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Temple-Inland
1996
ANNUAL REPORT





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About our cover:
The four operating groups of Temple-Inland are symbolically pictured on the cover of this report, including: (clockwise from upper left) Paper, Building Products, Forests and Financial Services.

The corporate identities utilized in the marketing of our products and services are represented below.



INLAND
A Temple-Inland Company



A Temple-Inland Financial Services Company



TEMPLE-INLAND
FOREST PRODUCTS CORPORATION

Temple-Inland Inc. is a holding company based in Diboll, Texas, that conducts all of its operations through its subsidiaries. Temple-Inland's operations include corrugated container products, bleached paperboard products, building products, timber and timberlands, and financial services.

Temple-Inland's Paper Group consists of the corrugated container and bleached paperboard operations. The corrugated container operation is vertically integrated and consists of four linerboard mills, three corrugating medium mills, 43 box plants and six specialty converting plants. The bleached paperboard operation consists of one large mill located in Evadale, Texas.

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

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

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

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

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

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Financial Highlights

(in millions, except per share data)	1996	1995	Percent Change
Total Revenues	$3,460	$3,495	(1)%
Manufacturing Net Sales	$2,645	$2,731	(3)%
Combined Operating Earnings	$ 278[a]	$ 522	(47)%
Net Income	$ 133	$ 281	(53)%
Earnings Per Share	$ 2.39	$ 5.01	(52)%
Dividends Per Share	$ 1.24	$ 1.14	9 %
Shareholders' Equity	$2,015	$1,975	2 %
Book Value Per Share	$36.34	$35.46	2 %
Average Shares Outstanding	55.5	56.1	(1)%
Common Shares Outstanding at Year End	55.4	55.7	(1)%

Selected Business Segment Data

(in millions)			
Manufacturing Net Sales			
Paper	$2,082	$2,198	(5)%
Building Products	$ 563	$ 533	6 %
Combined Operating Earnings			
Paper	$ 113	$ 357	(68)%
Building Products	$ 102	$ 67	52 %
Financial Services	$ 63[a]	$ 98	(36)%

[a] *Includes SAIF assessment of $44 million*

Combined Operating Earnings



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To Our Shareholders



In 1996, the Building Products Group and the Financial Services Group had outstanding results, but they were not sufficient to offset the difficulties of the Paper Group. During the past three years, substantial worldwide capacity has been added in both of our paper categories, and the slow growth of world economies has not generated adequate demand to absorb the record levels of production. Consequently, deep discounting of prices occurred throughout the year, and we curtailed production to control inventory levels. This combination reduced operating earnings of the Paper Group by more than $240 million. Due largely to this decline, Temple-Inland's earnings per share decreased to $2.39, a 52 percent drop from last year.

Despite the negative effects from worldwide expansion in the paper industry, developments over the course of the year provided cause for optimism. As 1996 progressed, increased levels of consumer expenditures for nondurable items in the United States, as well as the recovery of many of the international economies, significantly increased demand for our products. Also, the rate of capacity additions slowed in the second half of the year and should fall below demand growth in 1997, allowing markets to stabilize as the year progresses.



Pricing apparently bottomed out in the third quarter, and the bleached paperboard operation experienced some select price increases in the fourth quarter. However, the restoration of normal profit margins will depend upon significant price increases, and we are optimistic that they will be achieved during the next 18 months.

A complete review of operations, including an analysis of financial information, begins on page 25 of this report.

While our financial results were disappointing, we made considerable progress in positioning our company to participate fully in the growth of our markets. Many of the efforts will begin to improve our profitability this year.

On the heels of the 1995 fourth-quarter completion of a major modernization program at our bleached paperboard mill in Evadale, Texas, came a challenging 1996. Although the expansion increased gross capacity by only 21 percent, it allowed us to produce many new lighter weight, lower density grades, which traditionally have higher margins. Weak demand for these grades persisted last year, making our entry into these markets difficult; however, solid progress occurred during the year, with production reaching budgeted levels by the fourth quarter. Mill profitability also began to recover in the second half of the year, and additional improvements are expected in 1997.

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Many packaging products, especially those used in the display and sale of consumer items, now require the strength of a conventional shipping box and the graphics of a traditional consumer folding carton. Demand for these containers is growing, and our Paper Group is dedicated to becoming the premier supplier of these packages. To be successful, we must improve technology and achieve substantial product development in the use of both bleached and unbleached grades in various combinations. A major portion of the new production from our Evadale mill will eventually be used for these innovative containers.

To maximize our capabilities in these efforts, we consolidated our paper operations into one group focused on serving all of the packaging needs of our customers. This combination allowed for a complete reorganization and the elimination of redundant costs within both operations. We have already achieved some cost savings and expect additional efficiencies in 1997.

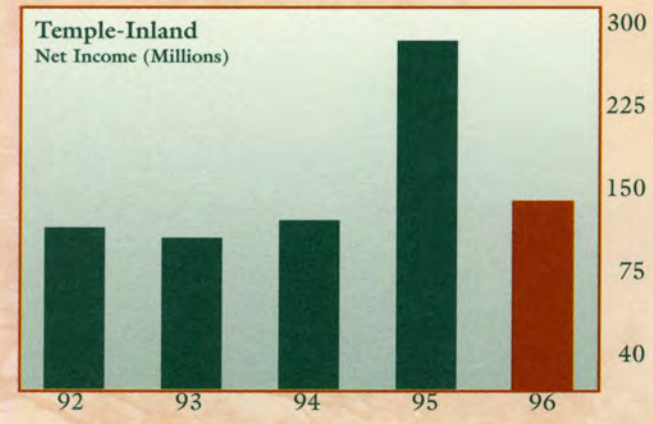


Last year was also an important period for the growth of our specialty containers and international operations. Our new litho-laminate printing facility in Ontario, California, has reached a profitable level of operation, as have our two corrugated box plants in Mexico. We purchased our partners' interests in both the Argentine and Chilean operations and are in the process of optimizing our ability to serve the Mercosur markets. In addition, we opened a sheet plant in Sinaloa, Mexico, and are now converting this facility to a full corrugated operation.

Our Building Products Group recorded a nearly 50 percent increase in operating earnings, with gypsum operations enjoying an exceptional year. Our strategy of manufacturing a diversified range of building materials, rather than concentrating solely on lumber and plywood, continues to generate a less volatile earnings stream and improved returns for our shareholders.

This group's earnings were dampened by the start-up costs of our new particleboard facility in Hope, Arkansas. By the fourth quarter, however, this facility was approaching target production levels with a superior quality product. It should be a significant contributor to earnings in 1997.

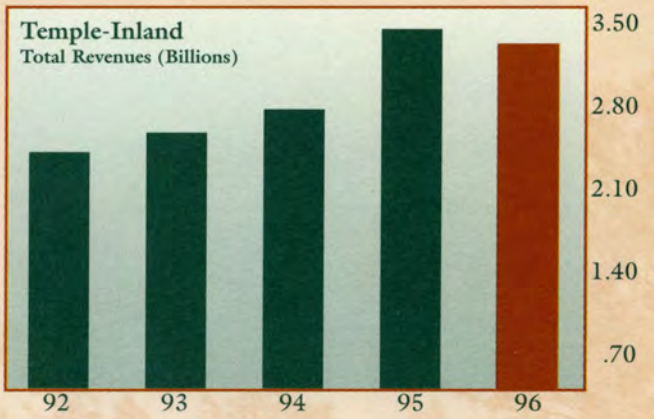
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Three new building material projects were added in 1996. We purchased a 50 percent interest in an existing gypsum wallboard plant in McQueeney, Texas, which will allow us to serve additional Texas markets, and began construction on two new joint venture plants — a medium density fiberboard facility in El Dorado, Arkansas, and a cement fiberboard plant in Waxahachie, Texas. Both of these plants are scheduled for completion in 1998.

Wood fiber costs escalated during the second half of the year. Although these prices may moderate in 1997, they most likely will continue their rapid increase in future years. To offset this cost increase, our forest practices were intensified to increase the productivity of our lands. Also, we acquired an additional 113,000 acres of fee timberland and 140,000 acres of timberland for which we have long-term leases to grow trees. Our controlled acreage is now approximately 2.2 million acres and, more important, our internal sources will now provide more than 55 percent of our total fiber needs.

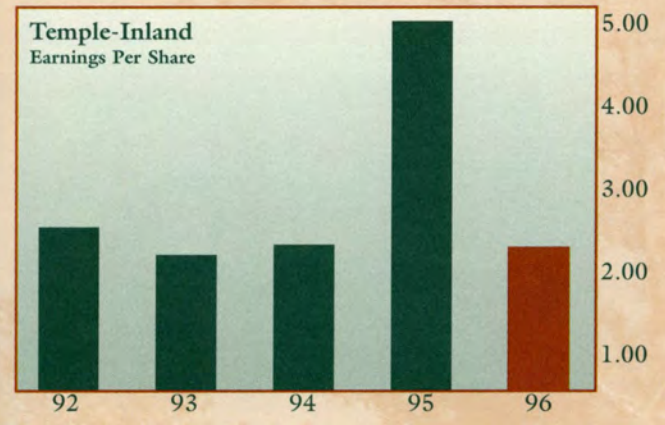
The Financial Services Group posted record operating income of $107 million for the year, excluding a one-time charge of $44 million to recapitalize the Savings Association Insurance Fund. Future deposit insurance premiums will be reduced by approximately $11 million per year as a result of this payment.

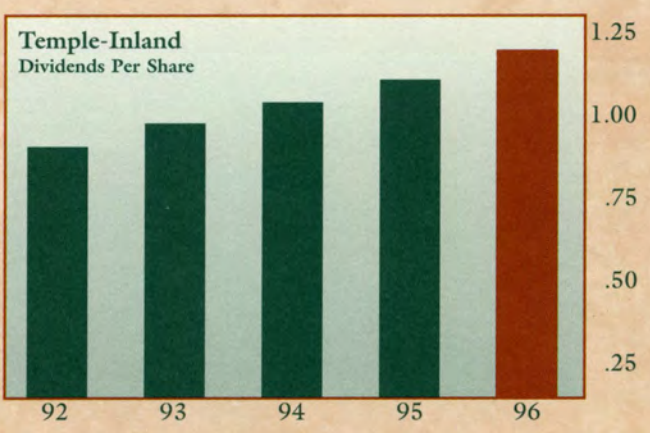


Our bank, Guaranty Federal, and its mortgage banking subsidiary enjoyed another good year in productivity gains, further decreasing our noninterest expense of operating these companies. To leverage further our savings bank's administrative capability, we have been seeking a diversification of our deposit-gathering facilities to include California and not to be solely dependent on Texas customers. In December, we entered into an agreement to acquire California Financial Holding Corporation (CFHC) for $150 million in stock and cash. CFHC is the holding company of Stockton Savings Bank, F.S.B., which has deposits of $1.3 billion. The bank's 23 branches are particularly attractive for future growth. This transaction, while subject to regulatory approval and a vote of the CFHC shareholders, should close about midyear.

We also experienced record levels of loans in both our bank and mortgage servicing operation. Our mortgage bank now services approximately $18 billion, including $2.4 billion for a third party. Strategic acquisitions of two new mortgage loan originators will allow additional capacity to continue to grow the portfolio this year.

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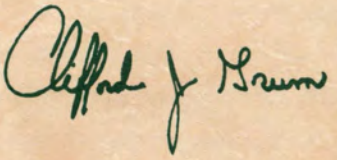
In August, your board of directors increased the quarterly cash dividend to $0.32 per share, a 7 percent increase over the previous rate. Cash dividends have now been increased each year since Temple-Inland became an independent entity in 1984. We also continued our stock repurchase program, begun in 1995, and have acquired 900,100 shares to date.

Largely because of the efforts of our 15,000 employees, the productivity improvements achieved last year contributed to our profitability. We thank our employees for their efforts and, on their behalf, promise a continuation of change. Elimination of wasted efforts is critical to improve our competitive position and build our future.

After achieving record earnings in 1995, we were disappointed with the financial results for 1996. As we enter 1997, paper markets are still in a state of flux. Pricing early in the first quarter indicates little improvement from fourth-quarter levels, but demand continues to improve and operating rates are ahead of last year. If this combination of strengthening demand and higher operating rates continues, pricing should improve as the year develops.

The Building Products and Financial Services Groups should enjoy another good year, which will somewhat offset the paper environment. We remain cautious on the short-term outlook but very bullish on our accomplishments toward improving our earnings to record levels as the market recovers.

Sincerely,



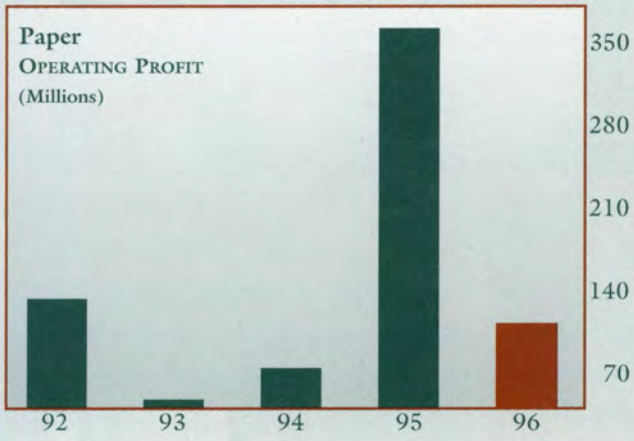
Clifford J. Grum
Chairman and Chief Executive Officer

January 31, 1997



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Paper





Temple-Inland manufactures a range of food service products, including poly-coated drinking cups, paper plates, restaurant take-out containers and pizza boxes.

Inland Paperboard and Packaging, Inc. — a powerful presence in the industry with the management consolidation of Temple-Inland's two paper groups and the launch of a new identity — posted revenues of $2.1 billion, down 5 percent from 1995. Earnings fell 68 percent to $113 million.

The introduction of Inland's new marketing platform and corporate identity system in September reflected the many changes the Paper Group has enacted over the past several years, including several acquisitions and strategic alliances, the development of new products with key differentiation points and the continued expansion into new markets such as Latin America. The new identity also brought together the majority of the paper operating units under one name and all under one common mission: to continue partnering with customers who demand innovative, integrated solutions that are cost effective and provide greater marketing value.

The consolidation of the management of the bleached paperboard operations — now known as Inland Eastex — with the management of Inland in May was a milestone event. In line with the goal to become a market-driven rather than fiber-driven company, the restructuring created a streamlined, more competitive organization better positioned to deliver a full range of packaging-grade product lines to customers globally. In addition, the consolidation serves to enhance the Paper Group's profit potential.

Adding to the strength of the combined management team and sales force, the business development and strategic planning function was enhanced to focus the group's diversity and capabilities on pursuing key opportunities with current and prospective customers in a seamless manner.

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The innovative Baird Box design protects the customer's product during shipping and allows easier in-store set up. The container's patented design offers superior strength with one-third less fiber, providing substantial cost savings for the customer.

Bleached paperboard business initiates turnaround

From the operations side of the bleached paperboard business, 1996 was a year of repositioning. Although the payoff from a major capital investment in the Evadale, Texas, mill has been long in coming, the operation returned to profitability in the third quarter.

A number of new products and product upgrades contributed to the Paper Group's success during the year. Inland Eastex's TexCover II™ premium-grade cover stock, for instance, was well received by the commercial printing marketplace for superior brightness and smoothness. Applications include greeting cards, annual report covers, paperback book covers and point-of-purchase displays. In addition, the airline and special event industries have found TexCover II's unique characteristics to be an ideal substrate for applying a heat-activated, ink-resin solution to tickets.

The value-added differentiation of the group's products comes from the dual benefits of meeting both the end users' and the intermediate processors' needs. A case in point is the premium coated linerboard (PCL) grade, which customers specify for their high-graphic and decorative box needs. Beyond its excellent printability, PCL is more flexible than competitive products, with less cracking and other problems normally encountered during the high-speed conversion process.

Although the Evadale mill has historically supplied half of the waxed cup stock in the United States, the demand for higher quality printing capabilities and better rigidity has been rapidly increasing for coffee cups, cold drink cups, frozen food packaging and other food service items. To meet this shift in customer demand, the company's poly-coated cup stock features a thin layer of plastic film applied to the paperboard via a hot-extrusion process. This new extruder operation currently provides the smoothest print surface available.

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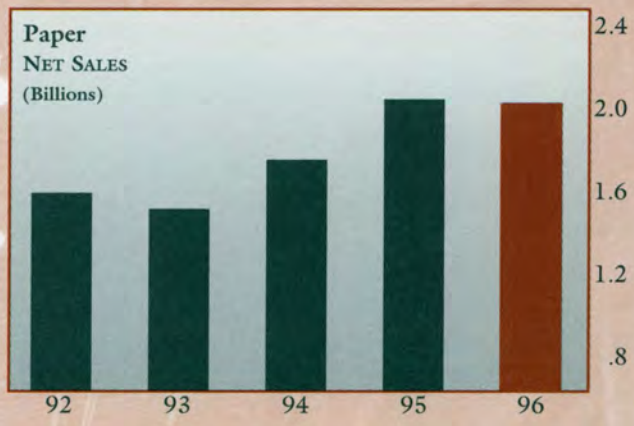



Minute Maid
Minute Maid
Minute Maid

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The excellent strength and printability of the company's paperboard make it the material of choice for consumer goods companies seeking eye-catching packaging and point-of-purchase displays for their products.



MILLS AND BOX PLANTS OPERATE WELL DESPITE MARKET PRESSURES

As with corrugated containers, containerboard (linerboard and corrugating medium) prices continued to deteriorate throughout the year with a corresponding impact on the group's financial performance. While the downward trend seems to have eased in response to improved market conditions, profits will require more time to return to expected levels.

Temple-Inland containerboard operations depend on both virgin fiber and recycled materials. Old corrugated containers (OCC), the principal raw material used in the company's recycle operations, constitute approximately 43 percent of the containerboard operations' total fiber needs and are more volatile in price. OCC prices remained near historical lows during the year, but the company expects future prices to exceed virgin fiber costs due to worldwide capacity additions of recycled containerboard. To help stabilize future fiber costs, an intracompany task force continued to experiment with alternative waste papers as possible fiber sources.

To help provide customers with seamless solutions for their business needs overseas, the company signed a nonfinancial alliance in early 1996 with AssiDomän Packaging AB, Europe's third-largest integrated corrugated producer. This arrangement allows both companies to offer improved service levels to the other's customers as these businesses expand their international presence.

The two companies also share certain information on marketing concepts and cooperate on research and technical development initiatives. Several of the joint research projects already under way, for example, will contribute to the companies' strategies of fiber use reduction, as well as improved package conditions when exposed to various levels of humidity.

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Temple-Inland is building a significant presence in Mexico and other Latin American markets, providing quality corrugated containers to the burgeoning agricultural sector.

Despite market pressures, the company's mills and box plants operated at record levels during the latter half of the year. In fact, output during the third quarter was the strongest in the company's history, favorably affecting costs. Temple-Inland also benefited from an industry-wide increase in linerboard exports — to approximately 16 percent of total production— as worldwide demand improved.

The Paper Group's commitment to continuous improvement and waste reduction programs significantly reduced the cost of doing business. Additionally, 1996 represented the best safety performance year in the Paper Group's history.

SPECIALTY PACKAGING DELIVERS INNOVATIVE SOLUTIONS, FROM BROWN BOXES TO HIGH-GRAPHIC DISPLAYS

Over the past decade, the proliferation and market clout of such mass merchandisers as Wal-Mart, Kmart and Target have driven the need for packaging and point-of-purchase displays to do more than protect or hold the product: The packaging itself must work harder to sell the product.

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In response to this trend, the Global Solutions Group and the Regional Solutions Group assist existing and prospective customers in developing total, value-added solutions. From durable, high-quality boxes to eye-catching graphics and innovative packaging and display designs, the company's approach is to help customers sell more product and offer optimal value at the same time.

For the specialty packaging operation, 1996 was a year marked by exceptional growth and improved profitability. This operation consists of Rand-Whitney Packaging, CB Displays and Pakway Container, which specialize in micro-fluted, high-graphics consumer packaging and point-of-purchase displays. Crockett Container and the Graphics Resource Center in Indianapolis are also part of this operation.

The growth of specialty packaging allows Inland to supply customers with a comprehensive offering of products and direct service from coast to coast. Additionally, the group's broad range of graphics and printing capabilities can meet customer needs for enhanced packaging, regardless of the size of the order.

Inland's strategy is to provide customers with a full range of packaging solutions through a single contact who can tap a multitude of resources by moving horizontally across the organizational structure. The new sales organization is well positioned to provide a seamless presentation of products and services, which promises to take the group from the valuable one-stop shop to the even more valuable — and profitable — innovative, integrated solutions partner.

Company makes further inroads into Latin American market

As part of its growth objectives for the Latin American market, Temple-Inland announced plans to build a new corrugated box plant next to an existing sheet plant in Los Mochis, Sinaloa, center of the largest agricultural region in Mexico. The majority of the Sinaloa harvest, including tomatoes, avocados, mangos and broccoli, is exported to the United States.

The company's expanded presence in Mexico, coupled with close working arrangements with its U.S. plants near the Mexican border, will provide customers in both countries with a wider array of packaging solutions.

In Argentina, Temple-Inland purchased its joint venture partner's 50 percent interest in a corrugated box plant near Buenos Aires. As a result of this transaction, the company is in a better position to coordinate the efforts of its box plants in Chile and Argentina, its regional packaging systems center in Uruguay and its sales efforts in other Latin American countries, including Brazil, Paraguay and Bolivia.

In 1996, the company also acquired 100 percent ownership of its Chilean joint venture. Inland Chile is one of the premier box suppliers in the burgeoning agriculture market there. Further inroads are expected as the conversion from wood to corrugated containers continues in the market.

By adopting a market-driven and margin-focused approach to the marketplace, Inland is better able to weather the competitive pressures of companies increasingly seeking to consolidate their supplier bases. Also, by continuing to meet and exceed customer demands for paperboard and packaging product solutions that are seamless and cost effective, and provide greater marketing value, Inland is well positioned to maintain its industry leadership in the global marketplace.

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Building Products



Backed by unmatched quality and service, Temple-Inland calls on years of product knowledge and production experience to meet the need for specialty applications in kitchen cabinetwork, furniture and fixtures.

Temple-Inland's Building Products Group recorded $102 million in earnings for 1996, up 52 percent from 1995. Sales for the year were $563 million, compared with $533 million in 1995.

The solid wood manufacturing operation, including lumber and plywood, benefited from higher than anticipated demand throughout the year. Profits were further enhanced as lower log costs eased the tight margins between lumber prices and timber costs. Demand was also favorably affected by lower imports of Canadian lumber after a quota agreement between the United States and Canada was reached in the second quarter of 1996.

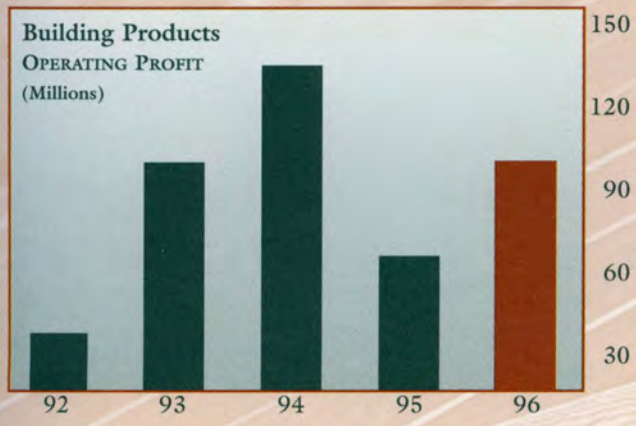
The group continued to move away from producing traditional commodity lumber, focusing instead on value-added specialty products, including those for the molding and millwork markets. Commodity plywood products experienced a great deal of pressure from the fast-growing oriented strandboard, or pressed flake, industry. In response, the company expanded its plywood products line for usage in the industrial, cabinet and fixture, and furniture industries, reducing dependence on the traditional plywood markets.

Further benefiting the group are 2.2 million acres of timberland located in Texas, Louisiana, Georgia and Alabama. These forestlands provide approximately 59 percent of the raw material needed for the company's solid wood manufacturing operations.

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Temple-Inland's TrimCraft™ engineered wood trim is the ideal material for new construction and remodeling. Its defect-free design and 16-foot length assure less waste, faster application and fewer joints than standard trim.



Particleboard Operations Expand to Meet High Demand

The new particleboard plant in Hope, Arkansas, reached full production in the fourth quarter of 1996. The quality of board produced at this plant continues to improve and is now gaining acceptance as the most customer-friendly board in the marketplace — high in quality and easily sawable. Major renovations to the Monroeville, Alabama, particleboard plant were also completed during the year, which will make the board from that facility consistent with the quality produced at the Hope plant. Similar renovations to the Diboll, Texas, and Thomson, Georgia, facilities are scheduled for 1997. Upon completion of these projects, Temple-Inland will boast one of the premier particleboard operations in the United States with the highest consistent quality.

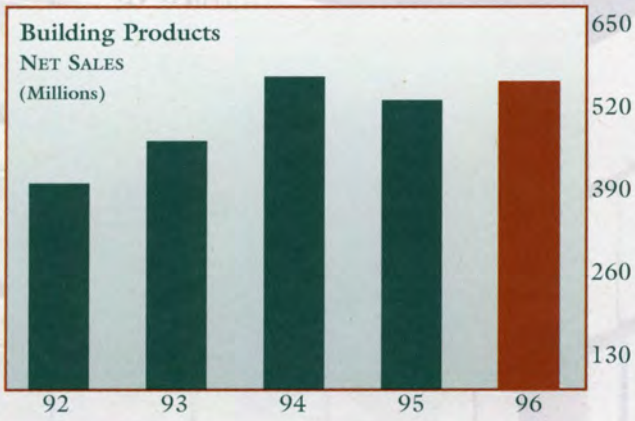


Stretch 54® gypsum wallboard remains the preferred choice of home builders. A full 6 inches wider than conventional wallboard, this innovative product saves labor and material when installed on a 9-foot wall.

Particleboard prices and demand were strong throughout the year before easing slightly in the fourth quarter. Two major customer segments — kitchen cabinet makers and ready-to-assemble furniture manufacturers — enjoyed healthy market improvements in 1996.

Del-Tin Fiber, L.L.C., a joint venture between Temple-Inland and Deltic Timber Corporation, broke ground in October for its medium density fiberboard plant located in El Dorado, Arkansas. The advanced raw-material refining techniques employed at this operation will produce a highly consistent panel to meet the most demanding surface and edge treatment needs. Scheduled for completion in 1998, the plant has expected annual production of 150 million square feet of product, targeted for the rapidly expanding laminated flooring industry, molding and millwork producers, and traditional furniture markets.

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Famous for its magenta-colored studs, the company's solid wood manufacturing operation also produces appearance-grade lumber (shown in background) in demand by quality-conscious contractors and do-it-yourselfers.

GYPSUM BUSINESS CONTINUES TO GROW AND PROSPER

The company's gypsum wallboard operation continued its strong performance in 1996. Demand was significantly higher due to strong activity in the multifamily and commercial construction segments, as well as the relatively active residential construction in the company's primary markets of the Southeast and South Central United States. A continued strategy to produce and market specialty gypsum products boosted the operation's returns.

The West Memphis, Arkansas, plant continued to capitalize on its capabilities to produce the company's innovative Stretch 54® product. Stretch 54 requires only two 54-inch sheets to reach a 9-foot ceiling height, rather than two sheets plus a partial third sheet required by traditional 48-inch products. Specialty board production, which includes fire-rated wallboard and Stretch 54, rose to 43 percent of this operation's total output.

In the second quarter of 1996, Temple-Inland entered into a joint venture that acquired Standard Gypsum in McQueeney, Texas. Temple-Inland and Caraustar Industries, Inc., are equal partners in the joint venture. This facility allows the company to increase its penetration into the south Texas markets, including Houston and San Antonio.

JOINT VENTURE ADDS TO FIBER PRODUCTS OFFERINGS

The company's fiber products operation had an outstanding year, setting a company production record for siding products. Demand for hardboard siding benefited from the continued withdrawal of oriented strandboard siding in the company's primary markets.

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With its new particleboard plant in Hope, Arkansas, and renovations to several other facilities, Temple-Inland boasts one of the premier particleboard operations in the United States.

In 1996, Temple-Inland formed a joint venture with Re-Con Building Products Inc., the cement fiber roofing subsidiary of the Clarke Group of British Columbia, to construct and operate a state-of-the-art cement fiberboard plant in Waxahachie, Texas. Cement fiberboard is an innovative siding product composed of sand, cement and wood pulp.

A significant player in the company's traditional siding markets, this product offers performance advantages over wood-based siding products, including superior weatherability, insect- and fire-resistant characteristics, and low maintenance requirements for the homeowner. The plant's flexible-process configuration will produce cement fiberboard siding and other related products that complement the company's current product line and meet customer demand.

By thoroughly adopting the principles of continuous improvement, employees of the Building Products Group have been highly successful in reducing waste in processes, improving the quality of products and extracting more value from fiber.

In addition, this group continues to focus on delivering real value to customers through superior service. An order-to-cash system, for example, allows the customer service representative to make instantaneous knowledge-based decisions regarding price and availability of product. Accordingly, at the time the customer places an order, the employee can relay when the product will be manufactured and shipped. This single point of contact and assurance of on-time delivery is an invaluable service to the customer.

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Financial Services



"The LoanPlace™ at Guaranty Federal" is an innovative bank concept designed to provide customers with efficient and timely service relating to all their financing needs.

The Financial Services Group's earnings in 1996 were $63 million, which included a one-time assessment of $44 million to recapitalize the Savings Association Insurance Fund (SAIF). Excluding the SAIF assessment, profits for the group rose to a record $107 million, a 9 percent increase over the $98 million recorded in 1995.

The Financial Services Group is engaged in banking, residential lending, real estate development and insurance services through four operating units: Guaranty Federal Bank, F.S.B.; Temple-Inland Mortgage Corporation; Lumbermen's Investment Corporation; and Timberline Insurance Managers, Inc. Each unit achieved improved earnings during the year and entered 1997 with prospects of continued growth.

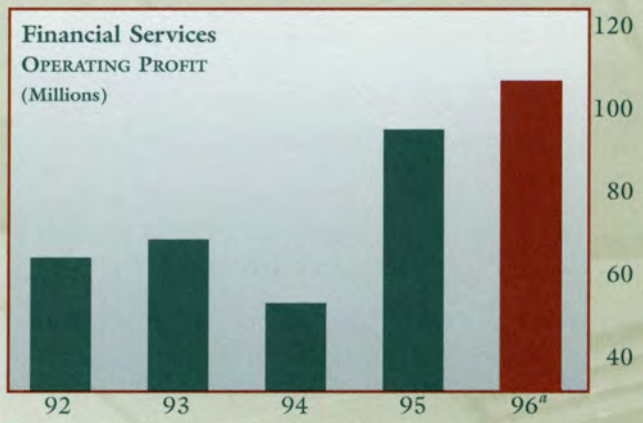
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Quality loans and consumer services drive Guaranty's growth

Guaranty Federal Bank achieved record revenues and profits in 1996 through a program of strategic growth focused on continued development of its national single-family, adjustable-rate mortgage loan portfolio; increased interim construction lending; and expanded consumer services. Further cost reductions and internal efficiencies expanded margins.

At year end, the bank had assets of approximately $9.0 billion and deposits of $6.4 billion. The bank's deposit base is the largest for a Texas financial institution not owned by an out-of-state holding company. Guaranty has 113 banking centers serving 400,000 account holders in the Dallas/Fort Worth, Houston, Austin and San Antonio metropolitan areas, as well as several other communities primarily in the central and eastern regions of the state. Through its banking centers, Guaranty offers traditional savings and checking accounts and a wide range of complementary products, including consumer loans, annuities and mutual funds that help customers achieve their financial objectives.

The prevailing level of long-term interest rates during the year encouraged most new mortgage loans to be fixed-rate obligations rather than adjustable-rate loans. In addition, refinancing of adjustable-rate loans to fixed rates was above historical levels. Despite this environment, the bank was successful in continuing to acquire high-quality, adjustable-rate loans. New single-family loans added during the year totaled $871 million, increasing this portfolio to $4.2 billion. These loans, including the inventory of mortgage warehouse obligations, now represent 46 percent of the bank's total assets.



[a] *Excludes SAIF assessment of $44 million*

Guaranty lends funds to assist mortgage companies with their working capital needs and as they inventory mortgage loans that are in the process of being sold to long-term investors. With the increased emphasis on fixed-rate loans, combined with the refinance momentum, loans to mortgage companies grew to $782 million by year end.

The bank also expanded its interim construction lending by financing more than 6,000 single-family homes, approximately 6,000 apartment units and more than 15 million square feet of retail, industrial and office space. These projects were located in 20 states from coast to coast, further strengthening Guaranty's long-standing commitment to the real estate industry.

Guaranty also expanded its corporate banking and consumer lending divisions during the year. In the consumer area, the bank initiated a new program known as "The LoanPlace™ at Guaranty Federal" that creates an appealing banking atmosphere and delivers high-quality personal service to customers. The first prototypes were operational in 1996 with further expansion anticipated in 1997.

The combination of this project with other programs that offer additional loan services to Guaranty's loan customers should serve as a foundation to increase the bank's consumer loan portfolio to the $1 billion level in the next five years.

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In the third quarter, Guaranty recorded a one-time $44 million assessment in connection with Congressional legislation to provide for the recapitalization of the SAIF. The legislation also provides that, effective January 1, 1997, all SAIF-insured institutions will pay lower deposit insurance costs, which will result in annual savings at current deposit levels of approximately $11 million for Guaranty.

Late in 1996, Temple-Inland signed a definitive merger agreement with California Financial Holding Company, the parent company of Stockton Savings Bank, F.S.B. Based in Stockton, California, Stockton Savings has approximately $1.3 billion in assets and operates 23 branches, which are strategically located in the Central Valley of California, an area that is attractive for its future growth potential.

Additionally, the California market is a major source of adjustable-rate mortgages of the type held in Guaranty's portfolio, many of which are indexed to the average interest cost of California thrift institutions. Therefore, the ability to generate additional loans and deposits from which these loans are indexed will allow Temple-Inland to continue the strategy of reducing the interest rate risk of its loan portfolio. The $150 million transaction, which is subject to regulatory and shareholder approval, is expected to close during the second quarter of 1997.

Mortgage arm achieves high growth, record earnings

The group's Temple-Inland Mortgage Corporation (TIMC), one of the nation's largest lenders to single-family home buyers, achieved record earnings in 1996. TIMC is a full-service mortgage banker, emphasizing both the origination and servicing of mortgage loans.



As part of its community-support programs, Guaranty partners with the Dallas Police Department in sponsoring a summer evening basketball league that involves more than 500 inner-city youths.

The acquisition of Western Cities Mortgage Corporation in early 1996 and expansion of its existing operations enabled TIMC to increase by 50 percent its production of mortgage loans during the year. This acquisition, along with $3.5 billion of other acquired servicing contracts and annual production increases, resulted in the growth of the servicing portfolio to a record $17.9 billion, an increase of 33 percent from 1995. Included in that portfolio is approximately $2.4 billion in mortgages that TIMC is servicing for a third party. Servicing portfolio growth and cost-effective operations are the major contributors to TIMC's profitability. TIMC's servicing costs are currently among the lowest in the industry.

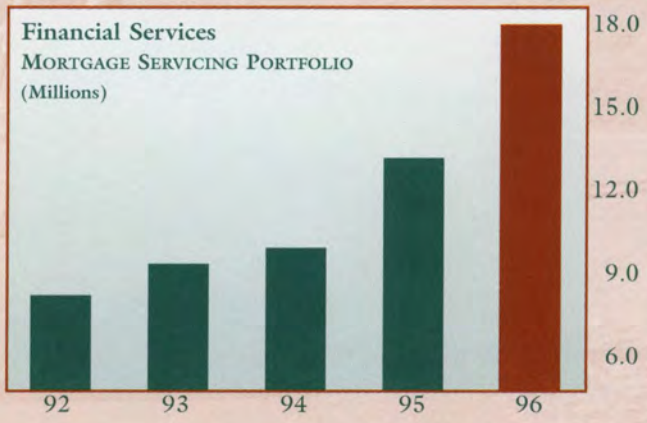
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Temple-Inland Financial Services' real estate activities involve primarily premium, high-profile residential development projects, including the highly acclaimed Onion Creek development and golf course near Austin, Texas.

Insurance and Real Estate Units Continue Growth Tracks

The group's insurance brokerage operation, Timberline Insurance Managers, Inc., is the third-largest insurance agency in Texas and is ranked in the top 1 percent nationally, with total premiums reaching a record $300 million in 1996. Timberline provides a full range of insurance products, including personal and commercial lines, annuities, life and health insurance, and risk advisory services. It also provides risk management services to Temple-Inland, reducing the company's combined casualty insurance costs approximately 25 percent over the past two years.



The real estate development group, Lumbermen's Investment Corporation, continued to expand beyond its traditional investments in Texas during 1996 by venturing into several new markets, including Florida and Colorado. Lumbermen's focuses primarily on the development and sale of residential subdivisions.

The Financial Services Group continues to increase its earning power by concentrating on a focused strategy. Future earnings growth of the group will develop primarily from the continued strengthening of Guaranty Federal Bank's loan portfolio and the expansion of the loan servicing operations of Temple-Inland Mortgage Corporation.

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Forests



In 1996, Temple-Inland continued a long tradition of managing its timberlands as "perpetual forests," a captive fiber source for the company's solid wood operations and paper mills.

Temple-Inland's primary forest management goals focus on aligning the fiber supply from company-owned lands with the requirements of its manufacturing facilities, while also meeting responsible stewardship requirements for the forests.

In order to meet both objectives, the company employs the most advanced forestry practices available, as well as management strategies that are forward looking, based on the long-term nature of the forest growing cycle.

Specifically, the forest management program is designed to establish lands that will provide increasing volumes of pulpwood from certain acres; clearer wood for high-value lumber products through a "sudden sawlog" program, which entails thinning and pruning of selected trees to provide higher quality wood without knots; and improved growth of saw-timber from lands that are managed on a longer harvest cycle, including natural stands.

This approach to pine fiber management provides a diversity of products for all of the company's manufacturing facilities and serves as a hedge against future market forces. In 1996, this renewable resource provided 59 percent of the company's sawtimber requirements and 55 percent of the fiber necessary to operate its paper, particleboard and fiberboard converting operations.

Hardwoods are increasingly important as a fiber source

Temple-Inland's forests also contain substantial volumes of hardwood fiber. This supply is important given the growing demand for hardwood at the paper mills. To ensure a sustainable hardwood supply in the future, the company established in 1990 a long-term hardwood management program that addresses all stages of hardwood growth, including juvenile, mature and over-mature trees.

Due to the long tenure necessary for native hardwood trees to reach maturity, the company is exploring alternative species to supplement hardwood fiber needs. In 1996, for example, Temple-Inland continued to invest in eucalyptus tree plantations in Mexico. Because of their fast-growing nature, these trees will represent a significant new source of fiber for the company's mills in five years.

In addition to this fiber, new forestry practices are being developed that will allow a substantial portion of the limbs and other parts of a tree previously left in the forest to be chipped and delivered to the mills.

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Temple-Inland takes a long-term approach to its forestry management practices, carefully nurturing the seedlings in this nursery in an effort to balance future fiber needs with the natural conservation of the timberlands.

In May 1996, the company acquired from Hanson Industries 228,000 acres of owned and leased lands in southwest Louisiana, which are located in close proximity to existing company timberlands and converting operations in that area. Temple-Inland now has approximately 2.2 million acres of company-controlled timberlands.

Advanced practices balance fiber needs with integrity of forests

While employing advanced forestry practices to attain fiber production goals, Temple-Inland also maintains the forests in the most responsible manner possible.

Today, advanced genetics and biotechnology research play important roles in Temple-Inland's pine plantation management efforts. Within the company's tree improvement program, for instance, work is being done to select and breed trees that grow faster and stronger and that are less susceptible to insects. Another research effort is aimed at developing new strains of trees that are more drought resistant.

Although previous technological barriers once made it unfeasible or uneconomical to fertilize large tracts of land, the demand for fiber is currently high, and private, non-industrial land owners are not replanting as they once did.

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Advanced forestry practices, including the aerial application of environmentally safe fertilizers, hold the potential for increasing fiber production by 50 percent on company-owned lands.

During 1996, the company stepped up its aerial application of environmentally safe nitrogen and phosphorus supplements to more than 25,000 acres of company-owned land. An additional 50,000 acres are being considered for aerial fertilization in 1997. As a result of these fertilization efforts, the company expects to increase fiber production by more than 50 percent on these lands. In total, the goal is to double fiber production over the next growth cycle by using fertilizers and other intensive forest-management techniques.

A COMMITMENT ENSURES FORESTS REMAIN MULTIPLE-RESOURCE ASSETS

Responsible stewardship has been at the heart of Temple-Inland's management decisions for the more than 100 years it has owned and managed lands and forests.

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Widely regarded as one of the most beautiful birds in the United States, wood ducks use the river bottoms of east Texas as nesting grounds. As part of its wildlife preservation efforts, Temple-Inland is working to protect the wood ducks living on the company's forestlands by constructing wood duck boxes to provide a safe nesting environment.

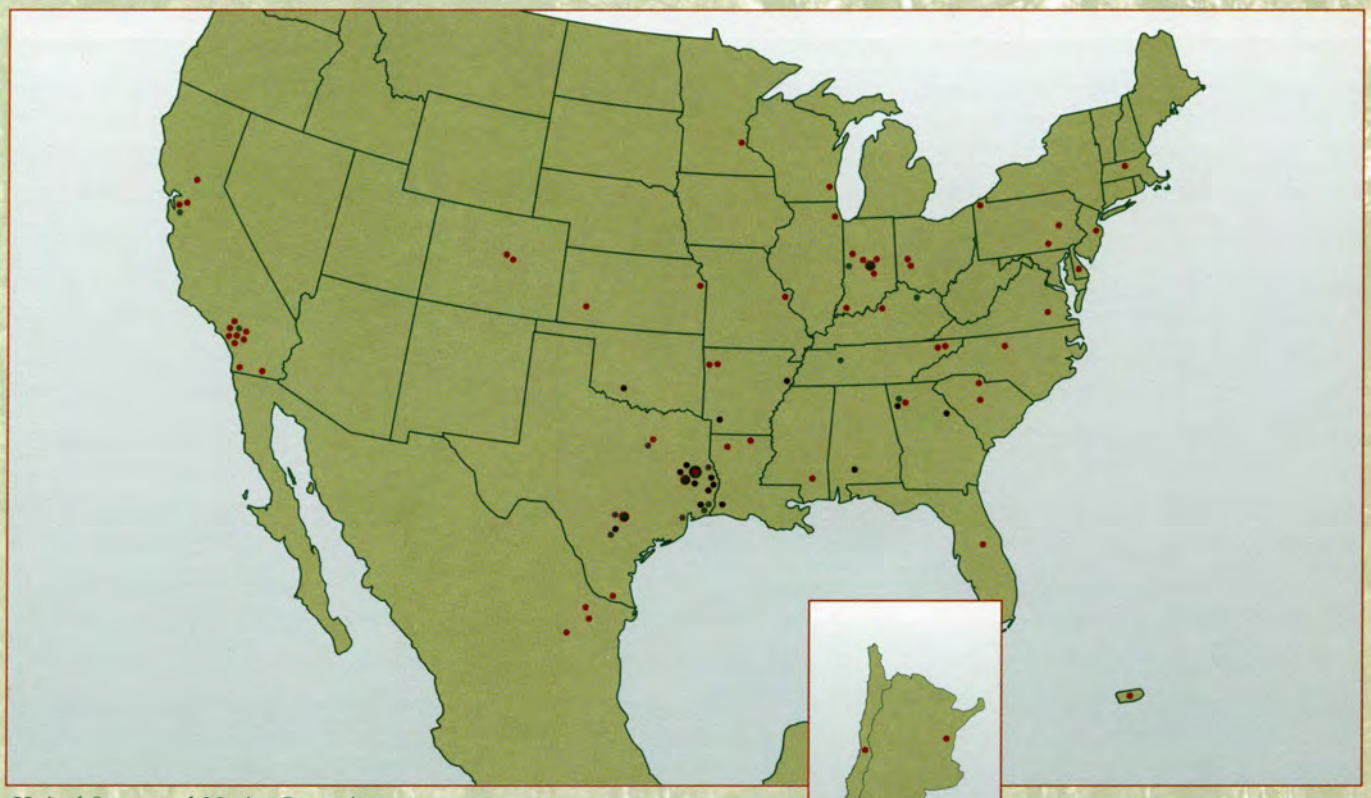
This commitment specifically mandates forestry practices that maintain forestlands as multiple-resource assets. The goal is to ensure that fiber production, wildlife, plant life, air and water quality, aesthetics, and human health are all considered in making management decisions.

In 1996, the company formalized its commitment and standard operating procedures with a comprehensive set of guidelines and a public pledge to attain fiber production goals in a scientifically sound and environmentally sensitive manner.

Temple-Inland's largest asset — its forestlands — will remain a solid foundation on which to build. The company recognizes its responsibility to balance its fiber needs and the long-standing stewardship of its land holdings, all with the goal of ensuring the renewability of the forests for future generations.

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Temple-Inland Facilities



United States and Mexico Operations

Corporate Headquarters

Diboll, Texas

Subsidiary Headquarters

Inland Paperboard and Packaging, Inc.
Indianapolis, Indiana

Temple-Inland Forest Products Corporation
Diboll, Texas

Temple-Inland Financial Services Inc.
Austin, Texas

Building Products

Fiberboard Operations
Diboll, Texas

Gypsum Operations
West Memphis, Arkansas
Fletcher, Oklahoma
McQueeney, Texas
(50 percent joint venture)

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

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

Plywood Operation
Pineland, Texas

Retail Distribution Operation
Pineland, Texas

Paperboard Mills

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

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

Bleached Paperboard
Evadale, Texas

Packaging

Corrugated Container Plants
Fort Smith, Arkansas (2)
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

Argentina and Chile Operations

Elizabethton, Tennessee (2)
Dallas, Texas
Edinburg, Texas
Petersburg, Virginia
Monterrey, Mexico
San Jose Iturbide, Mexico
Sinaloa, Mexico
Buenos Aires, Argentina
Santiago, Chile

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

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

Financial Services

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

Mortgage Banking Operations
Arizona
Arkansas
California
Colorado
Florida
Georgia
Illinois
Kansas
Massachusetts
Michigan
Nevada
New York
Oklahoma
Oregon
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	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
(in millions)											
Revenues											
Paper	**$2,082**	$2,198	$1,740	$1,572	$1,610	$1,519	$1,517	$1,506	$1,429	$1,257	$ 987
Building products	**563**	533	575	497	409	311	305	320	312	323	281
Other activities	**—**	—	20	58	77	68	70	68	33	23	28
Manufacturing net sales	**2,645**	2,731	2,335	2,127	2,096	1,898	1,892	1,894	1,774	1,603	1,296
Financial services	**815**	764	632	635	638	609	509[b]	49	40	39	47
Total revenues	**$3,460**	$3,495	$2,967	$2,762	$2,734	$2,507	$2,401	$1,943	$1,814	$1,642	$1,343
Income Before Taxes											
Paper	**$ 113**	$ 357	$ 74	$ 6	$ 135	$ 156	$ 250	$ 323	$ 304	$ 204	$ 68
Building products	**102**	67	139	102	40	5	9	24	25	37	36
Other activities	**—**	—	1	(2)	(2)	1	(2)	(1)	1	—	(6)
Operating profit	**215**	424	214	106	173	162	257	346	330	241	98
Financial services	**63**[a]	98	56	68	64	54	52[b]	(2)	—	5	13
	278	522	270	174	237	216	309	344	330	246	111
Corporate expense	**(17)**	(22)	(14)	(11)	(15)	(16)	(21)	(13)	(20)	(12)	(13)
Parent Company interest - net	**(110)**	(73)	(67)	(69)	(48)	(38)	(26)	(26)	(23)	(23)	(19)
Other income	**5**	4	4	2	3	5	7	7	17	9	30[c]
Income before taxes	**$ 156**	$ 431	$ 193	$ 96	$ 177	$ 167	$ 269	$ 312	$ 304	$ 220	$ 109

**Reclassified to conform to 1996 presentation related to the realignment into three business segments, which include (1) the consolidation of the corrugated container and the bleached paperboard operations into a single Paper Group, and (2) the transfer of the Rome sawmill from the corrugated container operations to the Building Products Group*

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

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

[c] Includes $15.3 million income net of federal income taxes from life insurance operations that were discontinued in 1990

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Paper



During 1996, the company consolidated the management of its paper operations. This consolidation allows the company to develop improved products and services, continue to benefit from operational efficiencies, and capitalize on and leverage the strengths of both operations.

The Paper Group is now comprised of two operations: corrugated container and bleached paperboard. The results from these two operations had previously been reported separately.

The following table provides information on the operating earnings for the Paper Group.

	1996	1995	1994
Corrugated container	$164.3	$387.5	$129.5
Bleached paperboard	(6.9)	23.5	(15.6)
Group administration	(44.4)	(54.4)	(40.2)
Operating earnings	$113.0	$356.6	$ 73.7

Corrugated Container

The corrugated container operation manufactures linerboard and corrugating medium at seven paper mills and converts it into shipping containers at 43 box plants located throughout the United States, Puerto Rico, Mexico and South America. In addition, it operates six specialty converting plants. Operation of the Macon, Georgia, box plant was discontinued in the first quarter of 1996. In early 1997, the company announced that operations of its box plant in Erie, Pennsylvania, would be discontinued in 1997.

Before administrative costs, the corrugated container operation earned $164.3 million in 1996, down 58 percent from the $387.5 million earned in 1995. Despite significantly lower product prices, revenues for this operation declined only 8 percent in 1996 compared with 1995, because increased volume somewhat offset lower product prices. Revenues were up 27 percent in 1995 compared with 1994, primarily because of higher product pricing.

The weak demand for boxes in late 1995 carried over into 1996, putting downward pressure on pricing. Demand from both domestic and export markets improved in the second half of the year resulting in higher operating rates. This improved demand was not sufficient to allow price improvement for containerboard and boxes. By year end, box prices had eroded 19 percent from a year earlier. As a result of lower prices for containerboard and boxes, earnings as a percent of revenues declined after having improved significantly in 1995.

Tons of boxes sold were up 3.5 percent in 1996 after being relatively flat in 1995. The 1996 earnings decline was moderated somewhat by the higher sales volume and the lower cost of old corrugated containers (OCC), the principal raw material used in approximately 43 percent of the group's containerboard production. The cost of OCC was down $71 per ton in 1996 compared with 1995. This decline followed a $55 per ton increase in 1995 versus 1994.

As indicated in the table below, mill production, curtailed by 120,000 tons to control inventory levels, totaled 2,577,000 tons in 1996. This represented a 63,000 ton increase in production over 1995, which had 132,000 tons of inventory-related downtime. Production of containerboard exceeded internal box plant usage by 275,000 tons in 1996; 317,000 tons in 1995 and 376,000 tons in 1994. Excess production was sold in the domestic and export markets.

	1996	1995	1994
Mill production *(in tons)*	2,577,000	2,514,000	2,603,000

Box production at the Mexican, Puerto Rican and South American converting facilities increased by 34,000 tons to 124,000 tons in 1996.

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 CB Displays of Rural Hall, North Carolina, a producer of point-of-sale packaging. As a result, the company has improved its ability to service the national litho-laminate market. Also in 1995, the company acquired a controlling interest in Wesland Container L.L.C. in Little Rock, Arkansas, a producer of medical-waste boxes. Operation of the Montville, Connecticut, Rand-Whitney plant was discontinued in the first quarter of 1996.

The following table shows the quarterly sales of the corrugated container operation in tons and dollars. The totals presented include not only boxes sold but also open market sales of linerboard and related products. The decrease in unit sales in 1995 compared with 1994 was primarily due to weak demand for containerboard and boxes, which continued into mid-1996.

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CORRUGATED CONTAINER

	1996	1995	1994
UNIT SALES			
(in thousands of tons)			
1st Quarter	**575**	602	628
2nd Quarter	**608**	614	648
3rd Quarter	**636**	564	622
4th Quarter	**616**	553	594
For the year	**2,435**	2,333	2,492
NET SALES			
(in millions)			
1st Quarter	**$448.0**	$434.4	$327.6
2nd Quarter	**430.3**	477.3	354.8
3rd Quarter	**402.9**	466.4	371.9
4th Quarter	**395.3**	451.3	387.0
For the year	**$1,676.5**	$1,829.4	$1,441.3

BLEACHED PAPERBOARD

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

The mill completed a major modernization and expansion program during 1995. The cornerstone of this project was 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. One of the mill's recovery boilers was also rebuilt.

Before administrative costs, the bleached paperboard operation reported a loss of $6.9 million in 1996 compared with income of $23.5 million in 1995. Primarily a result of weakening demand, average prices for bleached paperboard declined by 12 percent in 1996 after having improved by 30 percent in 1995. Sales volume increased by 25 percent in 1996 as the company accelerated its efforts to market the increased mill production capacity. Manufacturing costs per ton for 1996 were relatively unchanged from 1995 levels. However, with the efficiencies of an increased level of production and the effect of a mid-1996 cost-reduction program, manufacturing costs per ton in the second half of 1996 were 13 percent below first-half costs. Manufacturing costs per ton were up 10 percent in 1995 compared with 1994 because of disruptions related to the various construction projects.

The year was one of generally weak demand and, accordingly, prices were under pressure throughout much of the year. By the fourth quarter, bleached paperboard prices had declined by 18 percent from fourth-quarter 1995 levels. Prices stabilized late in the year.

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, restaurants and cafeterias. Food Service enhances the bleached paperboard operation's ability to develop and market paper products for the food service industry. Food Service converted 68,737 tons and 65,583 tons of bleached paperboard and recorded revenues of $84.1 million and $80.9 million for 1996 and 1995, respectively.

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

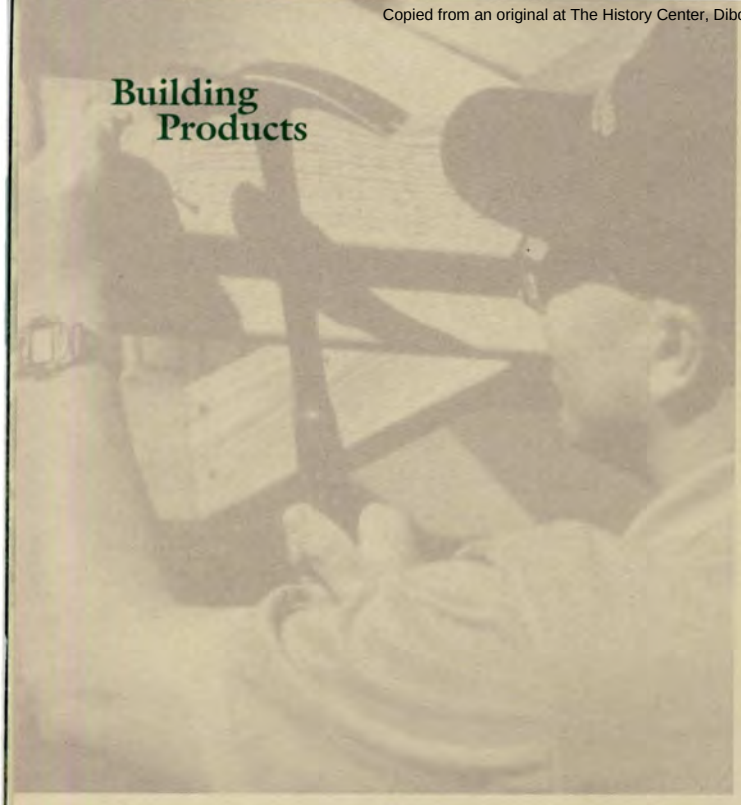
BLEACHED PAPERBOARD

	1996	1995	1994
UNIT SALES			
(in thousands of tons)			
PAPERBOARD			
1st Quarter	**108**	120	106
2nd Quarter	**125**	97	109
3rd Quarter	**149**	83	112
4th Quarter	**142**	100	103
For the year	**524**	400	430
PULP			
1st Quarter	**31**	16	20
2nd Quarter	**38**	28	25
3rd Quarter	**16**	20	24
4th Quarter	**15**	35	18
For the year	**100**	99	87
NET SALES			
(in millions)			
PAPERBOARD			
1st Quarter	**$ 66.1**	$ 70.7	$ 51.1
2nd Quarter	**73.6**	56.8	54.4
3rd Quarter	**83.3**	54.4	56.3
4th Quarter	**77.5**	67.1	55.6
For the year	**$300.5**	$249.0	$217.4
PULP			
1st Quarter	**$ 7.0**	$ 5.3	$ 4.4
2nd Quarter	**5.8**	12.8	5.3
3rd Quarter	**3.2**	7.1	6.6
4th Quarter	**3.2**	11.7	5.8
For the year	**$ 19.2**	$ 36.9	$ 22.1
FOOD SERVICE AND OTHER			
1st Quarter	**$ 22.0**	$ 18.7	$ 14.2
2nd Quarter	**23.5**	22.7	16.3
3rd Quarter	**21.1**	22.2	16.2
4th Quarter	**19.5**	19.5	13.2
For the year	**$ 86.1**	$ 83.1	$ 59.9

Primarily because the company paid significantly lower bonuses to its managers in 1996 as a result of the lower level of profitability, the administrative costs related to the Paper Group were $44.4 million in 1996 compared with $54.4 million in 1995.

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Building Products



The Building Products Group manufactures a diversified line of construction and commercial grade building materials at 13 facilities located in Texas, Louisiana, Oklahoma, Arkansas, Alabama and Georgia. In 1996, almost 80 percent of its revenues were generated from wood-based materials made from Southern Pine logs or log residues. These products, sold to both residential and commercial market segments, include lumber, plywood, fiber products and particleboard.

The non-wood-based business unit manufactures a variety of gypsum wallboard products that are sold to the same market segments as wood-based materials. In the second quarter of 1996, the company acquired a 50 percent equity position in Standard Gypsum L.L.C. located in McQueeney, Texas. Under the terms of the joint venture agreement with its partner, the Building Products Group has the responsibility for managing plant operations and marketing the gypsum wallboard.

During 1996, the group, through a joint venture, began construction on a new medium density fiberboard (MDF) plant in El Dorado, Arkansas. The $90 million facility is designed to produce 150 million square feet of MDF annually. MDF products are high-grade composite panels that serve as suitable alternatives to high-quality millwork lumber and as flooring substrates.

The Building Products Group entered into a joint venture agreement during the year for the construction of a cement fiberboard plant in Waxahachie, Texas. Cement fiberboard is a weather-stable product with increasing acceptance for applications such as exterior sidings, tile backing and roofing. Both the MDF and cement fiberboard plants are anticipated to begin production during the first quarter of 1998.

During 1996, the group continued its strategy to exit the retail business, which sells various building materials to the contractor and retail markets. Retail operations accounted for only 3 percent of group net revenues in 1996, compared with about 10 percent in each of the two preceding years. In the fourth quarter of 1995, the group began its exit from this business by selling its two major Houston-area retail locations, which historically accounted for about 80 percent of these revenues. Late in 1996, two of the three remaining locations were also sold.

The group earned $102 million in 1996, the third-highest earnings level in its history, following earnings of $67 million in 1995 and record earnings of $139 million in 1994. Net manufacturing revenues in 1996 increased $30 million, or 6 percent, over 1995. This 6 percent increase followed a 7 percent decline in 1995, compared with the record year of 1994. As a result of improved residential and commercial construction levels, prices advanced in 1996 across all product lines, except particleboard and plywood.

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

BUILDING PRODUCTS

	1996	1995	1994
UNIT SALES			
(in millions of board feet)			
Pine lumber	**605**	582[a]	583[a]
(in millions of square feet)			
Fiber products	**457**	422	441
Particleboard	**399**	329	347
Plywood	**259**	217	260
Gypsum wallboard	**838**	813	796
NET SALES			
(in millions)			
Pine lumber	**$217.4**	$190.1[a]	$211.9[a]
Fiber products	**73.3**	59.7	66.3
Particleboard	**112.2**	99.1	103.0
Plywood	**52.1**	49.3	56.8
Gypsum wallboard	**90.2**	83.1	74.3
Retail distribution	**17.1**	51.3	58.4
Other	**.3**	.3	4.8
For the year	**$562.6**	$532.9	$575.5

[a] *Reclassified to include the Rome, Georgia, lumber operation*

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Pine lumber shipments of 605 million board feet increased 4 percent over 1995. Lumber prices improved during the year and by the fourth quarter were 20 percent above the same period in 1995, which was the low for that year. In 1995, reduced building activity resulted in oversupplied markets with the market imbalance further aggravated by Canadian lumber imports that had captured in excess of 35 percent of U.S. markets. In 1996, as the United States-Canadian lumber agreement took effect and the pace of housing starts increased, supply/demand ratios improved and lumber prices recovered accordingly.

Plywood revenues in 1996 increased 6 percent over 1995 due to increased shipments and an improved mix of products. Revenues in 1995 declined 13 percent from 1994 due to reduced sales volume. In 1995, the group's plywood plant was involved in a $3.8 million modernization project to upgrade its veneer process capability. This project negatively affected production schedules. Further, a construction-related fire during 1995 resulted in an outage, accounting for more than one-third of the lower shipment levels compared with 1994. Plywood pricing in 1995 advanced almost 5 percent over 1994 levels as the plant increased its complement of higher grade panels. In 1996, however, price levels declined 13 percent.

Fiber products revenues increased 23 percent over 1995 due to price increases averaging almost 13 percent and an 8 percent increase in shipments. Shipments were higher due to strong demand for fiber products coupled with a high level of supply resulting from a 7 percent increase in production and a high inventory position at the first of the year that was liquidated during the year. In 1995, siding prices decreased due to a low rate of housing starts coupled with increased competition from alternative vinyl and cement fiberboard products. TrimCraft™, the company's alternative lumber trim product, continued to gain market acceptance, and shipments of this product advanced almost 30 percent over 1995 levels. The group further adjusted the complement of roof and wall insulation board in its product mix as demand for siding and TrimCraft improved.

Using by-products of lumber processing, the group manufactures particleboard at four plants in Texas, Alabama, Arkansas and Georgia. The Arkansas plant, completed late in the fourth quarter of 1995 at a cost of $65 million, increased capacity by about 50 percent. With the new plant's production, particleboard shipments in 1996 increased 21 percent over 1995, despite lost production at the Alabama plant, which incurred a 10-week outage for a major modernization project. Particleboard price levels declined about 6 percent from 1995 levels. In 1995, shipments were 5 percent below 1994, although prices increased about 2 percent. However, prices at the end of 1995 had begun to decline due to excessive customer inventory accumulations that affected demand into the first quarter of 1996.

Record earnings were achieved by the group's gypsum wallboard operation in 1996 as prices continued the improvement begun in 1994 and the mix of products manufactured continued to improve. Gypsum wallboard shipments of 838 million square feet increased 3 percent over 1995 and revenues were up 9 percent following a 12 percent increase in revenues for 1995 compared with 1994. Gypsum wallboard demand basically responds to the pace of single-family and multifamily housing activity, which advanced 7 percent over 1995 levels. In addition to a strong market, the group's Stretch 54® product, pre-sized to reduce material waste and application labor in houses with 9-foot ceilings, continued to enhance margins within its specialty product mix. Specialty panels in 1996 accounted for 38 percent of total shipments, an increase of 12 percent over 1995.

The company controls approximately 2.2 million acres of timberland in Texas, Louisiana, Georgia and Alabama. In 1996, this renewable resource provided approximately 59 percent of the company's sawtimber requirements and roughly 55 percent of the virgin fiber necessary to operate its paper, particleboard and fiberboard converting operations.

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Financial Services



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

FINANCIAL SERVICES
SELECTED FINANCIAL INFORMATION
YEARS ENDED DECEMBER 31
(in millions)

	1996	1995	1994
INCOME			
Savings bank	$ 37.5[a]	$ 78.1	$ 37.2
Mortgage banking	23.0	20.3	15.9
Real estate	(1.7)	(3.8)	(.6)
Insurance	4.3	3.5	3.8
Income before taxes	63.1	98.1	56.3
Taxes on income	24.3	27.3	15.3
Net income	$ 38.8	$ 70.8	$ 41.0
ASSETS			
Savings bank	$8,945.9	$8,881.7	$8,707.8
Mortgage banking	241.4	157.0	122.2
Real estate	287.4	238.4	214.7
Insurance	26.3	19.1	21.4
Other activities	.1	1.6	1.6
Eliminations	(166.0)	(86.7)	(60.0)
Total assets	$9,335.1	$9,211.1	$9,007.7
LIABILITIES			
Savings bank	$8,509.9	$8,405.2	$8,281.7
Mortgage banking	177.1	113.5	91.8
Real estate	204.7	156.2	130.8
Insurance	17.7	13.2	15.9
Other activities	(.1)	4.6	4.6
Eliminations	(166.0)	(86.7)	(60.0)
Total liabilities	$8,743.3	$8,606.0	$8,464.8
EQUITY			
Savings bank	$ 436.0	$ 476.5	$ 426.1
Mortgage banking	64.3	43.5	30.4
Real estate	82.7	82.2	83.9
Insurance	8.6	5.9	5.4
Other activities	.2	(3.0)	(2.9)
Total equity	$ 591.8	$ 605.1	$ 542.9

[a] *Includes SAIF assessment of $43.9 million*

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/Fort Worth, San Antonio, Austin and the east Texas area. The primary activities of Guaranty include attracting savings deposits from the public, investing in loans secured by real estate mortgages, lending for the commercial and residential real estate construction industry, and providing a variety of loan products to consumers.

Presented below is selected financial information for Guaranty.

GUARANTY
SELECTED FINANCIAL INFORMATION
YEARS ENDED DECEMBER 31
(dollars in millions)

	1996	1995	1994
INCOME AND EXPENSE			
Net interest income	$ 193.0	$ 179.5	$ 149.2
Noninterest income	22.2	37.7	25.0
Noninterest expense	163.9[a]	124.6	130.5
Income before taxes	37.5	78.1	37.2
AVERAGE BALANCE SHEET			
Total earning assets	8,889.0	8,819.5	8,544.7
Loans receivable and mortgage loans held for sale	5,215.1	4,453.6	3,147.6
Mortgage-backed and investment securities	3,204.3	3,647.1	4,151.3
Securities purchased under resell agreements	—	—	551.3
Covered assets	—	298.6	536.2
Deposits	6,423.9	6,721.3	6,681.6
Securities sold under repurchase agreements and FHLB advances	2,113.5	1,873.0	1,714.2
KEY RATIOS			
Yield on earning assets	6.96%	6.87%	5.59%
Cost of funds	4.91%	4.96%	3.91%
Net spread	2.05%	1.91%	1.68%

[a] *Includes SAIF assessment of $43.9 million*

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. Additional 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 funds in the Federal Home Loan Bank Eleventh District Cost of Funds Index (EDCOF), which is primarily comprised of California institutions.

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The long-term target was to convert these securities to adjustable-rate mortgage loans. By December 31, 1996, loans receivable comprised 67 percent of earning assets, up from 57 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 Guaranty's deposit liabilities is important to profitability. In 1996, the nine basis point improvement in comparative cost from 1995 increased income by approximately $4 million.

Although the average balance of total earning assets remained virtually constant with 1995, the improved mix of loans receivable, rather than securities, improved net interest income by $13.5 million in 1996. This improved asset mix accounted for a portion of the 14 basis point increase in the net interest spread.

In 1995, on similar asset balance, the better mix improved earnings by $30.3 million and the interest spread by 23 basis points over 1994.

Noninterest income is comprised primarily of fees collected, including service charges on deposits. In 1995, Guaranty recognized a $9 million gain, representing its portion of gains on certain asset dispositions (see Note C on page 44 for additional information). Excluding the gain recognized in 1995, noninterest income decreased by $6.5 million in 1996 and increased by $3.7 million in 1995.

Excluding $43.9 million related to a one-time Savings Association Insurance Fund (SAIF) assessment discussed below, noninterest expense decreased by $4.6 million in 1996 and by $5.9 million in 1995.

BIF/SAIF Legislation

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

Based on its current risk classification, beginning January 1, 1997, Guaranty will not be required to pay any deposit insurance assessments but will be required to pay approximately 6.5 basis points on its insured deposits annually to repay certain Financial Corporation (FICO) bond obligations. Prior to the special assessment, Guaranty was paying 23 basis points of insured deposits for insurance premiums as compared to the approximate 6.5 basis points of deposits currently being paid to repay FICO bond obligations. Based on the current level of Guaranty's deposits, this legislation will reduce assessments by approximately $11 million per year.

Acquisitions

On December 9, 1996, the company and Guaranty signed a definitive agreement to acquire all of the outstanding stock of California Financial Holding Company (CFHC) for $30 per share. Total assets, the majority of which are held by its subsidiary, Stockton Savings Bank, F.S.B., are approximately $1.3 billion and consist primarily of residential, consumer and construction loans, mortgage-backed securities, and short-term investments. Stockton Savings operates 23 branches. The purchase price of approximately $150 million will consist of company stock and cash. The transaction, subject to the approval of regulatory authorities and CFHC shareholders, is anticipated to close in the second quarter of 1997.

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 10 banking centers in San Antonio, Texas, with assets at acquisition totaling approximately $363 million, consisting primarily of mortgage loans and cash.

Liquidity, Interest Rate Risk Management and Capital

Guaranty is required by the Office of Thrift Supervision (OTS) to maintain minimum 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, 1996, 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 74 percent of Guaranty's assets have adjustable rates, this risk is significantly mitigated. A substantial portion of Guaranty's investments in adjustable-rate, mortgage-backed securities have annual or lifetime caps that could 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 48 for additional information.

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OTS regulations require savings institutions to maintain certain minimum levels of capital. Guaranty's regulatory capital exceeded all applicable capital requirements at December 31, 1996. Note L on page 49 contains additional information concerning Guaranty's capital requirements.

Mortgage Banking

Mortgage banking 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). TIMC 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)

	1996	1995	1994
Revenues	$ 95	$ 71	$ 73
Income before taxes	23	20	16
Portfolio roll-forward (including loans serviced for affiliates)			
Beginning servicing portfolio	$13,460	$10,068	$ 9,067
Purchased servicing	4,888	3,782	1,650
New loans added, net of servicing released	2,265	948	540
Run-off	(2,762)	(1,338)	(1,189)
Ending servicing portfolio	$17,851	$13,460	$10,068
Portfolio growth rate	32.6%	33.7%	11.0%
Run-off factor	15.9%	10.9%	13.1%
Ending number of loans serviced	225,700	184,800	149,500

The servicing portfolio grew from both internal production and acquisition to a record $17.9 billion during 1996. Servicing totaling $4.9 billion was acquired during the year, a portion of which was acquired subject to a call option. The call option price, if exercised, would exceed book value. At the end of 1996, $2.4 billion of the servicing portfolio was subject to the call option. The mortgage origination network increased during 1996 from 22 to 41 branch offices. The volume of originations increased to $1.9 billion.

Real Estate

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 24 residential subdivisions, in Austin, Houston, San Antonio and Dallas, Texas; as well as Kansas City, Missouri; Nashville, Tennessee; Denver, Colorado; and Tampa, Florida. At the end of 1996, land development inventory included 1,997 residential lots (1,210 under contract) and 5,163 acres of land. Lot sales for 1996 were 1,082 compared with 467 in 1995 and 461 in 1994.

The company owns 10 commercial properties, including hotels, office buildings, apartments and parcels of commercial land.

Selected financial information related to these activities is shown below.

Real Estate
Operations Summary
Years ended December 31
(in millions)

	1996	1995	1994
Revenues			
Residential	$35.9	$12.7	$ 8.4
Commercial	18.2	19.4	21.1
Interest and other	7.0	4.9	4.6
Total	$61.1	$37.0	$34.1
Income (Loss) Before Taxes			
Residential	$ 3.0	$(1.9)	$(2.6)
Commercial	2.2	2.0	2.1
Interest and other	(6.9)	(3.9)	(.1)
Total	$(1.7)	$(3.8)	$ (.6)

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, 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)

	1996	1995	1994
Revenues	$ 24.9	$ 16.5	$ 18.4
Income before taxes	4.3	3.5	3.8

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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 bleached paperboard mill at Evadale, Texas, the company installed state-of-the-art technology for controlling air and water emissions. These forward-looking programs should minimize the impact that changing regulations have on capital expenditures for environmental compliance.

Future expenditures for environmental control facilities will depend on changing laws and regulations and technological advances. Given these uncertainties, the company estimates that capital expenditures for environmental purposes during the period 1997 through 1999 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 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 should be less, assuming 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)	1996	1995	1994
Capital Expenditures			
Paper	**$147.7**	$299.1	$390.0
Building products	**52.0**	67.6	43.4
Timber and timberlands	**74.7**	19.1	28.5
Other activities	**.9**	.3	1.2
Total manufacturing group	**$275.3**	$386.1	$463.1

Capital expenditures of approximately $285 million are projected for 1997. Commitments on construction projects totaled $53 million at the end of 1996.

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

(in millions)	1996	1995	1994
Parent Company Interest - Net			
Interest expense	**$112.9**	$111.3	$ 94.8
Capitalized interest	**(3.3)**	(38.6)	(27.7)
Interest expense - net	**$109.6**	$ 72.7	$ 67.1

Interest expense increased in 1996 and 1995 due to the higher levels of debt outstanding. The increase in capitalized interest in 1995 and 1994 was due to higher levels of construction in progress associated primarily with the modernization and expansion project at Evadale, Texas. Since this project was completed in 1995, capitalized interest in 1996 decreased to $3.3 million. Parent Company interest paid during 1996, 1995 and 1994 was $105.9 million, $95.4 million and $89.2 million, respectively.

In August 1995, the board of directors approved a stock repurchase program authorizing the company to repurchase up to 2.5 million shares. By January 31, 1997, the company had repurchased 900,100 shares under this program.

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SELECTED FINANCIAL DATA*

For the year	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986
(in millions, except per share data)											
Total revenues	$ 3,460	$ 3,495	$ 2,967	$ 2,762	$ 2,734	$ 2,507	$ 2,401[a]	$ 1,943	$ 1,814	$ 1,642	$ 1,343
Manufacturing net sales	2,645	2,731	2,335	2,127	2,096	1,898	1,892	1,894	1,774	1,603	1,296
Net income	133	281	131	117[b]	147	138	232[a]	207	199	141	81
Capital expenditures:											
Manufacturing	275	386	463	340	359	378	324	260	219	139	103
Financial services	15	34	20	14	11	9	4	9	4	1	1
Depreciation and depletion:											
Manufacturing	244	208	200	191	167	158	140	126	112	94	79
Financial services	10	8	8	6	5	4	5	2	2	1	1
Earnings per share	2.39	5.01	2.35	2.11[b]	2.65	2.51	4.20[a]	3.75	3.58	2.34	1.32
Dividends per common share	1.24	1.14	1.02	1.00	.96	.88	.80	.58	.42	.35	.29
Average shares outstanding	55.1	56.1	55.9	55.5	55.5	55.2	55.4	55.3	55.7	60.3	61.1
Common shares outstanding at year end	55.4	55.7	56.0	55.5	55.2	54.9	54.6	54.9	55.2	55.3	60.7
AT YEAR END											
Total assets	$12,947	$12,764	$12,251	$11,959	$10,766	$10,068	$ 7,834[c]	$ 2,380	$ 2,247	$ 2,020	$ 1,894
Long-term debt:											
Parent Company	1,522	1,489	1,316	1,045	964	864	501	399	417	416	366
Financial services	133	113	82	76	99	76	94	30	25	30	25
Ratio of total debt to total capitalization-Parent Company	43%	43%	43%	43%	38%	36%	26%	24%	29%	31%	28%
Shareholders' equity	2,015	1,975	1,783	1,700	1,633	1,532	1,439	1,259	1,096	927	929

**Certain reclassifications were made to conform with current year's classification*

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

[b] Includes a credit of $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

COMMON STOCK PRICES AND DIVIDEND INFORMATION

	1996			1995		
	Price Range			Price Range		
	High	Low	Dividends	High	Low	Dividends
1st Quarter	$48-1/4	$39-3/4	$ .30	$51-1/8	$43-3/8	$ .27
2nd Quarter	51-7/8	45-1/2	.30	48-1/4	41-1/2	.27
3rd Quarter	53-1/8	47	.32	55-3/4	47-1/4	.30
4th Quarter	55-3/8	48-3/8	.32	53-1/4	42-1/4	.30
Year	$55-3/8	$39-3/4	$1.24	$55-3/4	$41-1/2	$1.14

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Summarized Statements of Income

Parent Company (Temple-Inland Inc.)

For the year	1996	1995	1994
(in millions)			
Revenues			
Net sales	$ 2,645	$2,731	$2,335
Financial services earnings	63	98	56
	2,708	2,829	2,391
Costs and Expenses			
Cost of sales	2,198	2,067	1,925
Selling and administrative	249	262	210
	2,447	2,329	2,135
Operating Income	261	500	256
Interest expense - net	(110)	(73)	(67)
Other	5	4	4
Income Before Taxes	156	431	193
Taxes on income	23	150	62
Net Income	$ 133	$ 281	$ 131

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	1996	1995
(in millions)		
Assets		
Current Assets		
Cash	$ 14	$ 15
Receivables, less allowances of $9 in 1996 and $8 in 1995	295	285
Inventories:		
Work in process and finished goods	107	99
Raw materials	220	239
	327	338
Prepaid expenses	13	15
Total current assets	649	653
Investment in Temple-Inland Financial Services	592	605
Property and Equipment		
Buildings	516	469
Machinery and equipment	3,576	3,323
Less allowances for depreciation	(1,882)	(1,702)
	2,210	2,090
Construction in progress	106	225
	2,316	2,315
Timber and timberlands - less depletion	503	445
Land	31	28
Total property and equipment	2,850	2,788
Other Assets	161	167
Total Assets	$4,252	$4,213
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$ 143	$ 138
Accrued expenses	140	157
Employee compensation and benefits	28	37
Current portion of long-term debt	8	5
Total current liabilities	319	337
Long-Term Debt	1,522	1,489
Deferred Income Taxes	234	259
Postretirement Benefits	136	132
Other Liabilities	26	21
Shareholders' Equity	2,015	1,975
Total Liabilities and Shareholders' Equity	$4,252	$4,213

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	1996	1995	1994
(in millions)			
Cash Provided by (Used for) Operations			
Net income	$ 133	$ 281	$ 131
Adjustments to reconcile net income to net cash:			
Depreciation and depletion	244	208	200
Deferred taxes	(29)	29	32
Unremitted earnings from financial services	(39)	(71)	(41)
Receivables	(11)	(42)	(41)
Inventories	23	(71)	(1)
Accounts payable and accrued expenses	(27)	(46)	(3)
Other	19	(2)	(34)
	313	286	243
Cash Provided by (Used for) Investments			
Capital expenditures	(275)	(386)	(463)
Proceeds from sale of property and equipment	5	15	19
Acquisitions and joint ventures	(27)	(2)	(60)
Dividends from financial services	50	15	30
	(247)	(358)	(474)
Cash Provided by (Used for) Financing			
Additions to debt	213	175	299
Payments of debt	(198)	(15)	(24)
Purchase of stock for treasury	(16)	(24)	(1)
Cash dividends paid to shareholders	(69)	(64)	(57)
Other	3	2	18
	(67)	74	235
Net increase (decrease) in cash	(1)	2	4
Cash at beginning of year	15	13	9
Cash at end of year	$ 14	$ 15	$ 13

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. Temple-Inland Financial Services, including savings bank, mortgage banking, real estate development operations and insurance operations, is reflected in the summarized financial statements on the equity basis, except that related earnings are presented before tax to be consistent with the consolidated financial statements. Refer to pages 40 through 49 for Temple-Inland Financial Services summarized financial statements. All material intercompany amounts and transactions have been eliminated. These financial statements should be read in conjunction with Temple-Inland Inc.'s consolidated financial statements.

Inventories

Inventories are stated at the lower of cost or market.

Cost of inventories amounting to $112.8 million in 1996 and $129.8 million in 1995 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 $18.4 million and $24.6 million higher than reported at year end 1996 and 1995, 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 25 years
Transportation equipment	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 through elapsed time.

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

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

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NOTE B - Long-Term Debt

Long-term debt consists of the following:

	1996	1995
(in millions)		
Commercial Paper—Average interest rate was 5.36% in 1996 and 5.90% in 1995	$ 124.7	$ 124.9
8.375% Notes Payable	—	70.0
8.73% to 9.0% Notes Payable due 1997 to 1998	95.0	190.0
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	338.0
Term note due 2000 — Average interest rate in 1996 was 5.69%	200.0	—
Revenue Bonds due 2007 through 2028 — Average interest rate was 3.74% in 1996 and 4.11% in 1995	189.9	182.7
Other indebtedness due through 2006 — Average interest rate was 7.40% in 1996 and 6.48% in 1995	31.9	38.3
	1,529.5	1,493.9
LESS		
Current portion of long-term debt	(8.0)	(5.0)
	$1,521.5	$1,488.9

At December 28, 1996, $125 million in commercial paper was outstanding. These borrowings were supported by multi-year revolving credit agreements with banks and, accordingly, are classified as long-term debt. The credit agreements total $580 million with final maturities at various dates in 1999. The total amount under the credit agreements is available for general corporate use as of December 28, 1996.

Maturities of the Parent Company's long-term debt during the next five years are as follows (in millions): 1997—$8; 1998—$174; 1999—$200; 2000—$77; and 2001—$214. For an analysis of net interest expense, see page 33.

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Summarized Statements of Income

Temple-Inland Financial Services

For the year	1996	1995	1994
(in millions)			
INTEREST INCOME			
Loans receivable and mortgage loans held for sale	$ 426	$ 369	$ 245
Mortgage-backed and investment securities	184	209	190
Other earning assets, including covered assets in 1995 and 1994	21	41	61
Total interest income	631	619	496
INTEREST EXPENSE			
Deposits	308	313	254
Borrowed funds	127	121	81
Total interest expense	435	434	335
NET INTEREST INCOME	196	185	161
Provision for loan losses	14	15	7
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	182	170	154
NONINTEREST INCOME			
Loan origination, marketing and servicing fees	87	59	51
Other	97	86	85
Total noninterest income	184	145	136
NONINTEREST EXPENSE			
SAIF assessment	44	—	—
Compensation and benefits	105	91	108
Other	154	126	126
Total noninterest expense	303	217	234
INCOME BEFORE TAXES	63	98	56
Taxes on income	24	27	15
NET INCOME	$ 39	$ 71	$ 41

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

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Summarized Balance Sheets

Temple-Inland Financial Services

At year end	1996	1995
(in millions)		
Assets		
Cash and cash equivalents	$ 214	$ 343
Mortgage loans held for sale	244	106
Loans receivable	5,414	4,764
Mortgage-backed and investment securities	2,783	3,424
Other assets	680	574
Total Assets	$9,335	$9,211
Liabilities		
Deposits	$6,263	$6,377
Securities sold under repurchase agreements	1,937	1,604
Federal Home Loan Bank advances	55	155
Other borrowings	133	113
Other liabilities	355	357
Total Liabilities	8,743	8,606
Shareholders' Equity	592	605
Total Liabilities and Shareholders' Equity	$9,335	$9,211

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

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Summarized Statements of Cash Flows

Temple-Inland Financial Services

For the year	1996	1995	1994
(in millions)			
Cash Provided by (Used for) Operations			
Net income	$ 39	$ 71	$ 41
Adjustments to reconcile net income to net cash:			
Provision for amortization, depreciation and accretion	33	27	20
Gain on sales of securities available-for-sale	—	(2)	—
Receivable from FDIC	7	(18)	19
Mortgage loans held for sale	(88)	24	500
Collections and remittances on loans serviced for others - net	(7)	96	(164)
Other	(72)	(9)	3
	(88)	189	419
Cash Provided by (Used for) Investments			
Purchases of securities available-for-sale	(4)	(54)	(146)
Maturities of securities available-for-sale	98	12	17
Purchases of securities held-to-maturity	—	—	(229)
Maturities and redemptions of securities held-to-maturity	322	391	790
Loans originated or acquired net of principal collected on loans	(672)	(1,009)	(823)
Proceeds from sale of securities available-for-sale	206	192	—
Reduction in covered assets	—	343	244
Acquisitions	(11)	—	200
Capital expenditures	(15)	(34)	(20)
Other	2	(22)	12
	(74)	(181)	45
Cash Provided by (Used for) Financing			
Net decrease in deposits	(112)	(217)	(92)
Securities sold under repurchase agreements and short-term borrowings - net	285	239	(205)
Additions to debt	68	181	35
Payments of debt	(151)	(150)	(30)
Dividends paid to Parent Company - net	(50)	(15)	(30)
Other	(7)	(5)	4
	33	33	(318)
Net increase (decrease) in cash and cash equivalents	(129)	41	146
Cash and cash equivalents at beginning of year	343	302	156
Cash and cash equivalents at end of year	$ 214	$ 343	$ 302

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

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Notes to Temple-Inland Financial Services Summarized Financial Statements

Note A - Summary of Significant Accounting Policies

Basis of Presentation

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

Mortgage Loans Held For Sale

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

Loans Receivable

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

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 Statement of Financial Accounting Standards (SFAS) No. 114, "Accounting by Creditors for Impairment of a Loan," as amended by SFAS 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. The effect of adopting the new statement was not material.

Mortgage-Backed and Investment Securities

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 intent and ability to hold the securities to maturity. Otherwise, debt securities and marketable equity securities are classified as available-for-sale and are stated at fair value with any unrealized gains and losses, net of tax, reported as a component of shareholders' equity.

The cost of securities 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.

Real Estate

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

Mortgage Loan Servicing Rights

As of January 1, 1995, the group adopted SFAS No. 122, "Accounting for Mortgage Servicing Rights," which 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 the new statement was not material.

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 Company. Under an agreement with the Parent Company, the group provides a current income tax provision that takes into account the separate taxable income of the group. Deferred income taxes are recorded by the group.

Note B - Acquisitions

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.

Mortgage Banking

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

These acquisitions were accounted for under the purchase method of accounting and, accordingly, the acquired assets and liabilities 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, assuming the acquisitions had been effected as of the beginning of the applicable fiscal year, would not have been materially different from those reported.

Pending Savings Bank Acquisition

On December 9, 1996, the company and Guaranty signed a definitive agreement to acquire all of the outstanding stock of California Financial Holding Company (CFHC). Total assets, the majority of which are held by its subsidiary, Stockton Savings Bank, F.S.B., are estimated to be $1.3 billion and consist primarily of residential, consumer and construction loans, mortgage-backed securities, and short-term investments. The purchase price of approximately $150 million will consist of company common stock and cash. The transaction, subject to the approval of regulatory authorities and the stockholders of CFHC, is anticipated to close in the second quarter of 1997.

Note C - Termination Agreements

In connection with the acquisition of Guaranty in 1988, the company entered into an assistance agreement (Assistance Agreement) with the Federal Savings and Loan Insurance Corporation (FSLIC). Pursuant to the Assistance Agreement, the FSLIC agreed to provide continuing financial assistance to Guaranty consisting of notes from the FSLIC, guaranteed yield on the book value of assets acquired from the FSLIC (Covered Assets), and protection against losses on the book value of the Covered Assets. Pursuant to the Assistance Agreement, the company also received various tax benefits to be shared with the Federal Deposit Insurance Corporation (FDIC) when the cash benefits were realized by the company. During the term of the Assistance Agreement, the company recorded these tax-sharing liabilities on an undiscounted basis.

On October 31, 1995, the company and Guaranty entered into a series of agreements (Termination Agreements) with the FDIC terminating the Assistance Agreement. Pursuant to the Termination Agreements, Guaranty received a net payment of approximately $208 million in payment for the difference between the transfer value of certain of the Covered Assets and the amount owed for the present value of the tax benefits received from the Assistance Agreement. Guaranty also received an additional payment of $9 million representing its portion of the gain sharing on asset dispositions as provided in the Assistance Agreement. The remainder of the Covered Assets have been retained by Guaranty, but will not be the subject of any ongoing assistance.

Note D - Loans Receivable

Loans receivable consisted of the following:

At year end	1996	1995
(in millions)		
Real estate mortgage	**$4,198.5**	$3,720.0
Construction and development (including residential)	**2,152.4**	1,500.6
Commercial and business	**658.8**	406.3
Consumer and other	**467.2**	416.0
	7,476.9	6,042.9
Less		
Unfunded portion of loans	**2,002.8**	1,211.8
Unamortized purchase premiums and discounts	**(11.8)**	(1.8)
Net deferred fees	**3.6**	3.0
Allowance for loan losses	**68.4**	65.5
	2,063.0	1,278.5
	$5,413.9	$4,764.4

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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, 1996, the group had commitments to originate or purchase primarily variable-rate loans totaling $1.2 billion. The amount to be ultimately funded is uncertain.

Activity in the allowance for loan losses was as follows:

For the year	1996	1995	1994
(in millions)			
Balance, beginning of year	$65.5	$53.9	$47.9
Provision for loan losses	13.8	14.6	6.5
Additions related to acquisitions and bulk purchases of loans - net of adjustments	(.7)	4.2	7.6
Charge-offs - net of recoveries	(10.2)	(7.2)	(8.1)
Balance, end of year	$68.4	$65.5	$53.9

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 1996	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in millions)				
HELD-TO-MATURITY				
Mortgage-backed securities:				
FNMA certificates	$1,041.1	$ —	$ (35.7)	$1,005.4
FHLMC certificates	212.0	—	(7.2)	204.8
Collateralized mortgage obligations	309.1	—	(14.6)	294.5
Private issuer pass-through securities	521.5	—	(18.8)	502.7
	$2,083.7	$ —	$ (76.3)	$2,007.4
AVAILABLE-FOR-SALE				
Mortgage-backed securities:				
FNMA certificates	$ 533.7	$ —	$ (8.3)	$ 525.4
FHLMC certificates	53.5	—	(.7)	52.8
GNMA certificates	.2	—	—	.2
Collateralized mortgage obligations	1.1	—	—	1.1
Private issuers pass-through securities	67.9	—	(3.5)	64.4
	656.4	—	(12.5)	643.9
Debt securities:				
Corporate securities	3.0	—	—	3.0
Equity securities, primarily Federal Home Loan Bank stock	52.7	.2	—	52.9
	$ 712.1	$ .2	$ (12.5)	$ 699.8

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At year end 1995	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(in millions)				
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 issuer pass-through securities	79.0	.3	(2.4)	76.9
	948.2	4.7	(3.3)	949.6
Debt securities:				
Corporate securities	1.4	—	—	1.4
Equity securities, primarily Federal Home Loan Bank stock	59.0	.4	—	59.4
	$1,008.6	$ 5.1	$ (3.3)	$1,010.4

In October 1995, the Financial Accounting Standards Board (FASB) issued guidance related to SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," which allowed for a one-time reassessment of intent and reclassification of investments in debt and equity securities. During December 1995, the group transferred $948 million from held-to-maturity to available-for-sale.

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.

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NOTE F - Deposits

Deposits consisted of the following:

At year end	1996		1995	
	Rate	Amount	Rate	Amount
(dollars in millions)				
Noninterest bearing demand	—	$ 123.7	—	$ 128.3
Interest bearing demand	2.70%	970.6	2.75%	1,028.4
Savings deposits	2.29%	174.8	2.25%	198.9
Time deposits	5.53%	4,992.8	5.74%	5,017.9
		6,261.9		6,373.5
Deposit premium		1.2		3.5
		$6,263.1		$ 6,377.0

Scheduled maturities of time deposits at December 31, 1996, are as follows:

Time deposits	$100,000 or more	Less than $100,000	Total
(in millions)			
3 months or less	$ 212.8	$1,248.5	$1,461.3
Over 3 through 6 months	119.4	789.2	908.6
Over 6 through 12 months	134.5	1,028.1	1,162.6
Over 12 months	169.1	1,291.2	1,460.3
	$ 635.8	$4,357.0	$4,992.8

At December 31, 1996, time deposits maturity dates were as follows (in millions): 1997 — $3,532.6; 1998 — $544.9; 1999 — $446.2; 2000 — $179.9; 2001— $284.2; and 2002 and thereafter— $5.0.

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

For the year	1996	1995	1994
(in millions)			
Interest on deposits	$ 310.8	$ 317.7	$ 262.9
Interest on borrowed funds	128.7	115.9	79.0
	$ 439.5	$ 433.6	$ 341.9

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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 30 days.

Information concerning borrowings under repurchase agreements is summarized as follows:

	1996	1995
(dollars in millions)		
At year end		
Weighted average interest rate	5.49%	5.81%
Mortgage-backed securities pledged to secure the agreements:		
Carrying value	$1,426.1	$1,699.6
Estimated market value	1,383.9	1,680.8
During the year		
Average daily balance	2,044.2	1,719.2
Maximum month-end balance	2,359.8	1,914.1

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 8.34 percent and 6.60 percent at December 31, 1996 and 1995, respectively. At December 31, 1996, the advances had calendar year maturity dates as follows (in millions): 1997—$2.3; 1998—$2.5; and 1999—$50.5.

Note I - Other Borrowings

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

At year end	1996	1995
(in millions)		
Long-term debt with an average rate of 6.97% and 7.44% during 1996 and 1995, respectively, due through 2000	$114.0	$ 95.0
Long-term debt at various rates which approximate prime, secured primarily by real estate	19.4	17.7
	$133.4	$112.7

In September 1996, a non-savings bank subsidiary obtained a $20 million increase to the secured variable-rate revolving credit agreement it had entered into in August 1995. This credit facility of $195 million expires in 2000, with $81 million remaining unused at December 31, 1996.

Maturities of other borrowings are as follows (in millions): 1997—$1.7; 1998—$13.0; 1999—$18.3; 2000—$88.7; 2001—$1.4; and 2002 and thereafter—$10.3.

Note J - Mortgage Loan Servicing

The group services mortgage loans that are owned primarily by independent investors. The group serviced approximately 225,700 and 184,800 mortgage loans aggregating $17.9 billion and $13.5 billion as of December 31, 1996 and 1995, respectively, including loans serviced for affiliates.

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 1996, 1995 or 1994 in connection with this risk.

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

	Purchased Loan Servicing Rights - Net	Originated Loan Servicing Rights - Net
(in millions)		
Balance, beginning of year	$ 75.7	$ 10.6
Additions	20.0	17.2
Scheduled amortization	(11.6)	(3.1)
Balance, end of year	$ 84.1	$ 24.7

The estimated fair value of the capitalized mortgage servicing rights at December 31, 1996, was $122 million. Fair value was determined utilizing market-driven assumptions for prepayment speeds, discount rates and other variables.

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 $442 million and $500 million at December 31, 1996 and 1995, respectively, Guaranty simultaneously purchased and sold caps, whereby it receives interest if the variable rate based on FHLB Eleventh District Cost of Funds Index (EDCOF) (4.84 percent at December 31, 1996) exceeds an average strike rate of 8.80 percent and pays interest if the same variable rate exceeds a strike rate of 11.75 percent. These agreements mature through 2003.

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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 10 percent. The agreement matures in 2004.

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 are 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, 1996, 1995 and 1994.

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

NOTE L - Regulatory Capital Matters

Guaranty is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on Guaranty's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Guaranty must meet specific capital guidelines that involve quantitative measures of Guaranty's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. Guaranty's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. The payment of dividends from Guaranty is subject to proper regulatory notification.

Quantitative measures established by regulation to ensure capital adequacy require Guaranty to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier I capital to risk-weighted assets, and of Tier I capital to adjusted tangible assets. As of December 31, 1996, Guaranty met all its capital adequacy requirements.

As of December 31, 1996 and 1995, the most recent notification from regulators categorized Guaranty as well capitalized under the regulatory framework for prompt corrective action. To be so categorized, Guaranty must maintain minimum Total risk-based, Tier I (Core) risk-based and Tier I (Core) leverage capital ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed Guaranty's category.

Guaranty's actual capital amounts and ratios are also presented in the table below. No amounts were deducted from capital for interest rate risk at December 31, 1996 or 1995.

	Actual		*For Capital Adequacy Purposes*		*To Be Well Capitalized Under Prompt Corrective Action Provisions*	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in millions)						
At year end 1996						
Total risk-based ratio (Risk-based capital/total risk-weighted assets)	**$533.8**	**10.39%**	**≥$411.1**	**≥8.0%**	**≥$513.8**	**≥10.0%**
Tier I (Core) risk-based ratio (Core capital/total risk-weighted assets)	**$498.2**	**9.70%**	**≥$205.5**	**≥4.0%**	**≥$308.3**	**≥6.0%**
Tier I (Core) leverage ratio (Core capital/adjusted tangible assets)	**$498.2**	**5.52%**	**≥$361.1**	**≥4.0%**	**≥$451.4**	**≥5.0%**
Tangible ratio (Tangible capital/tangible assets)	**$498.2**	**5.52%**	**≥$135.4**	**≥1.5%**	**N/A**	**N/A**
At year end 1995						
Total risk-based ratio (Risk-based capital/total risk-weighted assets)	$508.0	11.08%	≥$366.8	≥8.0%	≥$458.5	≥10.0%
Tier I (Core) risk-based ratio (Core capital/total risk-weighted assets)	$485.8	10.59%	≥$183.4	≥4.0%	≥$275.1	≥6.0%
Tier I (Core) leverage ratio (Core capital/adjusted tangible assets)	$485.8	5.44%	≥$357.3	≥4.0%	≥$446.6	≥5.0%
Tangible ratio (Tangible capital/tangible assets)	$485.8	5.44%	≥$134.0	≥1.5%	N/A	N/A

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Consolidated Statements of Income

Temple-Inland Inc. and Subsidiaries

For the year	1996	1995	1994
(in millions, except per share data)			
Revenues			
Manufacturing	$ 2,645	$ 2,731	$ 2,335
Financial services	815	764	632
	3,460	3,495	2,967
Costs and Expenses			
Manufacturing	2,447	2,329	2,135
Financial services	752	666	576
	3,199	2,995	2,711
Operating Income	261	500	256
Parent Company interest expense - net	(110)	(73)	(67)
Other	5	4	4
Income Before Taxes	156	431	193
Taxes on income	23	150	62
Net Income	$ 133	$ 281	$ 131
Earnings Per Share	$ 2.39	$ 5.01	$ 2.35

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Consolidated Statements of Cash Flows

Temple-Inland Inc. and Subsidiaries

For the year	1996	1995	1994
(in millions)			
Cash Provided by (Used for) Operations			
Net income	$ 133	$ 281	$ 131
Adjustments to reconcile net income to net cash:			
Depreciation and depletion	254	216	208
Deferred taxes	(11)	53	47
Amortization and accretion	23	18	12
Receivable from FDIC	7	(18)	19
Mortgage loans held for sale	(88)	24	500
Receivables	(11)	(42)	(41)
Inventories	23	(71)	(1)
Accounts payable and accrued expenses	(31)	(51)	(2)
Collections and remittances on loans serviced for others - net	(7)	96	(164)
Other	(66)	(31)	(46)
	226	475	663
Cash Provided by (Used for) Investments			
Capital expenditures	(290)	(420)	(483)
Proceeds from sale of property and equipment	7	16	19
Purchases of securities available-for-sale	(4)	(54)	(146)
Maturities of securities available-for-sale	98	12	17
Purchases of securities held-to-maturity	—	—	(229)
Maturities of securities held-to-maturity	322	391	790
Loans originated or acquired - net of principal collected on loans	(672)	(1,009)	(823)
Proceeds from sale of securities available-for-sale	206	192	—
Reduction in covered assets	—	343	244
Acquisitions and joint ventures	(38)	(2)	140
Other	(1)	(23)	11
	(372)	(554)	(460)
Cash Provided by (Used for) Financing			
Additions to debt	281	356	334
Payments of debt	(349)	(165)	(54)
Securities sold under repurchase agreements and short-term borrowings - net	285	239	(205)
Purchase of stock for treasury	(16)	(24)	(1)
Cash dividends paid to shareholders	(69)	(64)	(57)
Net decrease in deposits	(112)	(217)	(92)
Other	(4)	(3)	22
	16	122	(53)
Net increase (decrease) in cash and cash equivalents	(130)	43	150
Cash and cash equivalents at beginning of year	358	315	165
Cash and cash equivalents at end of year	$ 228	$ 358	$ 315

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Consolidating Balance Sheets

Temple-Inland Inc. and Subsidiaries

At year end 1996	Parent Company	Financial Services	Consolidated
(in millions)			
Assets			
Cash and cash equivalents	$ 14	$ 214	$ 228
Mortgage loans held for sale	—	244	244
Loans receivable	—	5,414	5,414
Mortgage-backed and investment securities	—	2,783	2,783
Trade and other receivables	295	—	292
Inventories	327	—	327
Property and equipment	2,850	81	2,931
Other assets	174	599	728
Investment in Financial Services	592	—	—
Total Assets	$4,252	$9,335	$12,947
Liabilities			
Deposits	$ —	$6,263	$ 6,263
Securities sold under repurchase agreements and Federal Home Loan Bank advances	—	1,992	1,992
Other liabilities	345	355	685
Long-term debt	1,522	133	1,655
Deferred income taxes	234	—	201
Postretirement benefits	136	—	136
Total Liabilities	$2,237	$8,743	$10,932
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			(24)
Retained earnings			1,837
			2,179
Cost of shares held in the treasury: 5,940,802 shares			(164)
Total Shareholders' Equity			2,015
Total Liabilities and Shareholders' Equity			$12,947

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Consolidating Balance Sheets

Temple-Inland Inc. and Subsidiaries

At year end 1995	Parent Company	Financial Services	Consolidated
(in millions)			
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 Financial Services	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

See the notes to the consolidated financial statements

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Consolidated Statements of Shareholders' Equity

Temple-Inland Inc. and Subsidiaries

	Common Stock	Additional Paid-in Capital	Other Equity Adjustments	Retained Earnings	Treasury Stock	Total
(in millions)						
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
Net income	—	—	—	133	—	133
Translation and other adjustments	—	—	(10)	—	—	(10)
Dividends paid on common stock — $1.24 per share	—	—	—	(69)	—	(69)
Stock issued for stock plans — 149,232 shares	—	(1)	—	—	3	2
Stock reacquired for treasury — 358,623 shares	—	—	—	—	(16)	(16)
Balance at December 28, 1996	**$ 61**	**$ 305**	**$ (24)**	**$ 1,837**	**$ (164)**	**$ 2,015**

See the notes to the consolidated financial statements

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Notes to the Consolidated Financial Statements

Note 1 - Summary of Significant Accounting Policies

Basis of Presentation

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

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 these estimates.

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

Earnings Per Share

Earnings per share are based upon the weighted average of shares outstanding, including common stock equivalents, during the year. The weighted average shares outstanding were (in millions): 1996—55.5; 1995—56.1; and 1994—55.9.

Cash and Cash Equivalents

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

Translation of International Currencies

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

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

Income Taxes

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

Stock Based Compensation

In 1996, the company adopted SFAS No. 123, "Accounting for Stock Based Compensation," which permits the company to recognize compensation cost related to stock options, using the intrinsic value method or the fair value method. The company elected to continue to use the intrinsic value method.

Long-Lived Assets

In 1996, the company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Impairment losses are recognized when indicators of impairment are present and the estimated undiscounted cash flows are not sufficient to recover the assets carrying amount. Assets held for disposal are measured at the lower of carrying value or estimated fair value, less costs to sell. The effect of adopting SFAS No. 121 was not material to the financial statements.

Pending Accounting Policy Changes

In June 1996, the FASB issued SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," which requires an entity, after a transfer of financial assets that meets the criteria to be accounted for as a sale, to recognize the financial and servicing assets it controls and the liabilities it has incurred and to derecognize financial assets when control has been surrendered. The company will apply the new rules prospectively beginning in the first quarter of 1997 and, based on current circumstances, does not believe the application of the new rules will have a material impact on the financial statements.

Note 2 - Taxes on Income

Taxes on income from continuing operations consisted of the following:

(in millions)	Current	Deferred
1996		
Federal	**$ 27.2**	**$ (16.5)**
State and other	**6.5**	**5.9**
	$ 33.7	**$ (10.6)**
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

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

At year end	1996	1995
(in millions)		
DEFERRED TAX LIABILITIES		
Depreciation	$ 346.3	$ 297.8
Depletion	36.8	37.7
Pensions	18.5	18.0
Other	42.2	30.7
Total deferred tax liabilities	443.8	384.2
DEFERRED TAX ASSETS		
Alternative minimum tax credits	215.6	169.7
Net operating loss carryforwards	96.7	80.6
OPEB obligations	47.8	46.2
Other	30.0	4.2
Total deferred tax assets	390.1	300.7
VALUATION ALLOWANCE	(147.4)	(133.0)
Net deferred tax liability	$ 201.1	$ 216.5

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

	1996	1995	1994
(in millions)			
Taxes on income at statutory rate	$ 54.6	$150.9	$ 67.7
FDIC tax-sharing settlement	(31.5)	—	—
Book benefit of FDIC assistance and other permanent items	(8.1)	(9.8)	(10.3)
State and other taxes	8.1	8.9	4.4
	$ 23.1	$150.0	$ 61.8

Income tax payments, net of refunds received, were $38 million, $74 million and $58 million during 1996, 1995 and 1994, respectively.

The company has net operating loss carryforwards that expire from the year 2000 through the year 2009. Alternative minimum tax credits may be carried forward indefinitely.

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

The valuation allowance represents accruals for deductions that are uncertain and, accordingly, have not been recognized for financial reporting purposes. The increase in the valuation allowance is the result of management's refinement of these uncertainties.

NOTE 3 - Fair Value of Financial Instruments

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

	1996		1995	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in millions)				
FINANCIAL ASSETS				
Loans receivable	$5,413.9	$5,417.0	$4,764.4	$4,798.7
Mortgage-backed and investment securities	2,783.5	2,707.2	3,423.6	3,368.4
FINANCIAL LIABILITIES				
Deposits	6,263.1	6,262.7	6,377.0	6,627.4
FHLB advances	55.3	58.9	155.0	160.3
Long-term debt	1,654.9	1,717.1	1,601.6	1,701.3
OFF-BALANCE-SHEET INSTRUMENTS				
Commitments to extend credit	—	(1.8)	—	(1.3)

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

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NOTE 4 - Shareholder Rights Plan

During 1989, the board of directors adopted a Shareholder Rights Plan in which one preferred stock purchase right (Right) was declared as a dividend for each common share outstanding. Each one-half Right entitles shareholders to purchase, under certain conditions, one-hundredth of a share of newly issued Series A Junior Participating Preferred Stock at an exercise price of $200. The Rights will be exercisable only if a person or group acquires beneficial ownership of 20 percent or more of the common shares or commences a tender or exchange offer, upon consummation of which such person or group would beneficially own 25 percent or more of the common shares. The company will generally be entitled to redeem the Rights at $.01 per Right at any time until the 10th business day following public announcement that a 20 percent position has been acquired. The Rights will expire on February 20, 1999.

NOTE 5 - Employee Benefit Plans

PENSIONS

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

Net pension cost includes the following:

For the year	1996	1995	1994
(in millions)			
CHARGES (CREDITS)			
Service cost - benefits earned during the period	$ 12.8	$ 11.6	$ 12.7
Interest cost on projected benefit obligation	32.2	30.6	28.0
Actual return on plan assets	(71.2)	(72.0)	(3.7)
Net amortization and deferral	19.5	31.0	(38.6)
Net pension cost (credit)	$ (6.7)	$ 1.2	$ (1.6)

Significant assumptions used to develop net pension cost for the defined benefit pension plans follows:

For the year	1996	1995	1994
Discount rate for determining projected benefit obligation	8.00%	7.75%	8.25%
Expected long-term rate of return on plan assets	9.00%	9.00%	9.00%
Average increase in compensation levels	5.00%	4.75%	5.25%

The funded status of employee pension plans follows:

At year end	1996	1995
(in millions)		
Actuarial present value of projected benefit obligations:		
Vested	$379.4	$360.6
Nonvested	28.5	28.1
Accumulated projected benefit obligation	$407.9	$388.7
Plan assets at fair value, primarily stocks and bonds	$528.2	$472.8
Projected benefit obligation for service rendered to date	(455.0)	(426.5)
Plan assets in excess of projected benefit obligation	73.2	46.3
Unrecognized prior service cost	1.3	.4
Unrecognized net loss from past experience different from that assumed	(9.6)	15.1
Unrecognized net asset at beginning of period, less amortization to date	(17.0)	(21.4)
Net pension asset included in the consolidated balance sheet	$ 47.9	$ 40.4

POSTRETIREMENT BENEFITS

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

Net postretirement benefit cost includes the following:

For the year	1996	1995	1994
(in millions)			
Service costs for benefits	$ 2.7	$ 2.6	$ 1.9
Interest cost	8.5	8.7	7.3
Net amortization and deferral	(.4)	(.4)	(.8)
Net postretirement cost	$10.8	$10.9	$ 8.4

Significant assumptions used to develop net postretirement cost for the postretirement benefit plan follows:

For the year	1996	1995	1994
Discount rate for determining postretirement benefit obligation	8.00%	7.75%	8.25%
Health care cost trend rate	10.00%	11.00%	11.00%

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Summary information for the plan follows:

At year end	1996	1995
(in millions)		
ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION		
Retirees	$ 53.4	$ 63.4
Active participants, eligible to retire	19.1	16.8
All other participants	32.4	41.5
Accrued postretirement benefit obligation	104.9	121.7
Unrecognized net gains	22.4	12.0
Unrecognized prior service cost	9.1	(2.1)
Postretirement benefit obligation included in the consolidated balance sheet	$136.4	$131.6

The health care trend rate of 10 percent in 1996 is expected to decline to 6 percent by 2010 and remain constant thereafter. If such rate increased by 1 percent, the accumulated postretirement obligation would increase by 7.5 percent and the 1996 net postretirement cost would increase by 10.2 percent.

NOTE 6 - Stock Option Plans

The company has established stock option plans for key employees and directors. The plans provide for the granting of nonqualified stock options and/or incentive stock options, and prior to 1994, the plans permitted the grant of stock appreciation rights with all or part of any options so granted. Options granted after 1995 have primarily a 10-year term and become exercisable in steps from one to five years.

A summary of stock option activity follows:

	Options	Weighted Average Exercise Prices
(shares in thousands)		
Outstanding beginning of 1996 year	**1,404**	**$45**
Granted	**456**	**43**
Exercised	**(144)**	**32**
Forfeited	**(90)**	**48**
Outstanding end of 1996 year	**1,626**	**$45**
Weighted average fair value of options granted during the 1996 year	**$13.07**	
Outstanding beginning of 1995 year	1,275	$43
Granted	326	46
Exercised	(146)	30
Forfeited	(51)	48
Outstanding end of 1995 year	1,404	$45
Weighted average fair value of options granted during the 1995 year	$13.55	
Outstanding beginning of 1994 year	1,394	$37
Granted	268	52
Exercised	(319)	25
Forfeited	(68)	46
Outstanding end of 1994 year	1,275	$43

Options exercisable at year end were (in thousands): 1996—769; 1995—718; and 1994—643. The weighted average price for options exercisable at December 28, 1996, was $44 per share. Exercise prices for options outstanding at December 28, 1996, range from $12 to $54. The weighted average remaining contractual life of these options is seven years. An additional 1,065,422 shares of common stock were available for grants at December 28, 1996. A restricted stock plan also provides for a maximum of 300,000 shares of restricted common stock to be reserved for awards. At year end 1996, awards of 158,661 shares of common stock were outstanding at an average price of $47.34 per share.

Pro forma net income and earnings per share, assuming that the company had accounted for its employee stock options using the fair value method and amortized such to expense over the options' vesting period, would not be materially different from those reported.

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The fair value of the options granted in 1996 and 1995 was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

For the year	1996	1995
Expected dividend yield	2.6%	2.3%
Expected stock price volatility	26.5%	27.0%
Risk-free interest rate	6.5%	6.7%
Expected life of options	7.0 years	5.25 years

NOTE 7 - Commitments and Contingencies

There are pending against the company and its subsidiaries lawsuits, claims and environmental matters arising in the regular course of business. In the opinion of management, recoveries, if any, by plaintiffs or claimants that may result from the foregoing litigation and claims will not be material in relation to the consolidated financial statements of the company and its subsidiaries.

See page 33 for a discussion of commitments on construction projects.

NOTE 8 - Business Segment Information

Refer to "Business Segments" on page 25 for information relating to Revenues and Income Before Taxes, and page 33 for information relating to Capital Expenditures for the business segments for the three years 1996, 1995 and 1994.

Identifiable assets by business segment are those assets specifically used in each segment's operations. The results of the timber and timberlands operations are allocated to the manufacturing groups based upon fiber usage. Corporate assets are principally cash and office buildings.

Additional business segment information is presented below.

For the year	1996	1995*	1994*
(in millions)			
IDENTIFIABLE ASSETS			
Paper	$ 2,715.7	$ 2,762.4	$ 2,536.9
Building products	346.4	297.8	259.2
Timber and timberlands	538.1	490.6	466.1
Corporate and other activities	49.0	44.7	46.5
	3,649.2	3,595.5	3,308.7
Financial services	9,335.1	9,211.1	9,007.7
Reclassifications and eliminations	(37.2)	(42.2)	(65.7)
Total	$12,947.1	$12,764.4	$12,250.7
DEPRECIATION AND DEPLETION			
Paper	$ 197.6	$ 171.0	$ 163.9
Building products	29.4	24.0	23.2
Timber and timberlands	16.9	12.2	11.2
Corporate and other activities	.5	.4	2.0
	244.4	207.6	200.3
Financial services	9.6	8.1	7.8
Total	$ 254.0	$ 215.7	$ 208.1

**Reclassified to conform with current year's classification*

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NOTE 9 - Summary of Quarterly Results of Operations (Unaudited)

Selected unaudited quarterly financial results for the years 1996 and 1995 are summarized below.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
(in millions except per share data)				
1996				
Total revenues	**$868.7**	**$883.4**	**$862.5**	**$845.7**
Manufacturing net sales	**670.4**	**677.9**	**658.1**	**638.5**
Manufacturing gross profit	**137.3**	**124.6**	**97.5**	**87.5**
Financial services operating income before taxes	**24.7**	**29.7**	**(17.6)**	**26.3**
Net income	**46.4**	**35.4**	**32.7**	**18.3**
Earnings per share	**.84**	**.63**	**.59**	**.33**
1995*				
Total revenues	$843.3	$898.1	$879.2	$875.0
Manufacturing net sales	669.4	706.6	683.2	672.1
Manufacturing gross profit	151.9	168.5	188.8	154.6
Financial services operating income before taxes	14.2	24.0	24.9	35.0
Net income	58.3	72.9	84.8	65.0
Earnings per share	1.04	1.30	1.51	1.16

**Reclassified to conform with current year's classification*

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Report of Management

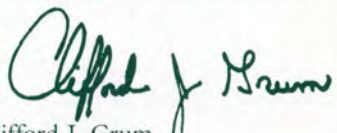
MANAGEMENT REPORT ON FINANCIAL STATEMENTS

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

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

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

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



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



David H. Dolben
Vice President and
Chief Accounting Officer

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Temple-Inland Inc. and subsidiaries as of December 28, 1996, and December 30, 1995, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 28, 1996. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Temple-Inland Inc. and subsidiaries at December 28, 1996, and December 30, 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 28, 1996, in conformity with generally accepted accounting principles.



Houston, Texas
January 31, 1997

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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 (2) (3) (5) (6)

Anthony M. Frank (1) (2) (3)
Chairman
Belvedere Partners

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

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

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

Herbert A. Sklenar (1) (2) (3) (4)
Chairman
Vulcan Materials Company

Walter P. Stern (4) (6)
Chairman
Capital Group International, Inc.

Arthur Temple III (2) (6)
Chairman and Chief Executive Officer
Exeter Investment Company

Charlotte Temple (1) (5)

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

(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

William B. Howes
Executive Vice President

Kenneth M. Jastrow, II
Group Vice President and Chief Financial Officer

Harold C. Maxwell
Group Vice President

Ted A. Owens
Group Vice President

Jack C. Sweeny
Group Vice President

Joseph E. Turk
Group Vice President

M. Richard Warner
Vice President, General Counsel and Secretary

David H. Dolben
Vice President and Chief Accounting Officer

David W. Turpin
Treasurer

Paper Group

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

Ted A. Owens
Executive Vice President
Inland Paperboard and Packaging, Inc.

Joseph E. Turk
Executive Vice President
Inland Paperboard and Packaging, Inc.

Building Products Group

Harold C. Maxwell
Group Vice President
Temple-Inland Forest Products Corporation

Forests Group

Jack C. Sweeny
Group Vice President
Temple-Inland Forest Products Corporation

Financial Services Group

Kenneth M. Jastrow, II
Chairman and Chief Executive Officer
Temple-Inland Financial Services Inc.

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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 Auditors
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 2, 1997, at 9:00 a.m. local time.

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

Number of Shareholders
As of December 31, 1996, there were 7,295 shareholders of record of the company's common stock.

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

The cover of this annual report is printed on Temple-Inland's TexCover II

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