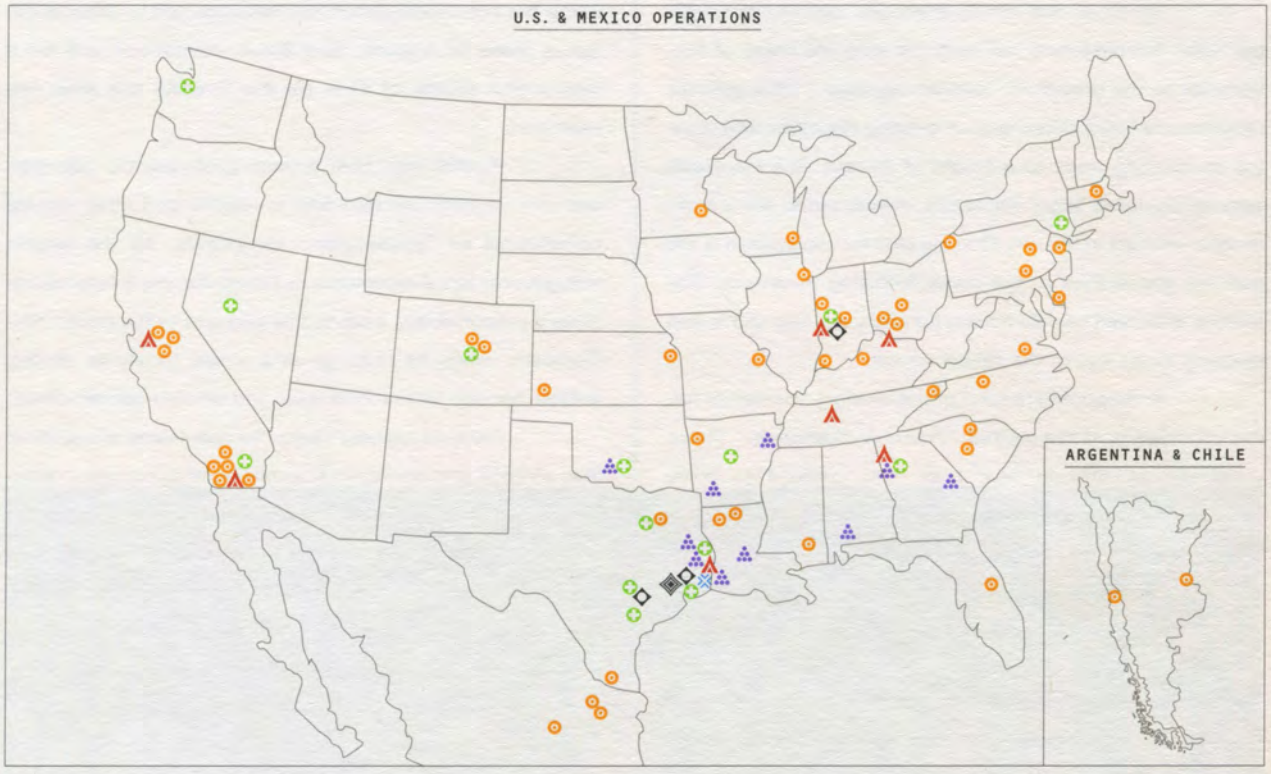
From its earliest years, Temple-Inland made available acreage that was open to public hunting and other recreational activities. Significant monies have been invested to enhance wildlife habitat. A major beneficiary to date has been the Eastern Wild Turkey Restoration Project. This undertaking has a goal to restock the bird into all suitable East Texas habitats. Other funds support more than 15 additional non-proprietary studies. Temple-Inland believes that the coming years will continue to present challenging times for forest managers, especially in the growing controversies among fiber production, wildlife management and other forest uses. These studies are being funded to supply unbiased answers to some of the most prevalent questions. All are being conducted by university researchers, with Temple-Inland's role being strictly to supply the necessary resources, either land or funding, to complete the research.

While the Forest Group's primary mission continues to be a supplier of wood fiber to a product manufacturing plant, the public's concern that each forest management decision has a potential impact upon all forest amenities is understood.

We are committed to helping ensure the renewability and perpetuality of forest resources for future generations and to the protection of human health and the environment.

Responsible stewardship of the land has been at the forefront of our management decisions for many years, and will continue to influence resource decisions in the future.

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## Corporate Headquarters

Diboll, Texas

## Subsidiary Headquarters

*Inland Container Corporation*
Indianapolis, Indiana

*Temple-Inland Forest Products Corporation*
Diboll, Texas

*Temple-Inland Financial Services Inc.*
Austin, Texas

## Building Products

*Fiberboard Operation*
Diboll, Texas

*Particleboard Operations*
Diboll, Texas
Monroeville, Alabama
Thomson, Georgia
Hope, Arkansas

*Gypsum Operations*
West Memphis, Arkansas
Fletcher, Oklahoma

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

*Plywood Operation*
Pineland, Texas

*Retail Distribution Operations*
Diboll, Texas
Pineland, Texas
Alexandria, Louisiana

## Bleached Paperboard Mill

Evadale, Texas

## Containerboard Mills

*Linerboard*
Ontario, California
Rome, Georgia
Maysville, Kentucky
Orange, Texas

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

## Packaging

*Corrugated Container Plants*
Fort Smith, Arkansas
Bell, California
Buena Park, California
El Centro, California
Newark, California
Ontario, California
Sante Fe Springs, California (3)
Tracy, California
Wheat Ridge, Colorado
Orlando, Florida
Rome, Georgia
Chicago, Illinois
Crawfordsville, Indiana
Evansville, Indiana
Indianapolis, Indiana
Garden City, Kansas
Kansas City, Kansas
Louisville, Kentucky
Minden, Louisiana
Minneapolis, Minnesota
Hattiesburg, Mississippi
St. Louis, Missouri
Spotswood, New Jersey
Middletown, Ohio
Biglerville, Pennsylvania
Erie, Pennsylvania
Hazleton, Pennsylvania
Vega Alta, Puerto Rico
Lexington, South Carolina
Rock Hill, South Carolina
Elizabethton, Tennessee (2)
Dallas, Texas
Edinburg, Texas
Petersburg, Virginia
San Jose Iturbide, Mexico
Monterrey, Mexico
Sinaloa, Mexico
Buenos Aires, Argentina (50% joint venture)
Santiago, Chile (50% joint venture)

*Specialty Converting Plants*
Ontario, California
Harrington, Delaware
Leominster, Massachusetts
Indianapolis, Indiana
Milwaukee, Wisconsin
Rural Hall, North Carolina

*Food Service Converting Operations*
El Cajon, California
Sacramento, California
Denver, Colorado
Carlisle, Ohio
Farmersville, Louisiana

## Financial Services

*Consumer Banking Regions*
Dallas and Adjacent Cities
Austin and Adjacent Cities
Houston and Adjacent Cities
San Antonio and Adjacent Cities
East Texas

*Mortgage Banking Operations*
Arkansas
California
Colorado
Georgia
Illinois
Nevada
New York
Oklahoma
Texas
Washington

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

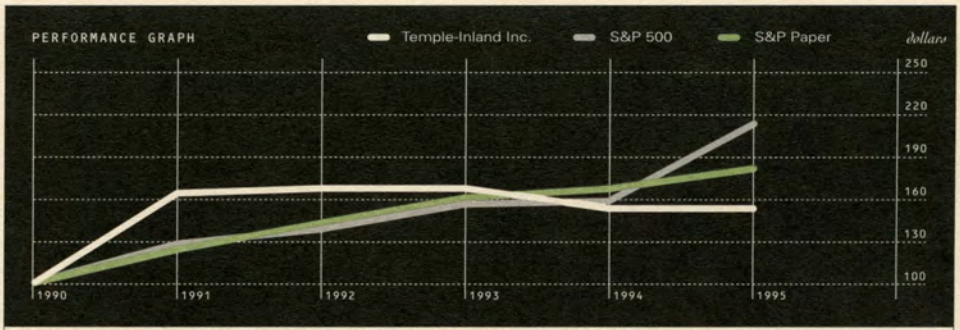
*Results of Operations and Financial Condition*

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

BUSINESS SEGMENTS

| For the year *(in millions)* | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 | 1985 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| REVENUES | | | | | | | | | | | |
| Corrugated container | **$ 1,825** | $ 1,438 | $ 1,249 | $ 1,254 | $ 1,148 | $ 1,144 | $ 1,138 | $ 1,093 | $ 964 | $ 722 | $ 684 |
| Bleached paperboard | **369** | 299 | 319 | 353 | 371 | 373 | 368 | 336 | 293 | 265 | 257 |
| Building products | **502** | 549 | 475 | 391 | 311 | 305 | 320 | 312 | 323 | 281 | 268 |
| Other activities | **–** | 20 | 58 | 77 | 68 | 70 | 68 | 33 | 23 | 28 | 34 |
| Manufacturing net sales | **2,696** | 2,306 | 2,101 | 2,075 | 1,898 | 1,892 | 1,894 | 1,774 | 1,603 | 1,296 | 1,243 |
| Financial services | **764** | 632 | 635 | 638 | 609 | 509[a] | 49 | 40 | 39 | 47 | 39 |
| Total Revenues | **$ 3,460** | $ 2,938 | $ 2,736 | $ 2,713 | $ 2,507 | $ 2,401 | $ 1,943 | $ 1,814 | $ 1,642 | $ 1,343 | $ 1,282 |
| INCOME BEFORE TAXES | | | | | | | | | | | |
| Corrugated container | **$ 344** | $ 102 | $ 21 | $ 112 | $ 76 | $ 151 | $ 208 | $ 221 | $ 151 | $ 39 | $ 50 |
| Bleached paperboard | **19** | (22) | (12) | 23 | 80 | 99 | 115 | 83 | 53 | 29 | 20 |
| Building products | **61** | 133 | 99 | 40 | 5 | 9 | 24 | 25 | 37 | 36 | 23 |
| Other activities | **–** | 1 | (2) | (2) | 1 | (2) | (1) | 1 | – | (6) | 2 |
| Operating profit | **424** | 214 | 106 | 173 | 162 | 257 | 346 | 330 | 241 | 98 | 95 |
| Financial services | **98** | 56 | 68 | 64 | 54 | 52[a] | (2) | – | 5 | 13 | 18 |
| | **522** | 270 | 174 | 237 | 216 | 309 | 344 | 330 | 246 | 111 | 113 |
| Corporate expense | **(22)** | (14) | (11) | (15) | (16) | (21) | (13) | (20) | (12) | (13) | (8) |
| Parent company interest–net | **(73)** | (67) | (69) | (48) | (38) | (26) | (26) | (23) | (23) | (19) | (10) |
| Other income | **4** | 4 | 2 | 3 | 5 | 7 | 7 | 17 | 9 | 30[b] | 31[c] |
| Income before taxes | **$ 431** | $ 193 | $ 96 | $ 177 | $ 167 | $ 269 | $ 312 | $ 304 | $ 220 | $ 109 | $ 126 |

During the five preceding fiscal years, the Company's cumulative total shareholder return compared with the Standard & Poor's 500 Stock Index and to the Standard & Poor's Paper Industry Index was as shown in the following table.




Assumes $100 invested on December 31, 1990. Total return assumes reinvestment of dividends.

[a] Includes operating results from the consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.

[b] Includes $15.3 million income net of federal income taxes from life insurance operations which were discontinued in 1990.

[c] Includes $11.3 million gain on the sale of Eastex Packaging subsidiary.

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**Corrugated Container**

The Corrugated Container Group manufactures linerboard and corrugating medium at seven paper mills and converts it into corrugated shipping containers at 42 box plants located throughout the United States and in Puerto Rico, Mexico and South America. In addition, the Group operates six specialty converting plants.

The Group earned $344 million in 1995, more than triple the $102 million earned in 1994. Revenue growth was 27 percent in 1995 compared with 15 percent in 1994.

The strong global demand for boxes in 1994 carried over to the first half of 1995, providing the conditions for price improvement. Even though demand weakened in the second half of 1995, improved box prices held through most of 1995. In addition, the Company's strategy to become a diversified packaging company rather than simply a producer of shipping containers paid dividends in both 1995 and 1994 with revenues from the specialty packaging business growing toward a goal of 33 percent of the Group's total revenues. Tons of boxes sold were relatively unchanged in 1995 and were up 6 percent in 1994. For the second consecutive year, the combination of these factors allowed revenues and earnings as a percent of revenues to improve substantially.

The earnings improvement occurred despite a much higher average cost in 1995 and 1994 of old corrugated containers (OCC), the primary raw material in over 42 percent of the Group's containerboard production. The cost of OCC was up $55 per ton in 1995 and $49 per ton in 1994.

As indicated in the table below, mill production, curtailed by 132,000 tons to control inventory levels, totaled 2,514,000 tons in 1995, an 89,000 ton reduction from the previous year. Production of containerboard exceeded internal box plant usage by 317,000 tons in 1995, and 376,000 tons in both 1994 and 1993. Excess production was sold in the domestic and export markets.

| *(in tons)* | **1995** | 1994 | 1993 |
|---|---|---|---|
| MILL PRODUCTION | **2,514,000** | 2,603,000 | 2,473,000 |

Box production at the Mexican, Puerto Rican and South American converting facilities grew to 90,000 tons in 1995 from 40,000 tons in 1994.

In May 1994, the Company purchased the stock of Rand-Whitney Packaging Corporation for $57.5 million. Included in the purchase were three manufacturing plants specializing in litho-laminate corrugated packaging and high graphics folding cartons. In 1995, the Company expanded this operation with an additional plant in Ontario, California, and acquired C.B. Displays of Rural Hall, North Carolina, a producer of point-of-sale packaging. This year, the Group also acquired a controlling interest in Wesland Container LLC in Little Rock, Arkansas, a producer of medical waste boxes. As a result of these acquisitions and expansions, the Company has the ability to service the national litho-laminate market.

The table below shows the Corrugated Container Group sales in tons and dollars. The totals presented include not only boxes sold but also open market, domestic and export sales of linerboard and related products. After rising in 1994 in response to the initial surge in demand as the paper cycle turned upward, 1995's decrease in unit sales was primarily due to weaker market conditions.

CORRUGATED CONTAINER

| | **1995** | 1994 | 1993 |
|---|---|---|---|
| UNIT SALES *(in thousands of tons)* | | | |
| 1st Qtr | **602** | 628 | 598 |
| 2nd Qtr | **614** | 648 | 606 |
| 3rd Qtr | **564** | 622 | 593 |
| 4th Qtr | **553** | 594 | 597 |
| For the year | **2,333** | 2,492 | 2,394 |
| NET SALES *(in millions)* | | | |
| 1st Qtr | **$ 433.4** | $ 326.9 | $ 318.5 |
| 2nd Qtr | **476.4** | 353.8 | 319.6 |
| 3rd Qtr | **464.9** | 371.2 | 307.8 |
| 4th Qtr | **450.1** | 386.3 | 302.6 |
| For the year | **$1,824.8** | $ 1,438.2 | $ 1,248.5 |

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**Bleached Paperboard**

The Bleached Paperboard Group manufactures bleached paperboard at one mill in Evadale, Texas. This Group's products are sold to commercial printers and paperboard converters, including converters serving packaging, food service and office product markets.

The Group reported income of $18.6 million in 1995 compared with a loss of $22.1 million in 1994. As a result of strengthening demand and improved product mix, average prices for bleached paperboard were up 30 percent over 1994 averages, which were 6 percent below 1993 levels. However, increased manufacturing costs offset some of the gain in pricing. Manufacturing costs were up 10 percent in 1995 compared with 1994 because of operational disruptions related to the various construction projects, the start-up of a new paper machine and an increase in fiber costs of 10 percent. Manufacturing costs were up 5 percent in 1994 compared with 1993, primarily because of increased fiber cost.

The year opened with strong demand across all product lines and increasing prices. However, by mid-year demand began to decelerate and by year end was very weak, particularly in the packaging markets. This weakness coupled with start-up tonnage on the new paper machine caused finished goods inventories to grow significantly during the last half of 1995. Once demand recovers, inventory should decrease, but the improved product mix will require inventories to be maintained at higher than historic levels.

The Group completed a $500 million modernization and expansion program during 1995. The cornerstone of this project is a new 550 ton per day paperboard machine capable of producing low density, lightweight bleached paperboard and bleached bristols. Other key elements of the expansion project included major technological upgrades on three existing paperboard machines, a pine fiberline, a coating plant, a power boiler, an extruder plant, a lime kiln and a concentrator. Additionally, one of the mill's recovery boilers was rebuilt during the third and fourth quarters of 1995. While these projects caused manufacturing costs to be higher during 1995, a return to normal production levels should significantly reduce costs as a result of this advanced technology.

Before the modernization and expansion, the Evadale mill could efficiently manufacture about one-half of all bleached paperboard grades. However, with the addition of the new paperboard machine and the upgrades to the three existing machines, the mill will have the capability to produce most of these grades efficiently. The higher-end grades, primarily printing and low density folding carton, should have better margins than the commodity oriented grades.

Temple-Inland Food Service Corporation ("Food Service") is an integrated paper converter that manufactures and markets paper containers and products for the food service industry. This operation has converting plants in Carlisle, Ohio, Sacramento and El Cajon, California, Denver, Colorado, and Farmersville, Louisiana. Products manufactured are sold to the fast food industry, retail consumer stores and to restaurants and cafeterias. Food Service enhances the Bleached Paperboard Group's ability to develop and market paper products for the food service industry. Food Service converted 65,583 and 51,919 tons of bleached paperboard and recorded revenues of $80.9 million and $57.9 million during 1995 and 1994, respectively.

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

BLEACHED PAPERBOARD

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| UNIT SALES *(in thousands of tons)* | | | |
| Paperboard | | | |
| 1st Qtr | **120** | 106 | 116 |
| 2nd Qtr | **97** | 109 | 109 |
| 3rd Qtr | **83** | 112 | 103 |
| 4th Qtr | **100** | 103 | 98 |
| For the year | **400** | 430 | 426 |
| Pulp | | | |
| 1st Qtr | **16** | 20 | 38 |
| 2nd Qtr | **28** | 25 | 41 |
| 3rd Qtr | **20** | 24 | 33 |
| 4th Qtr | **35** | 18 | 22 |
| For the year | **99** | 87 | 134 |
| NET SALES *(in millions)* | | | |
| Paperboard | | | |
| 1st Qtr | **$ 70.7** | $ 51.1 | $ 63.9 |
| 2nd Qtr | **56.8** | 54.4 | 60.1 |
| 3rd Qtr | **54.4** | 56.3 | 53.7 |
| 4th Qtr | **67.1** | 55.6 | 51.0 |
| For the year | **$ 249.0** | $ 217.4 | $ 228.7 |
| Pulp | | | |
| 1st Qtr | **$ 5.3** | $ 4.4 | $ 10.3 |
| 2nd Qtr | **12.8** | 5.3 | 10.3 |
| 3rd Qtr | **7.1** | 6.6 | 7.9 |
| 4th Qtr | **11.7** | 5.8 | 4.9 |
| For the year | **$ 36.9** | $ 22.1 | $ 33.4 |
| Food Service and Other | | | |
| 1st Qtr | **$ 18.7** | $ 14.2 | $ 14.6 |
| 2nd Qtr | **22.7** | 16.3 | 16.5 |
| 3rd Qtr | **22.2** | 16.2 | 14.0 |
| 4th Qtr | **19.5** | 13.2 | 11.3 |
| For the year | **$ 83.1** | $ 59.9 | $ 56.4 |

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**Building Products**

The Building Products Group manufactures a diversified line of construction and commercial grade building materials at ten locations in Texas, Louisiana, Oklahoma, Arkansas, Alabama and Georgia. Three-fourths of its revenues are typically realized from wood-based materials made from Southern pine logs or log residues. These products include lumber, plywood, fiber products and particleboard sold to both residential and commercial market segments. The non-wood based business unit manufactures a variety of gypsum wallboard products which are sold to the same market segments.

The Group's retail locations, which sell a broad range of building materials to the contractor and retail markets, accounted for 10 percent of Group net revenues in 1995. Approximately 15 percent of 1995's retail revenues were derived from Group manufactured products. Early in the fourth quarter, the Group sold its two Houston area retail operations, which historically accounted for about 80 percent of annual retail revenues.

The Group earned $61.0 million in 1995, the third highest level in its history following record earnings of $132.6 million in 1994 and $99.1 million in 1993. Revenues were down 9 percent in 1995 compared with a 16 percent increase in 1994. The decrease in revenues from 1994 was attributable to lower lumber prices and decreased volume. The reverse was largely true in comparing 1994 with 1993. In addition to the effect of sales prices, earnings as a percent of revenues decreased compared with 1994 due to increases in the cost of pine sawtimber. Except for the gypsum wallboard unit, shipments across all product lines declined in 1995 as demand softened for building materials in conjunction with an approximate 8 percent reduction in housing starts.

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

BUILDING PRODUCTS

| | 1995 | 1994 | 1993 |
|---|---|---|---|
| UNIT SALES *(in millions of board feet)* | | | |
| Pine lumber | **493** | 509 | 484 |
| *(in millions of square feet)* | | | |
| Fiber products | **422** | 441 | 440 |
| Particleboard | **329** | 347 | 319 |
| Plywood | **217** | 260 | 265 |
| Gypsum wallboard | **813** | 796 | 782 |
| NET SALES *(in millions)* | | | |
| Pine lumber | **$ 159.6** | $ 185.7 | $ 153.8 |
| Fiber products | **59.7** | 66.3 | 62.9 |
| Particleboard | **99.1** | 103.0 | 81.3 |
| Plywood | **49.3** | 56.8 | 54.0 |
| Gypsum wallboard | **83.1** | 74.3 | 53.3 |
| Retail distribution | **51.3** | 58.4 | 60.0 |
| Other | **.3** | 4.8 | 10.0 |
| For the year | **$ 502.4** | $ 549.3 | $ 475.3 |

Pine lumber shipments of 493 million board feet dropped 3 percent from the record 509 million board feet of 1994, but remained slightly above volumes shipped in 1993. Lumber prices declined during the year and by the fourth quarter were 16 percent below the same period in 1994, the low for that year. Reduced building activity resulted in oversupplied markets with the market imbalance particularly aggravated by increasing Canadian lumber shipments into the U.S. The Canadian share of the U.S. market had grown to 35 percent in the second half of the year. Domestic producers were caught in an untenable situation resulting from deteriorating product prices and escalating raw material costs. The intense bidding for Southern pine stumpage that accompanied strong demand for lumber products in 1994 resulted in high stumpage prices well into 1995. This market imbalance resulted in some curtailment of production by southern producers by year-end.

Plywood revenues in 1995 declined 13 percent from 1994 due to reduced sales volume. During the year, the Group's plywood plant was involved in a $3.8 million modernization project to upgrade its veneer process capability and associated construction activities periodically impacted production schedules. A construction related fire during the renovation accounted for over one-third of the total volume reduction. While plywood pricing normally tracks lumber pricing, the Group's sales prices advanced almost 5 percent over 1994 levels as the plant increased its higher grade items from 48 percent of production in 1994 to 58 percent in 1995.

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By-product wood chips from the manufacture of lumber and plywood are shipped to the Company's two Texas paper mills and in 1995 represented about 24 percent of these two mill's pine fiber requirements. Chips supplied to the fiber products operation in 1995, as in prior years, represented over half its total fiber requirements.

A combination of lower sales prices and reduced shipment volumes of siding products in 1995 resulted in a 10 percent reduction in revenues for fiber products. Downward pressure on siding prices resulted from the lower rate of housing starts combined with the growth in alternative siding products such as vinyl and cement fiberboard. However, TrimCraft™, the alternative lumber trim product, continued to gain acceptance at the builder level. Roof and wall insulation products represented about 40 percent of fiber products shipments in 1995 as they did in prior years.

The Group manufactures particleboard from by-products of lumber processing at three mills in Texas, Alabama and Georgia. A fourth mill in Arkansas, at a cost of $65 million, was completed late in the fourth quarter, and will eventually increase existing capacity by about 50 percent, or 170 million square feet.

Particleboard shipments in 1995 were 5 percent below levels of the prior year although prices finished the year up about 2 percent. During the second quarter demand abated due to excessive customer inventory levels, and the Group elected one week of unscheduled downtime at each of its three mills.

Gypsum wallboard shipments increased 2 percent over 1994 and revenues were up 12 percent. Price levels, in response to demand, were particularly strong during the first half of the year. Even with some additional production into the markets by mid-year, demand for wallboard remained relatively firm throughout the last half, with fourth quarter prices equal to year ago levels. Value-added specialty products accounted for 34 percent of 1995 shipments, an increase of 21 percent over 1994.

**Temple-Inland Financial Services**

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

TEMPLE-INLAND FINANCIAL SERVICES
SELECTED SEGMENT INFORMATION

| Years ended December 31 *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| **INCOME** | | | |
| Savings bank | **$ 78.1** | $ 37.2 | $ 45.1 |
| Mortgage banking | **20.3** | 15.9 | 19.9 |
| Real estate | **(3.8)** | (.6) | (1.5) |
| Insurance | **3.5** | 3.8 | 4.0 |
| Income before taxes and accounting change | **98.1** | 56.3 | 67.5 |
| Taxes on income | **27.3** | 15.3 | 18.8 |
| Income before accounting change | **70.8** | 41.0 | 48.7 |
| Cumulative effect of accounting change | **–** | – | 52.3 |
| Net income | **$ 70.8** | $ 41.0 | $ 101.0 |
| **ASSETS** | | | |
| Savings bank | **$8,881.7** | $ 8,707.8 | $ 8,799.6 |
| Mortgage banking | **157.0** | 122.2 | 131.8 |
| Real estate | **238.4** | 214.7 | 224.7 |
| Insurance | **19.1** | 21.4 | 31.0 |
| Other activities | **1.6** | 1.6 | 13.9 |
| Eliminations | **(86.7)** | (60.0) | (67.7) |
| Total assets | **$9,211.1** | $ 9,007.7 | $ 9,133.3 |
| **LIABILITIES** | | | |
| Savings bank | **$8,405.2** | $ 8,281.7 | $ 8,415.2 |
| Mortgage banking | **113.5** | 91.8 | 97.2 |
| Real estate | **156.2** | 130.8 | 125.8 |
| Insurance | **13.2** | 15.9 | 27.1 |
| Other activities | **4.6** | 4.6 | 24.0 |
| Eliminations | **(86.7)** | (60.0) | (67.7) |
| Total liabilities | **$8,606.0** | $ 8,464.8 | $8,621.6 |
| **EQUITY** | | | |
| Savings bank | **$ 476.5** | $ 426.1 | $ 384.3 |
| Mortgage banking | **43.5** | 30.4 | 34.6 |
| Real estate | **82.2** | 83.9 | 98.9 |
| Insurance | **5.9** | 5.4 | 3.9 |
| Other activities | **(3.0)** | (2.9) | (10.0) |
| Total equity | **$ 605.1** | $ 542.9 | $ 511.7 |

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**Savings Bank**

The Company's Savings Bank, Guaranty Federal Bank, F.S.B. ("Guaranty"), conducts its business through 113 banking centers located throughout Texas, including Houston, Dallas, San Antonio, Austin and the east Texas area. The primary business of Guaranty is to attract savings deposits from the public, be a major construction lender to the commercial and residential real estate industry, invest in loans secured by real estate mortgages, and provide a variety of loan products to consumers.

Presented below is selected financial information for Guaranty:

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

| Years ended December 31 *(dollars in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| INCOME AND EXPENSE | | | |
| Net interest income | **$ 179.5** | $ 149.2 | $ 135.4 |
| Noninterest income | **37.7** | 25.0 | 19.5 |
| Noninterest expense | **124.6** | 130.5 | 104.9 |
| Income before taxes and accounting change | **78.1** | 37.2 | 45.1 |
| AVERAGE BALANCE SHEET | | | |
| Total earning assets | **8,819.5** | 8,544.7 | 8,720.7 |
| Loans receivable and mortgage loans held for sale | **4,453.6** | 3,147.6 | 2,116.4 |
| Mortgage-backed and investment securities | **3,647.1** | 4,151.3 | 4,978.0 |
| Securities purchased under resell agreements | **–** | 551.3 | 1,176.0 |
| Covered assets | **298.6** | 536.2 | 405.7 |
| Deposits | **6,721.3** | 6,681.6 | 5,838.3 |
| Securities sold under repurchase agreements and FHLB advances | **1,873.0** | 1,714.2 | 2,726.9 |
| KEY RATIOS | | | |
| Yield on earning assets | **6.87%** | 5.59% | 5.32% |
| Cost of funds | **4.96%** | 3.91% | 3.83% |
| Net spread | **1.91%** | 1.68% | 1.49% |

When Guaranty was acquired in September 1988, its primary assets were mortgage loans, properties and notes receivable, all of which were guaranteed by agencies of the federal government. Corresponding liabilities were largely consumer deposits. Further acquisitions in the next two years were primarily cash assets offset by consumer deposit liabilities. The cash assets were converted to mortgage-backed securities, the interest rate on which was indexed to the cost of deposits in the FHLB Eleventh District Cost of Funds Index ("EDCOF"), which is primarily California institutions.

The long-term target was to convert these securities to adjustable rate mortgage loans and by December 31, 1995, loans receivable comprised 57 percent of earning assets, up from 45 percent in the prior year. Over the next few years, this percentage should approach 80 percent of earning assets.

Guaranty can fund its asset base with consumer deposits or short-term borrowings, including repurchase agreements. Since the earnings of a large portion of its assets are indexed to the EDCOF, the comparative cost of deposit liabilities of Guaranty with this index is important to profitability. In 1995, the seven basis point improvement in comparative cost increased income by approximately $3 million.

Although the average balance of total earning assets remained virtually constant with 1994, the improved mix of loans receivable rather than investments and guaranteed assets improved net interest income by $30.3 million in 1995. This improved asset mix accounted for a portion of the 23 basis points increase in the net interest spread.

In 1994, on similar asset balance, the better mix improved earnings by $13.8 million and the interest spread by 19 basis points.

When new loans are originated, an estimated allowance for losses is provided. Thereafter, this provision is adjusted for actual experience. The increase in loans outstanding in both 1994 and 1995 is the primary reason for the increase in the loan loss provision.

Noninterest income increased by $3.7 million in 1995 and $5.5 million in 1994. Noninterest income is comprised primarily of fees collected, including service charges on deposits. In addition, in 1995, Guaranty recognized a $9 million gain, representing its portion of gains on certain asset dispositions (see Note C on page 46 for additional information).

*BIF/SAIF Legislation*

Both the House Banking Committee and the Senate Banking Committee approved legislation that would recapitalize the Savings Association Insurance Fund ("SAIF") and merge the SAIF with the Bank Insurance Fund ("BIF"). This proposed legislation would have imposed a one-time assessment estimated to be $58 million on the deposits of Guaranty and would have ultimately reduced future deposit insurance premiums by approximately $15 million per year. Due to the recent budget impasse in Congress, the Company is unable to predict when or if such legislation will be adopted or if the assessment would be less because of the favorable current experience of the insurance fund.

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*Acquisitions:*

In June 1994, Guaranty purchased substantially all of the net assets of First Federal Savings Bank of San Antonio ("FFSB") for approximately $43 million. FFSB was a savings bank with ten banking centers in San Antonio, Texas, with assets at acquisition totaling approximately $363 million, consisting primarily of mortgage loans and cash.

In November 1993, Guaranty purchased all of the outstanding stock of American Federal Bank, F.S.B. ("AFB") for approximately $156 million. Assets of AFB at acquisition totaled approximately $1.3 billion, principally $750 million in loans and $400 million in covered assets. See Note B on page 46 for additional information.

*Liquidity, Interest Rate Risk Management and Capital:*

Guaranty is required by the Office of Thrift Supervision ("OTS") to maintain average daily balances of liquid assets and short-term liquid assets in amounts equal to 5 percent and 1 percent, respectively, of net withdrawable deposits and short-term borrowings. At December 31, 1995, Guaranty exceeded the required liquidity ratios.

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. Since approximately 80 percent of Guaranty's assets have adjustable rates, this risk is significantly mitigated. A significant 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. See Note K on page 49 for additional information.

OTS regulations require savings institutions to maintain certain minimum levels of capital. Guaranty's regulatory capital exceeded all applicable capital requirements at December 31, 1995. Note L on page 49 contains additional information concerning Guaranty's capital requirements.

**Mortgage Banking**

Mortgage banking activity is conducted through Temple-Inland Mortgage Corporation ("TIMC"), a full service mortgage banker. TIMC arranges financing of single-family mortgage loans, then sells the loans into the secondary market (primarily FNMA, FHLMC and GNMA securities). The Group generally retains the servicing of these loans.

A summary of selected financial information is provided below.

MORTGAGE BANKING OPERATIONS SUMMARY

| Years ended December 31 *(dollars in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| Revenues | **$ 71** | $ 73 | $ 104 |
| Income before taxes | **20** | 16 | 20 |
| Portfolio roll-forward: | | | |
| Beginning servicing | **$ 10,068** | $ 9,067 | $ 7,746 |
| Purchased servicing | **3,782** | 1,650 | – |
| New loans added, net of servicing released | **948** | 540 | 3,302 |
| Run-off | **(1,338)** | (1,189) | (1,981) |
| Ending servicing | **$ 13,460** | $ 10,068 | $ 9,067 |
| Portfolio growth rate | **33.7%** | 11.0% | 17.0% |
| Run-off factor | **13.3%** | 13.1% | 25.6% |
| Ending number of loans serviced | **184,800** | 149,500 | 144,700 |

The servicing portfolio grew from both internal production and acquisition to a record $13.5 billion during 1995. Servicing totaling $3.8 billion was acquired during the year. Another $4.4 billion in servicing was under contract at year end and will be added to the portfolio in 1996. The portfolio growth has allowed significant cost efficiencies. The cost to service a loan in 1995 was approximately 10 percent lower than the cost to service a loan in 1994.

Increases in mortgage interest rates throughout most of 1995 and lower levels of new construction led to a decline in mortgage loan originations. Originations were $1.2 billion in 1995 compared with $2.1 billion in 1994. Accordingly, the size of the origination network continued to be reduced proportionately. Production operations expanded in early 1996 with the purchase of a 16-branch West Coast retail mortgage origination company. See Note B on page 46 for additional information.

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### 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 19 residential subdivisions in Austin, Houston, San Antonio and Dallas, Texas, as well as Denver, Colorado and Tampa, Florida. At the end of 1995, land development inventory included 1,056 residential lots (695 under contract) and 5,096 acres of land. Lot sales for 1995 were 467 compared with 461 in 1994 and 526 in 1993.

The Company owns ten commercial properties consisting of two hotels, two office buildings, two retail centers and four parcels of commercial land.

Selected financial information related to these activities is shown below.

REAL ESTATE GROUP
OPERATIONS SUMMARY

| Years ended December 31 *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| REVENUES: | | | |
| Residential | **$ 12.7** | $ 8.4 | $ 8.0 |
| Commercial | **19.4** | 21.1 | 18.3 |
| Interest and other | **4.9** | 4.6 | 7.9 |
| Total | **$ 37.0** | $ 34.1 | $ 34.2 |
| INCOME (LOSS) BEFORE TAXES: | | | |
| Residential | **$ (1.9)** | $ (2.6) | $ (3.5) |
| Commercial | **2.0** | 2.1 | 1.1 |
| Interest and other | **(3.9)** | (.1) | .9 |
| Total | **$ (3.8)** | $ (.6) | $ (1.5) |

Shown below is the real estate group's pro rata share of the assets, liabilities and equity of joint ventures in which it is a partner.

REAL ESTATE GROUP
INVESTMENT IN JOINT VENTURES

| Years ended December 31 *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| Assets | **$ 20.1** | $ 19.7 | $ 18.6 |
| Liabilities[a] | **19.0** | 18.6 | 17.5 |
| Equity | **1.1** | 1.1 | 1.1 |

[a] Although the Company's pro rata share of joint venture notes payable total $18.1 million, the joint venture partners are in most instances jointly and severally liable for notes payable. The gross balance of these notes was $39.7 million at December 31, 1995. Where a venture partner is jointly and severally liable for notes payable, the partner also has rights against the other partners' interest in joint venture assets if payments above the normal partnership percentage are required.

### 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, business insurance, 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

| Years ended December 31 *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| Revenues | **$ 16.5** | $ 18.4 | $ 21.1 |
| Income before taxes | **3.5** | 3.8 | 4.0 |

### 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 recent modernization programs at some of its mills, including the mill at Evadale, Texas, the Company has used state-of-the-art technology for air and water emissions. These forward-looking programs 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 anticipated environmental purposes during the period 1996 through 1998 will average $15 million each year.

On December 17, 1993, the U.S. Environmental Protection Agency ("EPA") published extensive proposed regulations governing air and water emissions from the pulp and paper industry ("Cluster Rules"). The Company anticipates that these proposed regulations will change before becoming effective. Due to the uncertainty of the final form of the Cluster Rules, it is impossible to predict the exact capital expenditures necessary for compliance. Therefore, the estimated expenditures disclosed above do not include expenditures that may be mandated by the Cluster Rules. Based upon its interpretation of the Cluster Rules as currently proposed, the Company estimates that compliance

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could 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 $200 million over the next five years, and could be less if the Company's recovery boilers meet the new standards.

### 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, to service existing debt, to pay dividends and to meet normal working capital requirements.

A summary of capital expenditures is shown below.

| *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| CAPITAL EXPENDITURES | | | |
| Corrugated container | **$ 153.3** | $ 114.9 | $ 87.5 |
| Bleached paperboard | **145.8** | 275.1 | 200.5 |
| Building products | **67.6** | 43.4 | 26.1 |
| Timber and timberlands | **19.1** | 28.5 | 22.5 |
| Other activities | **.3** | 1.2 | 3.7 |
| Total manufacturing group | **$ 386.1** | $ 463.1 | $ 340.3 |

Capital expenditures of approximately $275 million are projected for 1996. Commitments on construction projects totaled $39 million at the end of 1995.

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

| *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| PARENT COMPANY INTEREST-NET | | | |
| Interest expense | **$ 111.3** | $ 94.8 | $ 81.9 |
| Capitalized interest | **(38.6)** | (27.7) | (12.5) |
| Interest expense—net | **$ 72.7** | $ 67.1 | $ 69.4 |

Interest expense increased in 1995 and 1994 due to the higher levels of debt outstanding. In 1995, the Company issued $188 million of private placement debt ranging in maturities from 2002 to 2007. Also, during the year, a financial services entity borrowed $95 million against a revolving credit agreement. The increase in capitalized interest in 1995 and 1994 was due to higher levels of construction in progress associated primarily with the Bleached Paperboard Group's modernization and expansion project. Since this project was completed in 1995, capitalized interest in 1996 should be comparable to 1993 levels with interest expense not changing appreciably for 1996; net interest expense should increase. Parent Company interest paid during 1995, 1994 and 1993 was $95.4 million, $89.2 million and $80.9 million, respectively.

In August 1995, the Board approved a stock repurchase program allowing the Company to repurchase up to 2.5 million shares. By year end, approximately 25 percent of this program had been achieved.

### Accounting Matters—Pronouncements

In 1993, the Company implemented FASB Statements No. 109, "Accounting for Income Taxes", and No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions". The effect of the implementation of Statement No. 109 was to increase net income $125 million ($2.25 per share). The effect of the implementation of Statement No. 106, net of taxes, was to decrease income $75 million ($1.35 per share).

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## SELECTED FINANCIAL DATA

| For The Year *(in millions, except per share data)* | 1995 | 1994 | 1993 | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 | 1985 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total revenues | **$ 3,460** | $ 2,938 | $ 2,736 | $ 2,713 | $ 2,507 | $ 2,401[a] | $ 1,943 | $ 1,814 | $ 1,642 | $ 1,343 | $ 1,282 |
| Manufacturing net sales | **2,696** | 2,306 | 2,101 | 2,075 | 1,898 | 1,892 | 1,894 | 1,774 | 1,603 | 1,296 | 1,243 |
| Net income | **281** | 131 | 117[b] | 147 | 138 | 232[a] | 207 | 199 | 141 | 81 | 85 |
| Capital expenditures: | | | | | | | | | | | |
| Manufacturing | **386** | 463 | 340 | 359 | 378 | 324 | 260 | 219 | 139 | 103 | 184 |
| Financial services | **34** | 20 | 14 | 11 | 9 | 4 | 9 | 4 | 1 | 1 | – |
| Depreciation and depletion: | | | | | | | | | | | |
| Manufacturing | **208** | 200 | 191 | 167 | 158 | 140 | 126 | 112 | 94 | 79 | 66 |
| Financial services | **8** | 8 | 6 | 5 | 4 | 5 | 2 | 2 | 1 | 1 | 1 |
| Earnings per share | **5.01** | 2.35 | 2.11[b] | 2.65 | 2.51 | 4.20[a] | 3.75 | 3.58 | 2.34 | 1.32 | 1.40 |
| Dividends per common share | **1.14** | 1.02 | 1.00 | .96 | .88 | .80 | .58 | .42 | .35 | .29 | .26 |
| Average shares outstanding | **56.1** | 55.9 | 55.5 | 55.5 | 55.2 | 55.4 | 55.3 | 55.7 | 60.3 | 61.1 | 60.8 |
| Common shares outstanding at year end | **55.7** | 56.0 | 55.5 | 55.2 | 54.9 | 54.6 | 54.9 | 55.2 | 55.3 | 60.7 | 60.5 |
| AT YEAR END | | | | | | | | | | | |
| Total assets | **$12,764** | $12,251 | $11,959 | $10,766 | $10,068 | $ 7,834[c] | $ 2,380 | $ 2,247 | $ 2,020 | $ 1,894 | $ 1,594 |
| Long-term debt: | | | | | | | | | | | |
| Parent company | **1,489** | 1,316 | 1,045 | 964 | 864 | 501 | 399 | 417 | 416 | 366 | 248 |
| Financial services | **113** | 82 | 76 | 99 | 76 | 94 | 30 | 25 | 30 | 25 | 14 |
| Ratio of total debt to total capitalization—parent company | **43%** | 43% | 38% | 38% | 36% | 26% | 24% | 29% | 31% | 28% | 23% |
| Shareholders' equity | **1,975** | 1,783 | 1,700 | 1,633 | 1,532 | 1,439 | 1,259 | 1,096 | 927 | 929 | 864 |

## COMMON STOCK PRICES AND DIVIDEND INFORMATION

| | 1995 | | | 1994 | | |
|---|---|---|---|---|---|---|
| | Price Range | | | Price Range | | |
| | *High* | *Low* | *Dividends* | *High* | *Low* | *Dividends* |
| First Quarter | **$ 51** | **$ 44-5/8** | **$ .27** | $ 54-3/4 | $ 45-3/4 | $ .25 |
| Second Quarter | **47-3/4** | **41-1/2** | **.27** | 50-3/4 | 43-3/4 | .25 |
| Third Quarter | **55-3/4** | **48** | **.30** | 56-3/4 | 46-7/8 | .25 |
| Fourth Quarter | **52-3/8** | **42-1/2** | **.30** | 56-3/4 | 43 | .27 |
| Year | **55-3/4** | **41-1/2** | **1.14** | 56-3/4 | 43 | 1.02 |

[a] Includes operating results from consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.

[b] Includes a $50 million or $.90 per share from cumulative effect of accounting changes.

[c] Includes Savings Bank assets from consolidation of Guaranty Federal Bank, F.S.B., beginning January 1, 1990.

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## SUMMARIZED STATEMENTS OF INCOME

*Parent Company (Temple-Inland Inc.)*

| For the year *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| REVENUES | | | |
| Net sales | **$ 2,696** | $ 2,306 | $ 2,101 |
| Financial services earnings | **98** | 56 | 68 |
| | **2,794** | 2,362 | 2,169 |
| COSTS AND EXPENSES | | | |
| Cost of sales | **2,037** | 1,900 | 1,807 |
| Selling and administrative | **257** | 206 | 199 |
| | **2,294** | 2,106 | 2,006 |
| OPERATING INCOME | **500** | 256 | 163 |
| Interest—net | **(73)** | (67) | (69) |
| Other | **4** | 4 | 2 |
| INCOME BEFORE TAXES AND ACCOUNTING CHANGES | **431** | 193 | 96 |
| Taxes on income | **150** | 62 | 29 |
| INCOME BEFORE ACCOUNTING CHANGES | **281** | 131 | 67 |
| Cumulative effect of accounting changes | **–** | – | 50 |
| **NET INCOME** | **$ 281** | $ 131 | $ 117 |

See the notes to the Parent Company summarized financial statements.

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## SUMMARIZED BALANCE SHEETS

*Parent Company (Temple-Inland Inc.)*

| At year end<br>*(in millions)* | 1995 | 1994 |
|---|---|---|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | **$ 15** | $ 13 |
| Receivables, less allowances of $8 in 1995 and 1994 | **285** | 244 |
| Inventories: | | |
| Work in process and finished goods | **99** | 77 |
| Raw materials | **239** | 191 |
| | **338** | 268 |
| Prepaid expenses | **15** | 16 |
| Total Current Assets | **653** | 541 |
| INVESTMENT IN FINANCIAL SERVICES | **605** | 543 |
| PROPERTY AND EQUIPMENT | | |
| Buildings | **469** | 392 |
| Machinery and equipment | **3,323** | 2,844 |
| Less allowances for depreciation | **(1,702)** | (1,593) |
| | **2,090** | 1,643 |
| Construction in progress | **225** | 516 |
| | **2,315** | 2,159 |
| Timber and timberlands—less depletion | **445** | 431 |
| Land | **28** | 31 |
| Total Property and Equipment | **2,788** | 2,621 |
| OTHER ASSETS | **167** | 159 |
| **TOTAL ASSETS** | **$ 4,213** | $ 3,864 |

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| At year end *(in millions)* | 1995 | 1994 |
|---|---|---|
| **LIABILITIES AND SHAREHOLDER'S EQUITY** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | **$ 138** | $ 176 |
| Accrued expenses | **157** | 178 |
| Employee compensation and benefits | **37** | 25 |
| Current portion of long-term debt | **5** | 14 |
| Total Current Liabilities | **337** | 393 |
| LONG-TERM DEBT | **1,489** | 1,316 |
| DEFERRED INCOME TAXES | **259** | 229 |
| POSTRETIREMENT BENEFITS | **132** | 126 |
| OTHER LIABILITIES | **21** | 17 |
| SHAREHOLDER'S EQUITY | **1,975** | 1,783 |
| **TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** | **$ 4,213** | $ 3,864 |

See the notes to the Parent Company summarized financial statements.

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## SUMMARIZED STATEMENTS OF CASH FLOWS

*Parent Company (Temple-Inland Inc.)*

| For the year *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| CASH PROVIDED BY (USED FOR) OPERATIONS | | | |
| Net income | **$ 281** | $ 131 | $ 117 |
| Adjustments to reconcile net income to net cash: | | | |
| Cumulative effect of accounting changes | **–** | – | (50) |
| Depreciation and depletion | **208** | 200 | 191 |
| Deferred taxes | **29** | 32 | (15) |
| Unremitted earnings of affiliated companies | **(71)** | (41) | (48) |
| Receivables | **(42)** | (41) | 15 |
| Inventories | **(71)** | (1) | (10) |
| Prepaid expenses | **1** | (2) | (6) |
| Accounts payable and accrued expenses | **(46)** | (3) | 45 |
| Other assets and liabilities | **1** | (30) | (4) |
| Other | **(4)** | (2) | 8 |
| | **286** | 243 | 243 |
| CASH PROVIDED BY (USED FOR) INVESTMENTS | | | |
| Capital expenditures | **(386)** | (463) | (340) |
| Proceeds from sale of property and equipment | **15** | 19 | 19 |
| Construction funds held by trustees | **–** | – | 7 |
| Manufacturing acquisitions | **(2)** | (60) | – |
| Dividends from financial services, net | **15** | 30 | 42 |
| | **(358)** | (474) | (272) |
| CASH PROVIDED BY (USED FOR) FINANCING | | | |
| Additions to debt | **175** | 299 | 85 |
| Payments of debt | **(15)** | (24) | (4) |
| Purchase of stock for treasury | **(24)** | (1) | (3) |
| Cash dividends paid to shareholders | **(64)** | (57) | (55) |
| Other | **2** | 18 | 8 |
| | **74** | 235 | 31 |
| Net increase in cash | **2** | 4 | 2 |
| Cash at beginning of year | **13** | 9 | 7 |
| Cash at end of year | **$ 15** | $ 13 | $ 9 |

See the notes to the Parent Company summarized financial statements.

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

### NOTE A | Summary of Significant Accounting Policies

**Basis of Presentation**

The summarized financial statements include the accounts of the Parent Company (Temple-Inland Inc.) and its manufacturing subsidiaries. The Financial Services Group, including a savings bank, mortgage banking and real estate development operations, are 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. Refer to pages 42 through 49 for the Financial Services Group's summarized financial statements. All material intercompany amounts and transactions have been eliminated. These financial statements should be read in conjunction with the consolidated financial statements.

**Inventories**

Inventories are stated at the lower of cost or market.

Cost of inventories amounting to $129.8 million in 1995 and $83.8 million in 1994 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 which were costed on the LIFO method, inventories would have been $24.6 and $19.4 million higher than reported at year end 1995 and 1994, respectively.

**Property and Equipment**

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

| CLASSIFICATION | *Estimated Useful Lives* |
|---|---|
| Buildings | 15 to 40 years |
| Machinery and equipment: | |
| Manufacturing and production equipment | 3 to 20 years |
| Automobiles and aircraft | 3 to 10 years |
| Office and other equipment | 3 to 10 years |

Certain equipment is being depreciated based on operating hours because depreciation occurs primarily through use rather than merely 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.

### NOTE B | Long-Term Debt

Long-term debt consists of the following:

| *(in millions)* | 1995 | 1994 |
|---|---|---|
| Commercial Paper—Average interest rate was 5.90% in 1995 and 4.26% in 1994 | **$ 124.9** | $ 172.0 |
| 8.375% Notes Payable due 1996 | **70.0** | 70.0 |
| 8.73% to 9.0% Notes Payable due 1996 to 1998 | **190.0** | 200.0 |
| 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 | **338.0** | 150.0 |
| Revenue Bonds due 2009 through 2028—Average interest rate was 4.11% in 1995 and 3.08% in 1994 | **182.7** | 170.1 |
| Other indebtedness due through 2006—Average interest rate was 6.48% in 1995 and 5.54% in 1994 | **38.3** | 17.8 |
| | **1,493.9** | 1,329.9 |
| Less: Current portion of long-term debt | **(5.0)** | (14.1) |
| | **$1,488.9** | $ 1,315.8 |

In the second half of 1995, the Company privately placed $188 million of notes with interest rates averaging approximately seven percent. Proceeds from these notes were used to repay short-term borrowings.

In July 1994, the Company privately placed $80 million of 7.04 percent notes due 1998 and $70 million of 7.31 percent notes due 1999. Proceeds of the notes were used to repay short-term debt. Also, in October 1994, the Company issued $21.4 million in tax-exempt financing related to certain assets at the Company's Hope, Arkansas particleboard mill.

At December 30, 1995, the Company had multi-year revolving credit agreements with banks totaling $580 million with final maturities at various dates in 1998 which support commercial paper and other short-term borrowings. Commercial paper totaling $125 million, and current maturities totaling $165 million of medium-term notes, are classified as long-term debt in accordance with the Company's intent and ability to refinance such obligations on a long-term basis. As of December 30, 1995, $580 million was available under the revolving credit agreements.

Maturities of the Parent Company's long-term debt during the next five years are as follows (in millions): 1996–$170; 1997–$8; 1998–$315; 1999–$71; and 2000–$76. For an analysis of net interest expense, see page 35.

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## SUMMARIZED STATEMENTS OF INCOME

*Temple-Inland Financial Services Group*

| For the year *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| INTEREST INCOME | | | |
| Loans receivable and mortgage loans held for sale | **$ 369** | $ 245 | $ 173 |
| Mortgage-backed and investment securities | **209** | 190 | 242 |
| Covered assets | **18** | 30 | 25 |
| Other earning assets | **23** | 31 | 50 |
| Total interest income | **619** | 496 | 490 |
| INTEREST EXPENSE | | | |
| Deposits | **313** | 254 | 237 |
| Borrowed funds | **121** | 81 | 99 |
| Total interest expense | **434** | 335 | 336 |
| NET INTEREST INCOME | **185** | 161 | 154 |
| Provision for loan losses | **15** | 7 | 5 |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | **170** | 154 | 149 |
| NONINTEREST INCOME | | | |
| Loan servicing fees | **44** | 34 | 29 |
| Loan origination and marketing | **15** | 17 | 45 |
| Other | **86** | 85 | 71 |
| Total noninterest income | **145** | 136 | 145 |
| NONINTEREST EXPENSE | | | |
| Compensation and benefits | **91** | 108 | 112 |
| Other | **126** | 126 | 114 |
| Total noninterest expense | **217** | 234 | 226 |
| INCOME BEFORE TAXES AND ACCOUNTING CHANGE | **98** | 56 | 68 |
| Taxes on income | **27** | 15 | 19 |
| INCOME BEFORE ACCOUNTING CHANGE | **71** | 41 | 49 |
| Cumulative effect of accounting change | **–** | – | 52 |
| **NET INCOME** | **$ 71** | $ 41 | $ 101 |

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

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## SUMMARIZED BALANCE SHEETS

*Temple-Inland Financial Services Group*

| At year end *(in millions)* | 1995 | 1994 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | **$ 343** | $ 302 |
| Mortgage loans held for sale | **106** | 130 |
| Loans receivable | **4,764** | 3,675 |
| Mortgage-backed and investment securities | **3,424** | 3,964 |
| Covered assets | **-** | 418 |
| Other assets | **574** | 519 |
| **TOTAL ASSETS** | **$ 9,211** | $ 9,008 |
| **LIABILITIES** | | |
| Deposits | **$ 6,377** | $ 6,598 |
| Securities sold under repurchase agreements | **1,604** | 1,365 |
| Federal Home Loan Bank advances | **155** | 155 |
| Other borrowings | **113** | 82 |
| Other liabilities | **357** | 265 |
| **TOTAL LIABILITIES** | **8,606** | 8,465 |
| **SHAREHOLDER'S EQUITY** | **605** | 543 |
| **TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** | **$ 9,211** | $ 9,008 |

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

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## SUMMARIZED STATEMENTS OF CASH FLOWS

*Temple-Inland Financial Services Group*

| For the year *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| **CASH PROVIDED BY (USED FOR) OPERATIONS** | | | |
| Net income | **$ 71** | $ 41 | $ 101 |
| Adjustments to reconcile net income to net cash: | | | |
| Cumulative effect of accounting change | **–** | – | (52) |
| Provision for amortization, depreciation and accretion | **27** | 20 | 19 |
| Gain on sales of securities available-for-sale | **(2)** | – | (1) |
| Receivable from FDIC | **(18)** | 19 | (1) |
| Mortgage loans held for sale | **24** | 500 | (174) |
| Collections and remittances on loans serviced for others, net | **96** | (164) | 122 |
| Other | **(9)** | 3 | 53 |
| | **189** | 419 | 67 |
| **CASH PROVIDED BY (USED FOR) INVESTMENTS** | | | |
| Purchases of securities available-for-sale | **(54)** | (146) | – |
| Maturities of securities available-for-sale | **12** | 17 | – |
| Purchases of securities held-to-maturity | **–** | (229) | (295) |
| Maturities of securities held-to-maturity | **391** | 790 | 1,156 |
| Loans originated or acquired, net of principal collected on loans | **(1,009)** | (823) | (670) |
| Proceeds from sale of securities available-for-sale | **192** | – | – |
| Proceeds from sale of securities held-to-maturity and loans | **–** | – | 24 |
| Reduction in covered assets | **343** | 244 | 127 |
| Savings bank acquisitions | **–** | 200 | (76) |
| Capital expenditures | **(34)** | (20) | (14) |
| Other | **(22)** | 12 | 4 |
| | **(181)** | 45 | 256 |
| **CASH PROVIDED BY (USED FOR) FINANCING** | | | |
| Net decrease in deposits | **(217)** | (92) | (310) |
| Securities sold under repurchase agreements and short-term borrowings, net | **239** | (205) | 111 |
| Additions to debt | **181** | 35 | 49 |
| Payments of debt | **(150)** | (30) | (83) |
| Dividends paid to Parent, net | **(15)** | (30) | (42) |
| Other | **(5)** | 4 | (9) |
| | **33** | (318) | (284) |
| Net increase in cash and cash equivalents | **41** | 146 | 39 |
| Cash and cash equivalents at beginning of year | **302** | 156 | 117 |
| Cash and cash equivalents at end of year | **$ 343** | $ 302 | $ 156 |

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

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## NOTES TO THE TEMPLE-INLAND FINANCIAL SERVICES GROUP SUMMARIZED FINANCIAL STATEMENTS

### NOTE A | Summary of Significant Accounting Policies

**Basis of Presentation**

The Temple-Inland Financial Services Group (the "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. These financial statements should be read in conjunction with the Temple-Inland Inc. consolidated financial statements.

**Mortgage Loans Held For Sale**

Mortgage loans originated and intended for sale in the secondary market 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**

Loans receivable are stated at unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees and discounts. The allowance for loan losses is (1) increased by charges to income, (2) increased by the portion of the purchase price related to credit risk on bulk purchases of loans, and (3) 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.

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.

As of January 1, 1995, the Group adopted FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by FASB Statement No. 118, which requires that impaired loans that are within the scope of the statement be reported at the present value of expected future cash flows using the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Application of the new statement did not have a material impact on the Group's summarized financial statements.

**Mortgage-Backed and Investment Securities**

As of January 1, 1994, the Group adopted FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities". In accordance with Statement No. 115, prior period financial statements have not been restated to reflect the change in accounting principle. The adoption of this standard had no material impact on the Group's summarized financial statements.

The Group determines the appropriate classification of mortgage-backed and investment securities at the time of purchase and confirms such designation 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 positive intent and ability to hold the securities to maturity. Debt securities on which the Group does not have the positive intent or ability to hold to maturity 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 stockholder's equity.

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

**Mortgage Loan Servicing Rights**

As of January 1, 1995, the Group adopted early FASB Statement No. 122, "Accounting for Mortgage Servicing Rights." FASB Statement No. 122 requires that a portion of the cost of originating a mortgage loan be allocated 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 effect of adopting this statement was not material to the Group's summarized financial statements. In accordance with FASB Statement No. 122, prior period financial statements have not been restated to reflect the change in accounting principle.

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

To evaluate for 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, among others, loan type and interest rate. Should the capitalized mortgage servicing rights, net of amortization, exceed fair value, impairment is recognized through a valuation allowance.

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**Federal Income Taxes**

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

## NOTE B | Acquisitions

**Savings Bank**

In June 1994, Guaranty purchased substantially all of the net assets of First Federal Savings Bank of San Antonio ("FFSB"). Total assets of FFSB at acquisition were approximately $363 million which consisted primarily of mortgage loans and cash. Guaranty paid a purchase price of approximately $43 million and assumed liabilities (primarily deposits) of approximately $342 million.

In November 1993, Guaranty completed the acquisition of all of the outstanding stock of American Federal Bank, F.S.B. ("AFB") for a cash purchase price of approximately $156 million. Total assets of AFB at acquisition were approximately $1.3 billion which consisted primarily of residential and commercial mortgage loans and Covered Assets. Funds held in escrow as Guaranty's recourse for certain post-closing claims it may have against the seller totaled $15 million at December 31, 1995.

Both acquisitions were accounted for under the purchase method of accounting. Accordingly, the assets and liabilities of AFB and FFSB at the acquisition dates were adjusted to their estimated fair values, which approximated the respective purchase price. The operating results are included in the accompanying summarized financial statements from the acquisition dates. The unaudited pro forma results of operations of the Group, assuming FFSB and AFB had been acquired January 1, 1993, would not have been materially different from those reported.

**Mortgage Banking**

Effective February 1, 1996, TIMC acquired all of the stock of a California-based mortgage banking entity. The purchase price was approximately $11.5 million. This acquisition expanded TIMC's production branch network by 16 branches, and added approximately $875 million in mortgage loan servicing to its servicing portfolio.

## NOTE C | Termination Agreements

On October 31, 1995, the Company and Guaranty entered into a series of agreements with the FDIC, as manager of the FSLIC Resolution Fund, terminating the Assistance Agreements, which had guaranteed the yield and provided coverage against any loss on the disposition of the Covered Assets. Pursuant to these agreements, Guaranty received a net payment from the Fund of approximately $208 million in payment for the difference between (i) the transfer value of certain of the Covered Assets, and (ii) the amount owed by Guaranty to the Fund for the present value of its share of the tax benefits the Company received from the Assistance Agreements. Guaranty will also receive an additional payment of $9 million representing its portion of the gain sharing on asset dispositions as provided in the Assistance Agreements. The Company had recorded on its balance sheet an estimate of the tax sharing amounts to be paid to the FDIC in the future when the related tax benefits would be realized. The actual payment, however, was a negotiated amount which reduced the expected future payments to their present value. Although certain amounts are subject to finalization in 1996, the Company could potentially recognize a credit to its tax provision of approximately $30 million. The remainder of the Covered Assets have been retained by Guaranty, but will not be the subject of any ongoing assistance.

Covered Assets managed under both the Guaranty and AFB Assistance Agreements consisted of the following:

| At year end *(in millions)* | 1995 | 1994 |
|---|---|---|
| Loans | $ - | $ 354.3 |
| Investments in real estate | - | 67.3 |
| Advances to and investments in subsidiaries | - | (9.3) |
| Other assets | - | 5.8 |
| | $ - | $ 418.1 |

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## NOTE D | Loans Receivable

Loans receivable consisted of the following:

| At year end *(in millions)* | 1995 | 1994 |
|---|---|---|
| Real estate mortgage | **$3,341.6** | $ 3,137.5 |
| Construction and development | **1,879.0** | 1,022.6 |
| Commercial | **406.3** | 229.0 |
| Consumer and other | **416.0** | 366.0 |
| | **6,042.9** | 4,755.1 |
| Less: | | |
| Unfunded portion of loans | **1,211.8** | 1,027.7 |
| Unamortized purchase premiums and discounts | **(1.8)** | (4.5) |
| Net deferred fees | **3.0** | 3.2 |
| Allowance for loan losses | **65.5** | 53.9 |
| | **1,278.5** | 1,080.3 |
| | **$4,764.4** | $ 3,674.8 |

Activity in the allowance for loan losses was as follows:

| For the year *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| Balance, beginning of year | **$ 53.9** | $ 47.9 | $ 20.8 |
| Provision for loan losses | **14.6** | 6.5 | 4.8 |
| Additions related to acquisitions and bulk purchases of loans | **4.2** | 7.6 | 24.0[a] |
| Charge-offs, net of recoveries | **(7.2)** | (8.1)[a] | (1.7) |
| Balance, end of year | **$ 65.5** | $ 53.9 | $ 47.9 |

[a] Principally related to the loan portfolio from the acquisition of AFB.

Real estate and construction loans are secured primarily by one- to four-family residential or commercial properties located in Texas and California. At December 31, 1995, Guaranty had commitments to originate or purchase variable rate loans totaling $758 million. The amount to be ultimately funded is uncertain.

## NOTE E | Mortgage-Backed and Investment Securities

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

| At year end 1995 *(in millions)* | *Amortized Cost* | *Gross Unrealized Gains* | *Gross Unrealized Losses* | *Fair Value* |
|---|---|---|---|---|
| HELD-TO-MATURITY | | | | |
| Mortgage-backed securities: | | | | |
| FNMA certificates | **$1,168.5** | **$ –** | **$ (21.0)** | **$1,147.5** |
| FHLMC certificates | **242.5** | **–** | **(4.7)** | **237.8** |
| Collateralized mortgage obligations | **378.7** | **–** | **(11.5)** | **367.2** |
| Private issuer pass-through securities | **623.1** | **–** | **(18.0)** | **605.1** |
| | **2,412.8** | **–** | **(55.2)** | **2,357.6** |
| Other | **.4** | **–** | **–** | **.4** |
| | **$2,413.2** | **$ –** | **$ (55.2)** | **$2,358.0** |
| AVAILABLE-FOR-SALE | | | | |
| Mortgage-backed securities: | | | | |
| FNMA certificates | **$ 726.3** | **$ 3.4** | **$ (.9)** | **$ 728.8** |
| FHLMC certificates | **138.1** | **.9** | **–** | **139.0** |
| GNMA certificates | **3.0** | **.1** | **–** | **3.1** |
| Collateralized mortgage obligations | **1.8** | **–** | **–** | **1.8** |
| Private issuers pass-through securities | **79.0** | **.3** | **(2.4)** | **76.9** |
| | **948.2** | **4.7** | **(3.3)** | **949.6** |
| Debt securities: | | | | |
| Corporate bonds | **1.4** | **–** | **–** | **1.4** |
| Equity securities: | | | | |
| Federal Home Loan Bank stock | **57.7** | **–** | **–** | **57.7** |
| Other | **1.3** | **.4** | **–** | **1.7** |
| | **59.0** | **.4** | **–** | **59.4** |
| | **$1,008.6** | **$ 5.1** | **$ (3.3)** | **$1,010.4** |

| At year end 1994 *(in millions)* | *Amortized Cost* | *Gross Unrealized Gains* | *Gross Unrealized Losses* | *Fair Value* |
|---|---|---|---|---|
| HELD TO MATURITY | | | | |
| FNMA certificates | $ 2,081.3 | $ – | $ (107.6) | $ 1,973.7 |
| FHLMC certificates | 426.5 | – | (20.7) | 405.8 |
| GNMA certificates | 5.3 | – | (.2) | 5.1 |
| Collateralized mortgage obligations | 436.6 | – | (32.9) | 403.7 |
| Private issuer pass-through securities | 810.7 | – | (49.8) | 760.9 |
| | 3,760.4 | – | (211.2) | 3,549.2 |
| Other | 1.9 | – | – | 1.9 |
| | $ 3,762.3 | $ – | $ (211.2) | $ 3,551.1 |
| AVAILABLE-FOR-SALE | | | | |
| Mortgage-backed securities: | | | | |
| FNMA certificates | $ 118.0 | $ .4 | $ (1.0) | $ 117.4 |
| FHLMC certificates | 20.4 | – | (.1) | 20.3 |
| | 138.4 | .4 | (1.1) | 137.7 |
| Equity securities: | | | | |
| Federal Home Loan Bank stock | 63.2 | – | – | 63.2 |
| Other | 1.0 | – | – | 1.0 |
| | 64.2 | – | – | 64.2 |
| | $ 202.6 | $ .4 | $ (1.1) | $ 201.9 |

In October 1995, the FASB issued guidance related to FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" which allows

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for a one-time reassessment of intent and reclassification of investments in debt and equity securities. This guidance provided the Group the opportunity to reassess its classification of the portfolio. On December 29, 1995, the Group transferred $948 million from held-to-maturity to available-for-sale. The related net unrealized gain was $1.3 million which is included, net of taxes, in shareholder's equity.

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.

## NOTE F | Deposits

Deposits consisted of the following:

| At year end *(dollars in millions)* | 1995 Rate | 1995 Amount | 1994 Rate | 1994 Amount |
|---|---|---|---|---|
| Noninterest bearing demand | **–%** | **$ 128.3** | –% | $ 185.3 |
| Interest bearing demand | **2.75%** | **1,028.4** | 2.75% | 1,255.7 |
| Savings deposits | **2.25%** | **198.9** | 2.25% | 247.4 |
| Time deposits | **5.74%** | **5,017.9** | 5.19% | 4,901.8 |
| | | **6,373.5** | | 6,590.2 |
| Deposit premium | | **3.5** | | 8.1 |
| | | **$6,377.0** | | $ 6,598.3 |

Scheduled maturities of time deposits outstanding at December 31, 1995, are as follows:

| Time deposits in amounts of: *(in millions)* | *$100,000 or more* | *Less than $100,000* | *Total* |
|---|---|---|---|
| 3 months or less | **$ 88.9** | **$ 699.3** | **$ 788.2** |
| Over 3 through 6 months | **105.2** | **859.1** | **964.3** |
| Over 6 through 12 months | **170.6** | **1,316.8** | **1,487.4** |
| Over 12 months | **237.5** | **1,540.5** | **1,778.0** |
| | **$ 602.2** | **$4,415.7** | **$5,017.9** |

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

| For the year *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| Interest on deposits | **$ 317.7** | $ 262.9 | $ 241.1 |
| Interest on borrowed funds | **115.9** | 79.0 | 99.2 |
| | **$ 433.6** | $ 341.9 | $ 340.3 |

At December 31, 1995, time deposits maturity dates were as follows (in millions): 1996–$3,239.9; 1997–$1,110.5; 1998–$255.2; 1999–$242.3; 2000–$161.0; 2001 and thereafter–$9.0.

## NOTE G | 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 ninety days.

Information concerning borrowings under repurchase agreements is summarized as follows:

| *(dollars in millions)* | 1995 | 1994 |
|---|---|---|
| At year-end: | | |
| Weighted average interest rate | **5.81%** | 6.11% |
| Mortgage-backed securities pledged to secure the agreements: | | |
| Carrying value | **$1,699.6** | $ 1,502.8 |
| Estimated market value | **1,680.8** | 1,426.3 |
| During the year: | | |
| Average balance | **1,719.2** | 1,598.0 |
| Maximum month-end balance | **1,914.1** | 2,300.2 |

## NOTE H | 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. The weighted average interest rate of the advances was 6.60 percent and 6.72 percent at December 31, 1995 and 1994, respectively. At December 31, 1995, the advances had calendar year maturity dates as follow (in millions): 1996–$100.0; 1997–$2.3; 1998–$2.5; 1999–$51.7.

## NOTE I | Other Borrowings

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

| At year end *(in millions)* | 1995 | 1994 |
|---|---|---|
| Long-term debt with an average rate of 7.44% during 1995, due through 2000 | **$ 95.0** | $ – |
| Long-term debt at various rates which approximate prime, secured primarily by real estate | **17.7** | 81.7 |
| | **$ 112.7** | $ 81.7 |

In August 1995, a non-savings bank subsidiary entered into a secured variable rate revolving credit agreement with an initial credit line of $175 million that expires in 2000, of which $80 million remained unused at December 31, 1995.

Maturities of other borrowings during the next five years are as follows: 1996–$0.8; 1997–$8.6; 1998–$12.8; 1999–$24.2; and 2000–$53.0.

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## NOTE J | Mortgage Loan Servicing

The Company services mortgage loans that are owned primarily by independent investors. The Company serviced approximately 184,800 and 149,500 mortgage loans aggregating $13.5 billion and $10.1 billion as of December 31, 1995 and 1994, 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 1995 or 1994 in connection with this risk.

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

| *(in millions)* | *Purchased Loan Servicing Rights, Net* | *Originated Loan Servicing Rights, Net* |
|---|---|---|
| Balance, beginning of year | $ 46.5 | $ –[a] |
| Additions | 38.6 | 11.3 |
| Scheduled amortization | (9.3) | (.7) |
| Basis in servicing sold | (.1) | – |
| Balance, end of year | $ 75.7 | $ 10.6 |

[a] See note A—Mortgage Loan Servicing rights.

The estimated fair value of the capitalized mortgage servicing rights at December 31, 1995 was $95 million. Fair value was determined utilizing market-driven assumptions for prepayment speeds, discount rates and other variables.

At December 31, 1995, TIMC had outstanding commitments to purchase servicing rights related to $4.4 billion in mortgage loans, including $875 million acquired with the purchase of a California-based mortgage banking entity in February 1996.

## NOTE K | Interest Rate Risk Management

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

Guaranty entered into 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 $500 million, Guaranty simultaneously purchased and sold caps whereby it receives interest if the variable rate based on FHLB Eleventh District Cost of Funds Index ("EDCOF") (5.12 percent at December 31, 1995) exceeds an average strike rate of 8.81 percent and pays interest if the same variable rate exceeds a strike rate of 11.75 percent. These agreements became effective in 1995 and mature through 2003.

Guaranty entered into 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 ten percent. The agreement matures in 2004.

During 1994, Guaranty entered into an interest rate swap to better match the different floating rate indices of its debt and certain earning assets, thus reducing the impact of interest rate changes on future income. Under this swap with a notional amount of $600 million, Guaranty paid interest at a variable rate based on the EDCOF less 28 basis points, and received interest at a variable rate based on the 30-day LIBOR not to exceed 4.75 percent. This agreement matured in 1995.

The net amount payable or receivable on interest rate contracts is recorded on an accrual basis as an adjustment to interest income or expense. Premiums paid for purchased interest rate cap agreements, 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 ended December 31, 1995, 1994 and 1993.

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 certain regulatory capital requirements. Failure to meet these capital requirements exposes an institution to regulatory sanctions, including limitation on asset growth. At December 31, 1995, Guaranty met these capital requirements.

| *(dollars in millions)* | *Guaranty* | | *Regulatory Requirement* | |
|---|---|---|---|---|
| Tangible capital | $ 485.8 | 5.44% | $ 134.0 | 1.50% |
| Leverage capital | 485.8 | 5.44% | 268.0 | 3.00% |
| Risk-based capital | 508.0 | 11.08% | 366.9 | 8.00% |

The payment of dividends from Guaranty is subject to proper regulatory notification.

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## CONSOLIDATED STATEMENTS OF INCOME

*Temple-Inland Inc. and Subsidiaries*

| For the year *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| REVENUES | | | |
| Manufacturing net sales | **$ 2,696** | $ 2,306 | $ 2,101 |
| Financial services revenues | **764** | 632 | 635 |
| | **3,460** | 2,938 | 2,736 |
| COSTS AND EXPENSES | | | |
| Manufacturing costs and expenses | **2,294** | 2,106 | 2,006 |
| Financial services expenses | **666** | 576 | 567 |
| | **2,960** | 2,682 | 2,573 |
| OPERATING INCOME | **500** | 256 | 163 |
| Parent company interest—net | **(73)** | (67) | (69) |
| Other | **4** | 4 | 2 |
| INCOME BEFORE TAXES AND ACCOUNTING CHANGES | **431** | 193 | 96 |
| Taxes on income | **150** | 62 | 29 |
| INCOME BEFORE ACCOUNTING CHANGES | **281** | 131 | 67 |
| Cumulative effect of accounting changes | **–** | – | 50 |
| NET INCOME | **$ 281** | $ 131 | $ 117 |
| EARNINGS PER SHARE: | | | |
| Before Accounting Changes | **$ 5.01** | $ 2.35 | $ 1.21 |
| Effect of Accounting Changes | **–** | – | .90 |
| Earnings Per Share | **$ 5.01** | $ 2.35 | $ 2.11 |

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

*Temple-Inland Inc. and Subsidiaries*

| For the year *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| **CASH PROVIDED BY (USED FOR) OPERATIONS** | | | |
| Net income | **$ 281** | $ 131 | $ 117 |
| Adjustments to reconcile net income to net cash: | | | |
| Cumulative effect of accounting changes | **–** | – | (50) |
| Depreciation and depletion | **216** | 208 | 197 |
| Deferred taxes and tax credits | **53** | 47 | (2) |
| Amortization and accretion | **18** | 12 | 13 |
| Receivable from FDIC | **(18)** | 19 | (1) |
| Mortgage loans held for sale | **24** | 500 | (174) |
| Receivables | **(42)** | (41) | 15 |
| Inventories | **(71)** | (1) | (10) |
| Accounts payable and accrued expenses | **(51)** | (2) | 47 |
| Collections and remittances on loans serviced for others, net | **96** | (164) | 122 |
| Other | **(31)** | (46) | 36 |
| | **475** | 663 | 310 |
| **CASH PROVIDED BY (USED FOR) INVESTMENTS** | | | |
| Capital expenditures | **(420)** | (483) | (354) |
| Proceeds from sale of property and equipment | **16** | 19 | 19 |
| Purchases of securities available-for-sale | **(54)** | (146) | – |
| Maturities of securities available-for-sale | **12** | 17 | – |
| Purchases of securities held-to-maturity | **–** | (229) | (295) |
| Maturities of securities held-to-maturity | **391** | 790 | 1,156 |
| Loans originated or acquired, net of principal collected on loans | **(1,009)** | (823) | (670) |
| Proceeds from sale of securities available-to-sale | **192** | – | – |
| Proceeds from sale of securities held-to-maturity and loans | **–** | – | 24 |
| Reduction in Covered Assets | **343** | 244 | 127 |
| Savings bank acquisitions | **–** | 200 | (76) |
| Manufacturing acquisitions | **(2)** | (60) | – |
| Other | **(23)** | 11 | 11 |
| | **(554)** | (460) | (58) |
| **CASH PROVIDED BY (USED FOR) FINANCING** | | | |
| Additions to debt | **356** | 334 | 134 |
| Payments of debt | **(165)** | (54) | (87) |
| Securities sold under repurchase agreements and short-term borrowings, net | **239** | (205) | 111 |
| Purchase of stock for treasury | **(24)** | (1) | (3) |
| Cash dividends paid to shareholders | **(64)** | (57) | (55) |
| Net decrease in deposits | **(217)** | (92) | (310) |
| Other | **(3)** | 22 | (2) |
| | **122** | (53) | (212) |
| Net increase in cash and cash equivalents | **43** | 150 | 40 |
| Cash and cash equivalents at beginning of year | **315** | 165 | 125 |
| Cash and cash equivalents at end of year | **$ 358** | $ 315 | $ 165 |

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## CONSOLIDATING BALANCE SHEETS

*Temple-Inland Inc. and Subsidiaries*

| At year end 1995 *(in millions)* | *Parent Company* | *Financial Services* | *Consolidated* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 15 | $ 343 | **$ 358** |
| Mortgage loans held for sale | – | 106 | **106** |
| Loans receivable | – | 4,764 | **4,764** |
| Mortgage-backed and investment securities | – | 3,424 | **3,424** |
| Trade and other receivables | 285 | – | **283** |
| Inventories | 338 | – | **338** |
| Property and equipment | 2,788 | 76 | **2,864** |
| Other assets | 182 | 498 | **627** |
| Investment in affiliates | 605 | – | **–** |
| **TOTAL ASSETS** | $ 4,213 | $ 9,211 | **$ 12,764** |
| **LIABILITIES** | | | |
| Deposits | $ – | $ 6,377 | **$ 6,377** |
| Securities sold under repurchase agreements and Federal Home Loan Bank advances | – | 1,759 | **1,759** |
| Other liabilities | 358 | 357 | **702** |
| Long-term debt | 1,489 | 113 | **1,602** |
| Deferred income taxes | 259 | – | **217** |
| Postretirement benefits | 132 | – | **132** |
| **TOTAL LIABILITIES** | $ 2,238 | $ 8,606 | **10,789** |
| **SHAREHOLDERS' EQUITY** | | | |
| Preferred stock—par value $1 per share: authorized 25,000,000 shares; none issued | | | **–** |
| Common stock—par value $1 per share: authorized 200,000,000 shares; issued 61,389,552 shares including shares held in the treasury | | | **61** |
| Additional paid-in capital | | | **306** |
| Translation and other adjustments | | | **(14)** |
| Retained earnings | | | **1,773** |
| | | | **2,126** |
| Cost of shares held in the treasury: 5,731,411 shares | | | **(151)** |
| **TOTAL SHAREHOLDERS' EQUITY** | | | **1,975** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | | **$ 12,764** |

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## CONSOLIDATING BALANCE SHEETS

*Temple-Inland Inc. and Subsidiaries*

| At year end 1994 *(in millions)* | *Parent Company* | *Financial Services* | *Consolidated* |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 13 | $ 302 | $ 315 |
| Mortgage loans held for sale | – | 130 | 130 |
| Loans receivable | – | 3,675 | 3,675 |
| Mortgage-backed and investment securities | – | 3,964 | 3,964 |
| Covered assets | – | 418 | 418 |
| Trade and other receivables | 244 | – | 244 |
| Inventories | 268 | – | 268 |
| Property and equipment | 2,621 | 50 | 2,671 |
| Other assets | 175 | 469 | 566 |
| Investment in affiliates | 543 | – | – |
| **TOTAL ASSETS** | $ 3,864 | $ 9,008 | $ 12,251 |
| **LIABILITIES** | | | |
| Deposits | $ – | $ 6,598 | $ 6,598 |
| Securities sold under repurchase agreements and Federal Home Loan Bank advances | – | 1,520 | 1,520 |
| Other liabilities | 410 | 265 | 663 |
| Long-term debt | 1,316 | 82 | 1,398 |
| Deferred income taxes | 229 | – | 163 |
| Postretirement benefits | 126 | – | 126 |
| **TOTAL LIABILITIES** | $ 2,081 | $ 8,465 | 10,468 |
| **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 | | | 305 |
| Translation and other adjustments | | | (10) |
| Retained earnings | | | 1,556 |
| | | | 1,912 |
| Cost of shares held in the treasury: 5,370,976 shares | | | (129) |
| **TOTAL SHAREHOLDERS' EQUITY** | | | 1,783 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | | $ 12,251 |

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## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

*Temple-Inland Inc. and Subsidiaries*

| *(in millions)* | *Common Stock* | *Additional Paid-in Capital* | *Other Equity Adjustments* | *Retained Earnings* | *Treasury Stock* | *Total* |
|---|---|---|---|---|---|---|
| BALANCE AT JANUARY 2, 1993 | $ 61 | $ 295 | $ – | $ 1,420 | $ (144) | $ 1,632 |
| Net income | – | – | – | 117 | – | 117 |
| Dividends paid on common stock—$1.00 per share | – | – | – | (55) | – | (55) |
| Stock issued for stock plans—310,088 shares | – | 2 | – | – | 7 | 9 |
| Stock reacquired for treasury—79,377 shares | – | – | – | – | (3) | (3) |
| BALANCE AT JANUARY 1, 1994 | $ 61 | $ 297 | $ – | $ 1,482 | $ (140) | $ 1,700 |
| Net income | – | – | – | 131 | – | 131 |
| Translation and other adjustments | – | – | (10) | – | – | (10) |
| Dividends paid on common stock—$1.02 per share | – | – | – | (57) | – | (57) |
| Stock issued for stock plans—608,713 shares | – | 8 | – | – | 14 | 22 |
| Stock reacquired for treasury—71,516 shares | – | – | – | – | (3) | (3) |
| BALANCE AT DECEMBER 31, 1994 | $ 61 | $ 305 | $ (10) | $ 1,556 | $ (129) | $ 1,783 |
| Net income | – | – | – | **281** | – | **281** |
| Translation and other adjustments | – | – | **(4)** | – | – | **(4)** |
| Dividends paid on common stock—$1.14 per share | – | – | – | **(64)** | – | **(64)** |
| Stock issued for stock plans—154,109 shares | – | **1** | – | – | **2** | **3** |
| Stock reacquired for treasury—514,544 shares | – | – | – | – | **(24)** | **(24)** |
| **BALANCE AT DECEMBER 30, 1995** | **$ 61** | **$ 306** | **$ (14)** | **$ 1,773** | **$ (151)** | **$ 1,975** |

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 | Summary of Significant Accounting Policies

#### Basis of Consolidation

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

The consolidated financial statements include the accounts of the Company and all subsidiaries in which the Company has more than a 50 percent equity ownership. All material intercompany amounts and transactions have been eliminated. Certain amounts have been reclassified to conform with current year's classification.

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

#### Earnings Per Share

Earnings per share are based upon the weighted average number of shares outstanding, including common stock equivalents, during the year. The weighted average shares outstanding was 56,064,000, 55,890,000 and 55,528,000 in 1995, 1994 and 1993, respectively.

#### Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, securities purchased under resell agreements, federal funds sold, and other short-term liquid instruments with original maturities of three months or less.

#### Use of Estimates

Management is required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

#### 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 rate of exchange on the date the assets were acquired, while other assets and liabilities are translated at year-end exchange rates. Translation adjustments for these operations are included in net income.

Income and expense items are converted to 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.

#### Pending Accounting Policy Changes

In March 1995, the FASB issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. Statement 121 also addresses the accounting for long-lived assets that are expected to be disposed of. The Company will adopt Statement 121 in the first quarter of 1996 and, based on current circumstances, does not believe the effect of adoption will be material.

In October 1995, the FASB issued Statement No. 123, "Accounting for Stock-Based Compensation". Under the provisions of FASB 123, companies can elect to account for stock-based compensation plans using a fair value based method or continue measuring compensation expense for those plans using the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". FASB 123 requires that companies electing to continue using the intrinsic value method must make pro forma disclosures of net income and earnings per share as if the fair value based method had been applied. The Company's required adoption date for FASB 123 is January 1, 1996. Presently, the Company anticipates continuing to account for stock-based compensation using APB 25.

### NOTE 2 | Stock-Based Compensation

The Company has established stock option plans for key employees and directors. The plans provide for the granting of nonqualified stock options and/or incentive stock options, and prior to 1994, the plans permitted the grant of stock appreciation rights with all or part of any options so granted.

Options for 717,618, 643,201 and 741,379 shares were exercisable at year end 1995, 1994 and 1993, respectively. An additional 1,431,172 shares of common stock were available for grants at December 30, 1995.

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

COMMON STOCK

| | *Number of Shares* | *Price Range Per Share* |
|---|---|---|
| Outstanding at January 2, 1993 | 1,331,259 | $12–$54 |
| Granted | 288,312 | $37–$51 |
| Exercised | (213,043) | $15–$36 |
| Forfeited | (12,072) | $28–$54 |
| Outstanding at January 1, 1994 | 1,394,456 | $12–$54 |
| Granted | 267,696 | $34–$53 |
| Exercised | (319,274) | $12–$36 |
| Forfeited | (68,016) | $22–$54 |
| Outstanding at December 31, 1994 | 1,274,862 | $12–$54 |
| Granted | 326,258 | $31–$47 |
| Exercised | (145,564) | $12–$42 |
| Forfeited | (51,053) | $28–$54 |
| **Outstanding at December 30, 1995** | 1,404,503 | $12–$54 |

Additionally, a restricted stock plan provides for a maximum of 300,000 shares of restricted common stock to be reserved for awards. At year end 1995, awards of 124,472 shares of common stock were outstanding at an average price of $49.81 per share.

## NOTE 3 | Pension Plans

The Company and its subsidiaries have pension plans covering substantially all employees. Plans covering salaried and nonunion hourly employees provide benefits based on compensation and years of service, while union hourly plans are based on negotiated benefits and years of service. The Company's policy is to fund amounts on an actuarial basis to provide assets sufficient to meet the benefits to be paid in accordance with the requirements of ERISA.

A summary of the components of net pension cost in 1995, 1994 and 1993 follows:

| *(in millions)* | **1995** | 1994 | 1993 |
|---|---|---|---|
| CHARGES (CREDITS) | | | |
| Service cost—benefits earned during the period | **$ 11.6** | $ 12.7 | $ 9.6 |
| Interest cost on projected benefit obligation | **30.6** | 28.0 | 25.7 |
| Actual return on plan assets | **(72.0)** | (3.7) | (59.0) |
| Net amortization and deferral | **31.0** | (38.6) | 19.3 |
| Net pension charge (credit) | **$ 1.2** | $ (1.6) | $ (4.4) |

The following assumptions were used to measure net periodic pension cost for the defined benefit pension plans:

| For the years | **1995** | 1994 | 1993 |
|---|---|---|---|
| Discount rate | **7.75%** | 8.25% | 7.25% |
| Expected long-term rate of return | **9.00%** | 9.00% | 9.00% |
| Average increase in compensation levels | **4.75%** | 5.25% | 4.25% |

The funded status of employee pension benefit plans at year end 1995 and 1994 is summarized below:

| *(in millions)* | **1995** | 1994 |
|---|---|---|
| Actuarial present value of benefit obligations: | | |
| Vested benefits | **$ 360.6** | $ 322.5 |
| Nonvested benefits | **28.1** | 19.0 |
| Accumulated benefit obligation | **$ 388.7** | $ 341.5 |
| Projected benefit obligation for service rendered to date | **$ (426.5)** | $ (380.7) |
| Plan assets at fair value, primarily stocks and bonds | **472.8** | 420.3 |
| Plan assets in excess of projected benefit obligation | **46.3** | 39.6 |
| Prior service cost not yet recognized in net periodic pension cost | **.4** | .3 |
| Unrecognized net loss from past experience different from that assumed | **15.1** | 27.0 |
| Unrecognized net asset at beginning of period, less amortization to date | **(21.4)** | (26.0) |
| Net pension asset included in the balance sheet | **$ 40.4** | $ 40.9 |

## NOTE 4 | Postretirement Benefits Other Than Pensions

In 1993, the Company adopted FASB Statement No. 106, "Employer Accounting for Postretirement Benefits Other than Pensions". The Company elected to immediately recognize the cumulative effect of the change in accounting for postretirement benefits of $75 million ($115 million liability net of a deferred tax asset of $40 million), or $1.35 per share, which represents the accumulated postretirement benefit obligation (APBO) existing at adoption. The Company provides these benefits to eligible salaried and hourly employees who reach retirement age while employed by the Company.

Summary information on the Company's plan as of year end 1995 and 1994 is as follows:

| *(in millions)* | **1995** | 1994 |
|---|---|---|
| ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION | | |
| Retirees | **$ 63.4** | $ 61.8 |
| Active participants, eligible to retire | **16.8** | 14.6 |
| All other participants | **41.5** | 32.7 |
| Accrued postretirement benefit cost | **121.7** | 109.1 |
| Unrecognized net gains | **12.0** | 18.8 |
| Unrecognized prior service cost | **(2.1)** | (2.4) |
| Postretirement benefit liability | **$ 131.6** | $ 125.5 |

The components of net postretirement benefit costs for 1995, 1994 and 1993 are as follows:

| *(in millions)* | **1995** | 1994 | 1993 |
|---|---|---|---|
| Service costs for benefits | **$ 2.6** | $ 1.9 | $ 1.7 |
| Interest cost | **8.7** | 7.3 | 9.2 |
| Net amortization and deferral | **(.4)** | (.8) | – |
| Net postretirement charge | **$ 10.9** | $ 8.4 | $ 10.9 |

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The discount rate used in determining the APBO as of December 30, 1995 was 7.75 percent. The assumed health care cost trend rate used in measuring the APBO was 11 percent in 1995, declining to six percent in years 2010 and later. The assumptions for 1994 included an 8.25 percent discount rate and health care trend rates beginning at 11 percent and declining to six percent in 2010 and thereafter. If the health care cost trend rate assumptions were increased by one percent, the APBO as of December 30, 1995 would be increased by nine percent and the net periodic postretirement costs for 1995 would be increased by 11 percent.

## Note 5 | Taxes on Income

Taxes on income from operations consisted of the following:

| *(in millions)* | *Current* | *Deferred* |
|---|---|---|
| **1995** | | |
| Federal | **$ 87.2** | **$ 48.2** |
| State and other | **11.9** | **2.7** |
| | **$ 99.1** | **$ 50.9** |
| **1994** | | |
| Federal | $ 10.7 | $ 43.7 |
| State and other | 6.8 | .6 |
| | $ 17.5 | $ 44.3 |
| **1993** | | |
| Federal | $ 67.9 | $ (49.2) |
| State and other | 9.1 | 1.1 |
| | $ 77.0 | $ (48.1) |

Significant components of the Company's consolidated deferred tax assets and liabilities as of year end 1995 and 1994 are as follows:

| *(in millions)* | 1995 | 1994 |
|---|---|---|
| DEFERRED TAX LIABILITIES: | | |
| Depreciation | **$ 297.8** | $ 267.8 |
| Depletion | **37.7** | 39.6 |
| Pensions and other | **48.7** | 13.8 |
| Total deferred tax liabilities | **384.2** | 321.2 |
| DEFERRED TAX ASSETS: | | |
| Alternative minimum tax credits | **169.7** | 121.0 |
| Net operating loss carryforwards | **80.6** | 204.0 |
| OPEB obligations | **46.2** | 43.9 |
| Other | **4.2** | 7.9 |
| Total deferred tax assets | **300.7** | 376.8 |
| VALUATION ALLOWANCE | **(133.0)** | (219.0) |
| Net deferred tax liability | **$ 216.5** | $ 163.4 |

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

| *(in millions)* | 1995 | 1994 | 1993 |
|---|---|---|---|
| Taxes on income at statutory rate | **$ 150.9** | $ 67.7 | $ 33.7 |
| Book benefit of FDIC assistance and other permanent items | **(9.8)** | (10.3) | (10.9) |
| State and other taxes | **8.9** | 4.4 | 6.1 |
| | **$ 150.0** | $ 61.8 | $ 28.9 |

In fiscal year 1993, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes", whereby the Company was required to adopt the liability method of computing deferred income taxes. The cumulative effect of adopting FASB Statement No. 109 as of January 1993 was to increase net earnings by $125 million, or $2.25 per share.

Income tax payments, net of refunds received, were $74 million, $58 million and $19 million during 1995, 1994 and 1993, respectively.

Temple-Inland has net operating loss carryforwards which expire through the year 2009. Alternative minimum tax credits may be carried forward indefinitely.

The decrease in the valuation allowance results from the Termination Agreement which included payments to the FSLIC Resolution Fund for its share of the tax benefits the Company received from the Assistance Agreements. The remaining valuation allowance represents accruals for deductions that are uncertain and accordingly have not been recognized for financial reporting purposes.

## Note 6 | Fair Value of Financial Instruments

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

| | 1995 | | 1994 | |
|---|---|---|---|---|
| *(in millions)* | *Carrying Amount* | *Fair Value* | *Carrying Amount* | *Fair Value* |
| FINANCIAL ASSETS | | | | |
| Loans receivable | **$4,764.4** | **$4,798.7** | $ 3,674.8 | $ 3,624.2 |
| Mortgage-backed and investment securities | **3,423.6** | **3,368.4** | 3,964.2 | 3,753.0 |
| Covered assets | **–** | **–** | 418.1 | 418.1 |
| FINANCIAL LIABILITIES | | | | |
| Deposits | **6,377.0** | **6,627.4** | 6,598.3 | 6,567.3 |
| FHLB advances | **155.0** | **160.3** | 154.5 | 156.1 |
| Long-term debt | **1,601.6** | **1,701.3** | 1,397.5 | 1,396.5 |
| OFF-BALANCE-SHEET INSTRUMENTS | | | | |
| Commitments to extend credit | **–** | **(1.3)** | – | (4.3) |
| Interest rate swaps | **–** | **–** | – | (.9) |

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## DIRECTORS AND OFFICERS

### Board of Directors
*Temple-Inland Inc.*

PAUL M. ANDERSON (5) (6)
*President and Chief Executive Officer*
*PanEnergy Corp*

ROBERT CIZIK (3) (4) (5) (6)
*Chairman*
*Cooper Industries, Inc.*

ANTHONY M. FRANK (1) (2) (3)
*Chairman*
*Belvedere Partners*

CLIFFORD J. GRUM (3)
*Chairman and Chief Executive Officer*
*Temple-Inland Inc.*

BOBBY R. INMAN (2) (3) (4)

HERBERT A. SKLENAR (1) (2) (3) (4)
*Chairman and Chief Executive Officer*
*Vulcan Materials Company*

WALTER P. STERN (2) (6)
*Chairman of the Board*
*Capital Group International, Inc.*

ARTHUR TEMPLE III (2) (6)
*Chairman of the Board and Chief Executive Officer*
*Exeter Investment Company*

CHARLOTTE TEMPLE (1) (5)

LARRY E. TEMPLE (1) (3) (5)
*Attorney*

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

### Officers
*Temple-Inland Inc.*

CLIFFORD J. GRUM
*Chairman and Chief Executive Officer*

DAVID L. ASHCRAFT
*Group Vice President*

WILLIAM B. HOWES
*Group Vice President*

HAROLD C. MAXWELL
*Group Vice President*

KENNETH M. JASTROW, II
*Group Vice President and Chief Financial Officer*

M. RICHARD WARNER
*Vice President, General Counsel and Secretary*

DAVID H. DOLBEN
*Vice President and Chief Accounting Officer*

DAVID W. TURPIN
*Treasurer*

### Inland Container Corporation

WILLIAM B. HOWES
*Chairman and Chief Executive Officer*

TED A. OWENS
*Group Vice President*
*Containerboard Division*

JOSEPH E. TURK
*Group Vice President*
*Container Division*

### Temple-Inland Forest Products Corporation

#### BLEACHED PAPERBOARD GROUP

DAVID L. ASHCRAFT
*Group Vice President*

ROBERT F. ADELIZZI
*Vice President*
*Sales and Administration*

PER G. KLYKKEN
*Vice President*
*Mill Manager*

#### BUILDING PRODUCTS GROUP

HAROLD C. MAXWELL
*Group Vice President*

JOE K. SAMPLE
*Vice President-Marketing*

JACK C. SWEENY
*Vice President-Operations*

#### FORESTS DIVISION

GLENN A. CHANCELLOR
*Group Vice President*

### Temple-Inland Financial Services Inc.

KENNETH M. JASTROW, II
*Chairman and Chief Executive Officer*

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## SHAREHOLDER INFORMATION

### Transfer Agent and Registrar

First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, New Jersey 07303-2500
201 324-1225

### Independent Accountants

Ernst & Young LLP
Houston, Texas

### Annual Meeting

The annual meeting of shareholders of Temple-Inland Inc. will be held at our corporate headquarters, 303 South Temple Drive, Diboll, Texas on Friday, May 3, 1996 at 9:00 AM local time.

### Stock Listing

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

### Number of Shareholders

As of December 31, 1995, there were 7,653 shareholders of record of the Company's common stock.

### Dividend Reinvestment Plan

The Company offers its shareholders a convenient and economical way to increase their investment in our Common Stock through the purchase of additional shares with quarterly dividends and optional cash payments. Under the Temple-Inland Inc. Dividend Reinvestment Plan administered by First Chicago Trust Company of New York, Temple-Inland pays the brokerage fees and service charges, and the shareholder receives the benefit of larger quantity purchases and optional free custodial services. For more information on the Plan, contact First Chicago Trust Company of New York, Dividend Reinvestment Plans, P.O. Box 13531, Newark, New Jersey 07188-0001

### Form 10-K

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

### Mailing Address

Temple-Inland Inc.
Drawer N
Diboll, Texas 75941
409 829-1313

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