

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

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FILER

TEMPLETON INSTITUTIONAL FUNDS INC

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TEMPLETON INSTITUTIONAL FUNDS, INC.

TIFI

Growth Series

ANNUAL REPORT

[TEMPLETON LOGO]

DECEMBER 31, 1996

Mutual funds, annuities, and other investment products:

- are not FDIC insured;
- are not deposits or obligations of, or guaranteed by, any financial institution;
- are subject to investment risks, including possible loss of the principal amount invested.

December 31, 1996

Dear Shareholder...

In general, the fourth quarter of 1996 proved to be a very profitable one for equity investors, capping a good, full year which saw numerous markets around the world reach all-time peaks. The economic environment remained positive for many stocks, with moderately strong economic growth, subdued inflation, and solid corporate earnings results underpinning many financial markets.

The benefits of diversification were also demonstrated in 1996. In addition to the well-publicized rise in the U.S. stock market, many foreign equity markets posted impressive gains. Brazil, Canada, Finland, Hong Kong, Indonesia, Malaysia, the Netherlands, Norway, Spain, Sweden, and the United Kingdom recorded rises of 25% or more in U.S. dollar terms for the year. On the other hand, Chile, India, Japan, Korea, Singapore, South Africa, and Thailand turned in negative results for 1996.

Within this environment, the Templeton Institutional Funds, Inc. Growth Series (the "Fund") returned 9.42%, 22.57%, 12.45%,

AVERAGE ANNUAL TOTAL RETURNS
AS OF 12/31/96

<TABLE>
<CAPTION>

| | ONE-YEAR (1), (2) | THREE-YEAR (1), (2) | SINCE INCEPTION (1), (2) (5/03/93) |
|--------------------|-------------------|---------------------|--|
| <S> | <C> | <C> | <C> |
| TIFI Growth Series | 22.57% | 12.45% | 15.72% |
| MSCI World Index | 14.00% | 13.45% | 13.30% |

</TABLE>

(1) Past expense reductions by the Fund's manager increased the Fund's total returns.

(2) Average annual total return figures represent the average annual change in value of an investment over the specified periods.

All total return calculations assume that all dividends and capital gains distribution were reinvested when paid.

Investment return and principal value will fluctuate with market conditions, currencies and the economic, social and political climates of the countries where investments are made. Developing markets involve heightened risks related to the same factors, in addition to those associated with the relatively small size and lesser liquidity of these markets. Thus, your shares, when redeemed, may be worth more or less than their initial cost. Past performance is not predictive of future results.

continued...

[Photo Gary Motyl]

GARY MOTYL HAS BEEN A PORTFOLIO MANAGER AND RESEARCH ANALYST WITH TEMPLETON INVESTMENT COUNSEL, INC. SINCE 1981. HE CURRENTLY MANAGES SEVERAL INSTITUTIONAL MUTUAL FUNDS, AND IS RESPONSIBLE FOR MANAGING MANY OF OUR SEPARATE ACCOUNT PORTFOLIOS. MR. MOTYL'S RESEARCH RESPONSIBILITIES INCLUDE THE GLOBAL AUTOMOBILE INDUSTRY AND U.S.-BASED UTILITIES AS WELL AS COUNTRY COVERAGE OF GERMANY.

PRIOR TO JOINING THE TEMPLETON ORGANIZATION, MR. MOTYL WORKED FROM 1974 TO 1979 AS A SECURITY ANALYST WITH STANDARD & POOR'S CORPORATION. HE THEN WORKED AS A RESEARCH ANALYST AND PORTFOLIO MANAGER FROM 1979 TO 1981 WITH LANDMARK FIRST NATIONAL BANK. IN THIS CAPACITY HE HAD RESPONSIBILITY FOR EQUITY RESEARCH AND MANAGED SEVERAL PENSION AND PROFIT SHARING PLANS.

MR. MOTYL HOLDS A BACHELOR OF SCIENCE IN FINANCE DEGREE FROM LEHIGH UNIVERSITY IN PENNSYLVANIA AND A MASTER OF BUSINESS ADMINISTRATION DEGREE FROM PACE UNIVERSITY IN NEW YORK, AND IS A CHARTERED FINANCIAL ANALYST.

4

TEMPLETON INSTITUTIONAL FUNDS, INC. GROWTH SERIES

letter continued.....

and 15.72% for the quarter, one-year, three-year, and since inception (May 3, 1993) periods ending December 31, 1996, compared to the unmanaged Morgan Stanley Capital International (MSCI) World Index returns of 4.7%, 14.00%, 13.45%, and 13.30% for the same periods, respectively.

Please remember that the Fund's performance differs from that of the index because, among other things, the index does not contain cash (the Fund generally carries a certain percentage of cash at any given time), is not managed according to any investment strategy, and includes no sales charges or management expenses. Of course, one cannot invest directly in an index.

We continued to search for securities that we considered to be undervalued on the basis of future earnings and/or asset values. The Fund benefited from its exposure to the financial sector, selected emerging markets, and well-positioned European companies. A significant number of Japanese equities were noticeably absent, reflecting the continued high valuations of stocks in that country.

Financial companies worldwide performed well during the year. Good economic growth and favorable interest rate trends provided a healthy backdrop for this sector in general. Many firms benefited from cost reduction programs, and banks were further aided by a drop in loan loss provisions.

The "pure" emerging markets, meanwhile, were a mixed bag, with some helping and others detracting from the performance of the Fund. Nonetheless, we believe that the long-term outlook for these markets is generally quite bright. Though many investors do not consider it an emerging market, Hong Kong posted a very respectable performance in 1996, despite investor concerns about the handover to China in July 1997. We believe that the companies in the Fund's portfolio are poised to benefit from the changes in Hong Kong and China over the next several years; however, we recognize that there will likely be a great deal of market volatility.

The countdown toward European monetary and economic union continues, but progress has been slower than hoped for. Europe desperately needs a sustained economic expansion to reach its common goals. The recent interest rate reduction by the German central bank illustrates how concerned and serious they

are to help Germany and the other European economies recover. The economic data from Europe has been mixed of late, with only a few signs pointing to accelerating growth. Order inflow from export related areas has been quite good, for instance. In our view, a pickup in the European economy would be positive for equities in general, as it would unlikely be strong enough to rekindle inflation. Many companies posted respectable earnings numbers as cost reduction programs have offset the effects of lackluster revenue growth. They continued to restructure, invest in new plant and equipment, and implement programs to enhance shareholder value. Moreover, the efforts of many European companies to compete more effectively in the global marketplace were

GEOGRAPHIC DISTRIBUTION ON 12/31/96
(% of Equity Assets)

[PIE CHART]

| <TABLE> <CAPTION> <S> | <C> |
|-----------------------------|-------|
| Europe | 51.2% |
| Australia/New Zealand | 5.8% |
| Mid-East/Africa | 0.1% |
| Latin America | 5.5% |
| North America | 23.4% |
| Asia | 14.0% |

</TABLE>

FUND ASSET ALLOCATION ON 12/31/96

[PIE CHART]

| <TABLE> <CAPTION> <S> | <C> |
|-----------------------------|-------|
| Short-term & Other | 8.4% |
| Equity* | 91.6% |

</TABLE>

*Equity includes convertible and preferred stocks

2

5

acknowledged by investors, particularly in the latter part of the year, helping boost the Fund's returns.

Despite redoubled efforts, we continued to struggle to find value among Japanese stocks during the year. Our lack of success and substantial underweighting in the market were rewarded, however, as we were able to avoid much of this market's poor performance. According to the MSCI index, Japan's market closed down 15% in U.S. dollars for the 12 months ending December 1996. Average stock market valuations in Japan support our underweighted stance. Price to earnings ratios, recently at 95-100x, have been excessive. After adjusting for differences in accounting and the possibility of earnings doubling from currently depressed levels, stock prices are still among the highest worldwide. Even assuming a better economy and a strong rebound in corporate earnings over the next several years, Japanese equity valuations remain well in excess of other global markets.

In the United States, healthy corporate profits growth, strong export demand, improving real estate prices, and large flows of cash into equity mutual funds supported an extended market rally. The current outlook suggests continued economic growth, as factory orders and output remained strong and inventories have been generally low. However, stock prices have recognized this, and in our opinion, have reached a point where the overall market is fairly valued. As a result, the Fund is underweighted in the U.S. market, compared with broad global indices.

We have always maintained that our ability to serve you is enhanced by our strong work ethic. There is nothing glamorous about hard work, but there is a certain amount of pride that is built upon its success. Finding cheap securities in over three dozen countries and industries worldwide takes an

enormous amount of work. During the last 12 months, our team of analysts wrote over 2,000 research reports on companies in 38 countries and 32 industries, working diligently to find cheap investments for our clients. The typical analyst spent 3 to 4 months traveling to examine factories, speak with company management, and analyze industry trends globally.

The work ethic at Templeton is perhaps best exemplified by the research process. In order to purchase a security, an analyst must prepare a written research report showing historical information, future estimates, and justification for assumptions. Written research reports are sent to all analysts in each of our global research offices. They must be discussed at one of three conference calls during the week before being approved for our bargain list by the Director of Research. Once approved, the idea is placed on our "bargain list" for all Portfolio Managers to consider for their assigned portfolios. This general "bargain list" is composed of ideas from all analysts within the global team. It is important to consider that every Portfolio Manager is also an analyst with specific research responsibilities for our group worldwide.

Looking ahead, we remain positive on global stock markets. The Fund is, in our opinion, well-structured with broad diversification across many countries and industries, and in stocks which offer attractive valuations. We believe the overall economic environment is healthy, and while the

INDUSTRY DIVERSIFICATION ON 12/31/96
(% of Total Portfolio)

| <S> | <C> |
|------------------------------|-------|
| Banking | 13.8% |
| Utilities, Electrical, & Gas | 7.5% |
| Telecommunications | 5.8% |
| Merchandising | 5.6% |
| Insurance | 5.0% |
| Chemicals | 4.2% |
| Financial Services | 4.1% |
| Business & Public Services | 4.1% |
| Multi-industry | 3.8% |
| Automobiles | 3.4% |

10 LARGEST POSITIONS ON 12/31/96
(% of Total Portfolio)

| <S> | <C> |
|---------------------------|------|
| Rhone-Poulenc SA | 1.5% |
| Iberdrola SA | 1.4% |
| Telefonica de Espana SA | 1.3% |
| Bayer AG | 1.3% |
| Societe Elf Aquitaine SA | 1.3% |
| Fiat SPA | 1.3% |
| Banque Nationale de Paris | 1.3% |
| Sony Corp. | 1.2% |
| HSBC Holdings PLC | 1.2% |

6

TEMPLETON INSTITUTIONAL FUNDS, INC. GROWTH SERIES
letter continued.....

excellent returns of the past year may be difficult to match, the long-term prospects for equity investors remain bright.

This discussion reflects the strategies we employed for the Fund during the past fiscal year, and includes our opinions as of the close of the period. Since economic and market conditions are constantly changing, our strategies, evaluations, conclusions, and decisions regarding portfolio holdings may change as new circumstances arise. Although past performance of a specific investment or sector cannot guarantee future performance, such information can be useful in analyzing securities we purchase or sell for the Fund.

Of course, it should be remembered that investing in foreign securities involves special risks related to market and currency volatility, and economic, social, political, and other factors in the countries where the Fund is invested. Developing markets involve heightened risks related to the same factors, in addition to those associated with the relatively small size and lesser liquidity of these markets. These special risks and other considerations are discussed in the Fund's prospectus.

As always we appreciate your continued confidence in our organization. Please feel free to contact us with any questions or comments you might have.

Sincerely,

/s/ Donald F. Reed

Donald F. Reed, C.F.A., C.I.C.
President
Templeton Institutional Funds, Inc.

/s/ Gary P. Motyl

Gary P. Motyl, C.F.A.
Executive Vice President & Director
Templeton Investment Counsel, Inc.

[LINE GRAPH]

Total Return Index Comparison(1)
\$5,000,000 Investment: 05/03/93 - 12/31/96

TIFI Growth Series

- NOTE: First period return inception date is 05/03/93

| Monthly | US Dollar TIFI - Growth Acct 539 | US Dollar MSCI World Acct -1 | US Dollar ICPI Index Acct -152 |
|---------|--|------------------------------------|--------------------------------------|
|---------|--|------------------------------------|--------------------------------------|

<TABLE>
<CAPTION>

| <S> | <C> | <C> | <C> | <C> |
|--------|---------|---------|---------|---------|
| INCEPT | 5000000 | 5000000 | 5000000 | 5000000 |
| May-93 | 5100000 | 5116244 | 5012570 | 5012570 |
| Jun-93 | 5040000 | 5073903 | 5019477 | 5019477 |
| Jul-93 | 5115000 | 5179369 | 5019291 | 5019291 |
| Aug-93 | 5445000 | 5417629 | 5033416 | 5033416 |
| Sep-93 | 5455000 | 5318322 | 5043684 | 5043684 |
| Oct-93 | 5725000 | 5465743 | 5064841 | 5064841 |
| Nov-93 | 5595000 | 5157429 | 5068202 | 5068202 |
| Dec-93 | 6002000 | 5410701 | 5067953 | 5067953 |
| Jan-94 | 6393500 | 5768669 | 5082141 | 5082141 |
| Feb-94 | 6175000 | 5694766 | 5099813 | 5099813 |
| Mar-94 | 5898500 | 5450347 | 5117299 | 5117299 |
| Apr-94 | 5996000 | 5619708 | 5124144 | 5124144 |

| | | | |
|--------|---------|---------|---------|
| May-94 | 6058000 | 5635104 | 5127256 |
| Jun-94 | 5883000 | 5620478 | 5144742 |
| Jul-94 | 6124500 | 5728253 | 5158494 |
| Aug-94 | 6387000 | 5901848 | 5179652 |
| Sep-94 | 6202000 | 5747883 | 5193404 |
| Oct-94 | 6258500 | 5912241 | 5197138 |
| Nov-94 | 5950000 | 5657044 | 5203983 |
| Dec-94 | 5923500 | 5712856 | 5203983 |
| Jan-95 | 5815000 | 5628176 | 5224518 |
| Feb-95 | 5958500 | 5711317 | 5245364 |
| Mar-95 | 6051000 | 5987683 | 5262788 |
| Apr-95 | 6302000 | 6197460 | 5280212 |
| May-95 | 6503500 | 6251702 | 5290666 |
| Jun-95 | 6580000 | 6250963 | 5301120 |
| Jul-95 | 6885000 | 6565050 | 5300996 |
| Aug-95 | 6749000 | 6419939 | 5315370 |
| Sep-95 | 6869000 | 6608161 | 5325389 |
| Oct-95 | 6661500 | 6505389 | 5342937 |
| Nov-95 | 6765500 | 6732487 | 5342564 |
| Dec-95 | 6965000 | 6930716 | 5339079 |
| Jan-96 | 7188000 | 7056967 | 5370380 |
| Feb-96 | 7243000 | 7101232 | 5387803 |
| Mar-96 | 7374000 | 7220939 | 5415619 |
| Apr-96 | 7623000 | 7391840 | 5436465 |
| May-96 | 7694500 | 7399538 | 5446920 |
| Jun-96 | 7688500 | 7438414 | 5450404 |
| Jul-96 | 7409500 | 7177059 | 5460797 |
| Aug-96 | 7647000 | 7260970 | 5471251 |
| Sep-96 | 7801000 | 7546574 | 5488675 |
| Oct-96 | 7938000 | 7600457 | 5506098 |
| Nov-96 | 8359500 | 8027679 | 5516553 |
| Dec-96 | 8536000 | 7900693 | 5516553 |

</TABLE>

Periods ended December 31, 1996

<TABLE>

<CAPTION>

| | ONE-YEAR | SINCE INCEPTION (05/03/93) |
|-------------------------------------|----------|----------------------------------|
| <S> | <C> | <C> |
| Average Annual Total Return(1), (2) | 22.57% | 15.72% |
| Cumulative Total Return(1), (3) | 22.57% | 70.72% |

| | |
|-------------------|-------------|
| TIR Growth Series | \$8,536,000 |
| MSCI World Index | \$7,900,693 |
| CPI Index | \$5,516,553 |

</TABLE>

- 1 Past expense reductions by the Fund's manager increased the Fund's total returns.
- 2 Average annual total return figures represent the average annual increase in value of an investment over the specified periods.
- 3 The cumulative total return represents the change in value of an investment over the period(s) indicated.

All total return calculations assume that all dividends and capital gains distribution were reinvested when paid.

Investment return and principal value will fluctuate with market conditions, currencies and the economic, social and political climates of the countries where investments are made. Developing markets involve heightened risks related to the same factors, in addition to those associated with the relatively small size and lesser liquidity of these markets. Thus, your shares when redeemed, may be worth more or less than their initial cost. Past performance is not predictive of future results.

For more complete portfolio information, call Templeton Fund Information, toll-free, at 1-800-362-6243.

TEMPLETON INSTITUTIONAL FUNDS, INC.
GROWTH SERIES
Financial Highlights

PER SHARE OPERATING PERFORMANCE
(For a share outstanding throughout the period)

<TABLE>
<CAPTION>

| | YEAR ENDED DECEMBER 31 | | | MAY 3, 1993 (COMMENCEMENT OF OPERATIONS) TO DECEMBER 31, 1993 |
|---|------------------------|----------|----------|--|
| | 1996 | 1995 | 1994 | |
| <S> | <C> | <C> | <C> | <C> |
| Net asset value, beginning of period | \$ 11.86 | \$ 10.94 | \$ 11.80 | \$ 10.00 |
| Income from investment operations: | | | | |
| Net investment income | .30 | .27 | .20 | .06 |
| Net realized and unrealized gain (loss) | 2.32 | 1.62 | (.36) | 1.94 |
| Total from investment operations | 2.62 | 1.89 | (.16) | 2.00 |
| Distributions: | | | | |
| Dividends from net investment income | (.29) | (.27) | (.20) | (.05) |
| Distributions from net realized gains | (.74) | (.70) | (.50) | (.15) |
| Amount in excess of net realized gains | (.04) | -- | -- | -- |
| Total distributions | (1.07) | (.97) | (.70) | (.20) |
| Change in net asset value | 1.55 | .92 | (.86) | 1.80 |
| Net asset value, end of period | \$ 13.41 | \$ 11.86 | \$ 10.94 | \$ 11.80 |
| TOTAL RETURN* | 22.57% | 17.59% | (1.32)% | 20.04% |

RATIOS /SUPPLEMENTAL DATA

| | | | | |
|--|-----------|-----------|-----------|------------|
| Net assets, end of period (000) | \$268,158 | \$226,963 | \$194,059 | \$ 184,013 |
| Ratio of expenses to average net assets | .87% | .88% | .95% | 1.00%** |
| Ratio of net investment income to average net assets | 2.34% | 2.28% | 1.69% | 1.19%** |
| Portfolio turnover rate | 15.61% | 30.20% | 17.23% | 17.32% |
| Average commission rate paid (per share) | \$.0242 | | | |

</TABLE>

* NOT ANNUALIZED IN PERIODS OF LESS THAN ONE YEAR.

** ANNUALIZED.

SEE NOTES TO FINANCIAL STATEMENTS.

TEMPLETON INSTITUTIONAL FUNDS, INC.
GROWTH SERIES
Investment Portfolio, December 31, 1996

<TABLE>
<CAPTION>

| INDUSTRY | ISSUE | COUNTRY | SHARES | VALUE |
|---------------------------------------|------------|---------|-----------|--------------|
| COMMON STOCKS: 84.8% | | | | |
| <S> | <C> | <C> | <C> | <C> |
| APPLIANCES & HOUSEHOLD DURABLES: 1.2% | Sony Corp. | Jpn. | 51,000 | \$ 3,342,457 |
| AUTOMOBILES: 3.4% | Fiat Spa | Itl. | 1,155,000 | 3,482,523 |

| | | | |
|---------------------------------------|------|---------|-----------|
| Ford Motor Co. | U.S. | 46,000 | 1,466,250 |
| Regie Nationale des Usines Renault SA | Fr. | 65,382 | 1,405,997 |
| Volvo AB, B | Swe. | 122,000 | 2,692,288 |
| | | | ----- |
| | | | 9,047,058 |

BANKING: 13.8%

| | | | |
|--|-------|---------|------------|
| Argentaria Corporacion Bancaria de Espana SA, ADR | Sp. | 116,750 | 2,626,875 |
| Australia & New Zealand Banking Group Ltd. | Aus. | 480,150 | 3,026,460 |
| Banco Bilbao Vizcaya | Sp. | 58,000 | 3,131,754 |
| Banco de Andalucia | Sp. | 10,950 | 1,602,542 |
| Banco di Sardegna SPA, di Risp | Itl. | 80,000 | 675,462 |
| Banque Nationale de Paris, ADR, 144A | Fr. | 87,500 | 3,388,621 |
| Barclays PLC | U.K. | 82,533 | 1,414,573 |
| BPI Sociada de Gestora de Participacoes Socias SA | Port. | 86,991 | 1,082,829 |
| *BPI Sociada de Gestora de Participacoes Socias, new | Port. | 33,056 | 390,148 |
| Canadian Imperial Bank of Commerce | Can. | 68,000 | 3,001,424 |
| Daegu Bank Co. Ltd. | Kor. | 59,374 | 708,968 |
| Deutsche Bank AG | Ger. | 50,500 | 2,360,058 |
| HSBC Holdings PLC | H.K. | 151,069 | 3,232,519 |
| Komerčni Banka AS | Csk. | 9,000 | 749,945 |
| Komerčni Banka AS, GDR, 144A | Csk. | 27,000 | 740,340 |
| *Merita Ltd., A | Fin. | 605,000 | 1,880,761 |
| National Bank of Canada | Can. | 148,000 | 1,496,696 |
| National Westminster Bank PLC | U.K. | 97,277 | 1,142,347 |
| PT Panin Bank, fgn. | Indo. | 984,200 | 1,125,038 |
| Svenska Handelsbanken, A | Swe. | 108,000 | 3,103,881 |
| | | | ----- |
| | | | 36,881,241 |

BROADCASTING & PUBLISHING: 0.2%

| | | | |
|-----------------|------|--------|---------|
| News Corp. Ltd. | Aus. | 91,707 | 484,011 |
|-----------------|------|--------|---------|

BUILDING MATERIALS & COMPONENTS: 1.6%

| | | | |
|----------------------------|------|---------|-----------|
| Owens Corning | U.S. | 42,900 | 1,828,613 |
| Pioneer International Ltd. | Aus. | 800,000 | 2,384,548 |
| | | | ----- |
| | | | 4,213,161 |

BUSINESS & PUBLIC SERVICES: 4.1%

| | | | |
|---|-------|---------|------------|
| Esselte AB, A | Swe. | 105,000 | 2,386,416 |
| Hyder PLC | U.K. | 142,833 | 1,819,240 |
| *Mid American Waste System Inc. | U.S. | 445,000 | 180,781 |
| *Novacare Inc. | U.S. | 82,500 | 907,500 |
| Societe Generale de Surveillance Holdings Ltd., br. | Swtz. | 520 | 1,278,147 |
| Wheelabrator Technologies Inc. | U.S. | 145,000 | 2,356,250 |
| WMX Technologies Inc. | U.S. | 61,000 | 1,990,125 |
| | | | ----- |
| | | | 10,918,459 |

CHEMICALS: 4.2%

| | | | |
|--|-------|---------|------------|
| Akzo Nobel NV | Neth. | 12,500 | 1,708,658 |
| Bayer AG | Ger. | 88,500 | 3,606,727 |
| European Vinyls Corp. EVC International NV | Neth. | 22,785 | 723,208 |
| Rhone-Poulenc SA, A | Fr. | 119,663 | 4,082,620 |
| Solvay SA | Bel. | 1,800 | 1,102,041 |
| | | | ----- |
| | | | 11,223,254 |

</TABLE>

6

9

TEMPLETON INSTITUTIONAL FUNDS, INC.
GROWTH SERIES
Investment Portfolio, December 31, 1996 (cont.)

<TABLE>
<CAPTION>

| INDUSTRY | ISSUE | COUNTRY | SHARES | VALUE |
|----------|-------|---------|--------|-------|
|----------|-------|---------|--------|-------|

COMMON STOCKS (CONT.)

| <S> | <C> | <C> | <C> | <C> |
|--|---|-------|-----------|--------------|
| CONSTRUCTION & HOUSING: 1.0% | | | | |
| | Daito Trust Construction Co. Ltd. | Jpn. | 105,000 | \$ 1,169,588 |
| | Kaufman & Broad Home Corp. | U.S. | 55,200 | 710,700 |
| | Kyudenko Corp. | Jpn. | 89,000 | 922,200 |
| | | | | ----- |
| | | | | 2,802,488 |
| DATA PROCESSING & REPRODUCTION: 0.6% | | | | |
| | *Bay Networks Inc. | U.S. | 80,000 | 1,670,000 |
| ELECTRICAL & ELECTRONICS: 2.9% | | | | |
| | Alcatel Alsthom SA | Fr. | 25,916 | 2,083,277 |
| | Asea AB, A | Swe. | 27,425 | 3,096,438 |
| | Hitachi Ltd. | Jpn. | 282,000 | 2,629,825 |
| | | | | ----- |
| | | | | 7,809,540 |
| ELECTRONIC COMPONENTS & INSTRUMENTS: 0.9% | | | | |
| | BICC | U.K. | 483,861 | 2,296,048 |
| ENERGY EQUIPMENT & SERVICES: 1.3% | | | | |
| | Koninklijke Pakhoed NV | Neth. | 45,000 | 1,407,472 |
| | World Fuel Services Corp. | U.S. | 96,000 | 2,136,000 |
| | | | | ----- |
| | | | | 3,543,472 |
| ENERGY SOURCES: 3.2% | | | | |
| | Hafslund ASA, B | Nor. | 86,000 | 589,244 |
| | Repsol SA | Sp. | 69,000 | 2,646,794 |
| | Saga Petroleum AS, A | Nor. | 110,000 | 1,826,760 |
| | Societe Elf Aquitaine SA | Fr. | 39,128 | 3,564,157 |
| | | | | ----- |
| | | | | 8,626,955 |
| FINANCIAL SERVICES: 4.1% | | | | |
| | *Capital Portugal Fund | Port. | 6,000 | 692,680 |
| | Chile Fund Inc. | Chil. | 16,500 | 344,438 |
| | Dean Witter Discover & Co. | U.S. | 35,842 | 2,374,533 |
| | Federal National Mortgage Assn. | U.S. | 65,600 | 2,443,600 |
| | *India Fund, B | Ind. | 761,728 | 1,122,222 |
| | Korea International Trust | Kor. | 20 | 625,000 |
| | *Korea International Trust, IDR | Kor. | 2 | 71,000 |
| | Thai Fund Inc. | Thai. | 50,653 | 835,775 |
| | Thailand International Fund Ltd. | Thai. | 42 | 966,000 |
| | *Turkish Growth Fund | Tur. | 110,000 | 1,540,550 |
| | | | | ----- |
| | | | | 11,015,798 |
| FOOD & HOUSEHOLD PRODUCTS: 1.7% | | | | |
| | Albert Fisher Group PLC | U.K. | 2,289,593 | 1,647,359 |
| | Hillsdown Holdings PLC | U.K. | 639,539 | 2,191,178 |
| | Vitro SA | Mex. | 337,960 | 613,926 |
| | | | | ----- |
| | | | | 4,452,463 |
| FOREST PRODUCTS & PAPER: 2.5% | | | | |
| | Carter Holt Harvey Ltd. | N.Z. | 415,000 | 941,762 |
| | Fletcher Challenge Ltd. Forestry Division | N.Z. | 630,000 | 1,055,545 |
| | Georgia-Pacific Corp. | U.S. | 18,000 | 1,296,000 |
| | International Paper Co. | U.S. | 28,000 | 1,130,500 |
| | Metsa Serla OY, B | Fin. | 112,500 | 843,750 |
| | PT Barito Pacific Timber, fgn. | Indo. | 465,000 | 285,457 |
| | Sappi Ltd. | S.AF. | 19,911 | 178,746 |
| | Stora Kopparbergs Bergslags AB, B | Swe. | 76,000 | 1,036,386 |
| | | | | ----- |
| | | | | 6,768,146 |

</TABLE>

| <TABLE> | | | | |
|-------------------------------|--|---------|-----------|--------------|
| <CAPTION> | | | | |
| INDUSTRY | ISSUE | COUNTRY | SHARES | VALUE |
| COMMON STOCKS (CONT.) | | | | |
| <S> | <C> | <C> | <C> | <C> |
| HEALTH & PERSONAL CARE: 2.2% | | | | |
| | Astra AB, A | Swe. | 54,000 | \$ 2,668,387 |
| | Bristol Myers Squibb Co. | U.S. | 17,500 | 1,903,125 |
| | *Nycomed ASA, B | Nor. | 86,000 | 1,321,417 |
| | | | | 5,892,929 |
| INDUSTRIAL COMPONENTS: 0.8% | | | | |
| | Goodyear Tire & Rubber Co. | U.S. | 43,000 | 2,209,125 |
| INSURANCE: 5.0% | | | | |
| | Aegon NV | Neth. | 44,424 | 2,832,947 |
| | American International Group Inc. | U.S. | 15,750 | 1,704,937 |
| | Capital RE Corp. | U.S. | 55,400 | 2,583,025 |
| | Ing Groep NV | Neth. | 62,655 | 2,257,249 |
| | London Insurance Group Inc. | Can. | 133,000 | 1,767,442 |
| | Presidential Life Corp. | U.S. | 180,000 | 2,171,250 |
| | Zuerich Versicherung, new | Swtz. | 650 | 180,650 |
| | | | | 13,497,500 |
| LEISURE & TOURISM: 0.6% | | | | |
| | Kuoni Reisen Holding AG, B | Swtz. | 630 | 1,529,697 |
| MACHINERY & ENGINEERING: 1.0% | | | | |
| | Hitachi Koki Co. Ltd. | Jpn. | 115,000 | 823,202 |
| | VA Technologie AG, br., 144A | Aust. | 11,500 | 1,804,557 |
| | | | | 2,627,759 |
| MERCHANDISING: 5.6% | | | | |
| | Dairy Farm International Holdings Ltd. | H.K. | 1,139,186 | 917,045 |
| | Dayton-Hudson Corp. | U.S. | 73,500 | 2,884,875 |
| | Home Depot Inc. | U.S. | 27,000 | 1,353,375 |
| | *K Mart Corp. | U.S. | 150,000 | 1,556,250 |
| | Koninklijke Bijenkorf Beheer NV (KBB) | Neth. | 15,588 | 1,124,070 |
| | Kwik Save Group PLC | U.K. | 191,000 | 1,050,313 |
| | Limited Inc. | U.S. | 53,500 | 983,063 |
| | *Waban Inc. | U.S. | 76,000 | 1,976,000 |
| | *Wessel & Vett AS, C | Den. | 39,000 | 3,105,960 |
| | | | | 14,950,951 |
| METALS & MINING: 1.5% | | | | |
| | Elkem AS | Nor. | 87,000 | 1,432,267 |
| | RGC Ltd. | Aus. | 297,459 | 1,321,672 |
| | *Union Miniere NPV | Bel. | 21,000 | 1,423,056 |
| | | | | 4,176,995 |
| MULTI-INDUSTRY: 3.8% | | | | |
| | BTR PLC | U.K. | 240,000 | 1,167,643 |
| | Hutchison Whampoa Ltd. | H.K. | 307,000 | 2,411,306 |
| | Jardine Matheson Holdings Ltd. | H.K. | 241,531 | 1,594,105 |
| | Jardine Strategic Holdings Ltd. | H.K. | 515,353 | 1,865,578 |
| | PT Bimantara Citra, fgn. | Indo. | 852,500 | 1,136,907 |
| | Swire Pacific Ltd., A | H.K. | 220,000 | 2,097,744 |
| | | | | 10,273,283 |
| REAL ESTATE: 2.9% | | | | |
| | American Health Properties Inc. | U.S. | 59,900 | 1,430,113 |
| | Beacon Properties Corp. | U.S. | 60,000 | 2,197,500 |
| | *Catellus Development Corp. | U.S. | 246,900 | 2,808,488 |
| | Summit Properties Inc., REIT | U.S. | 60,000 | 1,327,500 |
| | | | | 7,763,601 |

</TABLE>

8

11

TEMPLETON INSTITUTIONAL FUNDS, INC.
GROWTH SERIES
Investment Portfolio, December 31, 1996 (cont.)

| INDUSTRY | ISSUE | COUNTRY | SHARES | VALUE |
|---|--|---------|-----------|--------------|
| COMMON STOCKS (CONT.) | | | | |
| <S> | <C> | <C> | <C> | <C> |
| TELECOMMUNICATIONS: 5.8% | | | | |
| | Compania de Telecomunicaciones de Chile SA, ADR | Chil. | 16,500 | \$ 1,668,563 |
| | Cpt-Telefonica del Peru SA, B | Per. | 115,000 | 214,015 |
| | Lucent Technologies Inc. | U.S. | 41,700 | 1,928,625 |
| | Nokia AB, A | Fin. | 52,000 | 3,018,261 |
| | *SPT Telecom AS | Csk. | 20,000 | 2,490,255 |
| | STET (Sta Finanziaria Telefonica Torino) SPA, di | | | |
| | Risp | Itl. | 795,000 | 2,686,009 |
| | Telefonica de Espana SA | Sp. | 155,500 | 3,611,265 |
| | | | | 15,616,993 |
| TRANSPORTATION: 0.7% | | | | |
| | Brambles Industries Ltd. | Aus. | 100,000 | 1,951,355 |
| UTILITIES ELECTRICAL & GAS: 7.5% | | | | |
| | British Gas PLC | U.K. | 610,000 | 2,345,993 |
| | *CEZ | Csk. | 43,315 | 1,559,364 |
| | Electricidad de Caracas | Venz. | 2,447,874 | 2,482,543 |
| | Endesa-Empresa Nacional de Electricidad SA | Sp. | 21,000 | 1,494,626 |
| | Evn Energie-Versorgung Niederoesterreich AG | Aust. | 15,400 | 2,317,714 |
| | Hongkong Electric Holdings Ltd. | H.K. | 672,000 | 2,232,905 |
| | Iberdrola SA | Sp. | 269,000 | 3,812,517 |
| | Thames Water Group PLC | U.K. | 201,689 | 2,116,259 |
| | *Veba AG, wts. | Ger. | 5,100 | 1,634,254 |
| | | | | 19,996,175 |
| WHOLESALE & INTERNATIONAL TRADE: 0.7% | | | | |
| | Brierley Investments Ltd. | N.Z. | 1,915,889 | 1,774,310 |
| TOTAL COMMON STOCKS (cost \$174,847,423) | | | | |
| | | | | 227,355,224 |
| PREFERRED STOCKS: 4.0% | | | | |
| | Cia de Inversiones en Telecomunicaciones | | | |
| | SA, conv., pfd., 7.0%, 3/3/98 | Arg. | 50,935 | 2,674,088 |
| | Hyder PLC, pfd. | U.K. | 121,900 | 214,568 |
| | Nacional Financiera SA, 11.25%, conv., pfd., | | | |
| | 5/15/98, PRIDE EURO TRANCHE | Mex. | 39,275 | 1,335,350 |
| | Nacional Financiera SA, 11.25%, conv., pfd., | | | |
| | 05/15/98, PRIDE 4 | Mex. | 30,900 | 1,050,600 |
| | News Corp. Ltd., pfd. | Aus. | 195,853 | 871,772 |
| | Philippine Long Distance Telephone | | | |
| | Co., 5.75%, conv., pfd. | Phil. | 50,500 | 1,628,625 |
| | Telebras-Telecomunicacoes Brasileiras SA, | | | |
| | pfd., ADR | Braz. | 38,000 | 2,907,000 |
| TOTAL PREFERRED STOCKS (cost \$8,695,796) | | | | |
| | | | | 10,682,003 |
| PRINCIPAL IN LOCAL CURRENCY** | | | | |
| BONDS: 2.8% | | | | |
| | Credit Suisse Group, 4.875%, conv., 11/19/02 | Swtz. | 1,745,000 | 2,739,650 |
| | PIV Investment Finance (Cayman) Ltd., 4.5%, | | | |

conv., 12/1/00
 Softe SA, 4.25%, conv., 7/30/98, 144A
 U.S. Treasury Note, 5.125%, 4/30/98

| | | |
|-------|---------------|-----------|
| U.S. | 1,850,000 | 1,646,500 |
| Intl. | 1,700,000,000 | 1,917,545 |
| U.S. | 1,181,000 | 1,169,191 |

TOTAL BONDS (cost \$6,077,577)

7,472,886

</TABLE>

9

12

TEMPLETON INSTITUTIONAL FUNDS, INC.
 GROWTH SERIES
 Investment Portfolio, December 31, 1996 (cont.)

<TABLE>
 <CAPTION>

| INDUSTRY | ISSUE | COUNTRY | PRINCIPAL IN LOCAL CURRENCY** | VALUE |
|--|---|---------|----------------------------------|---------------|
| <S> | <C> | <C> | <C> | <C> |
| SHORT TERM OBLIGATIONS: 8.2% (cost \$21,989,065) | | | | |
| | U.S. Treasury Bills, 4.82% to 5.01% with maturities to 3/27/97 | U.S. | 22,114,000 | \$ 21,995,215 |
| TOTAL INVESTMENTS: 99.8% (cost \$211,609,861) | | | | 267,505,328 |
| OTHER ASSETS, LESS LIABILITIES: 0.2% | | | | 652,463 |
| TOTAL NET ASSETS: 100.0% | | | | \$268,157,791 |

</TABLE>

* NON-INCOME PRODUCING.

** CURRENCY OF COUNTRIES INDICATED.

SEE NOTES TO FINANCIAL STATEMENTS.

10

13

TEMPLETON INSTITUTIONAL FUNDS, INC.
 GROWTH SERIES
 Financial Statements

STATEMENT OF ASSETS AND LIABILITIES
 December 31, 1996

<TABLE>
 <S>

| | | |
|---|--|---------------|
| Assets: | | <C> |
| Investments in securities, at value (identified cost \$211,609,861) | | \$267,505,328 |
| Cash | | 110 |
| Receivables: | | |
| Capital shares sold | | 70,469 |
| Dividends and interest | | 822,747 |
| Unamortized organization costs | | 1,921 |
| Total assets | | 268,400,575 |
| Liabilities: | | |
| Capital shares redeemed | | 1,549 |
| Accrued expenses | | 241,235 |
| Total liabilities | | 242,784 |
| Net assets, at value | | \$268,157,791 |
| Net assets consist of: | | |
| Undistributed net investment income | | \$ 134,012 |
| Net unrealized appreciation | | 55,895,467 |
| Distribution in excess of net realized gain | | (717,828) |

| | |
|--|---------------|
| Net capital paid in on shares of capital stock | 212,846,140 |
| | ----- |
| Net assets, at value | \$268,157,791 |
| | ===== |
| Shares outstanding | 19,993,055 |
| | ===== |
| Net asset value per share (\$268,157,791 / 19,993,055) | \$ 13.41 |
| | ===== |

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

11

14

TEMPLETON INSTITUTIONAL FUNDS, INC.
GROWTH SERIES
Financial Statements (cont.)

STATEMENT OF OPERATIONS
for the year ended December 31, 1996

| | | |
|---|--------------|--------------|
| <TABLE> | | |
| <S> | <C> | <C> |
| Investment income: (net of \$706,735 foreign taxes withheld) | | |
| Dividends | \$ 6,813,640 | |
| Interest | 784,361 | |
| | ----- | |
| Total income | | \$ 7,598,001 |
| Expenses: | | |
| Management fees (Note 3) | 1,656,913 | |
| Administrative fees (Note 3) | 211,998 | |
| Custodian fees | 111,100 | |
| Reports to shareholders | 16,000 | |
| Audit fees | 18,000 | |
| Legal fees | 1,300 | |
| Registration and filing fees | 36,200 | |
| Directors' fees and expenses | 8,500 | |
| Amortization of organization costs | 1,427 | |
| Other | 6,354 | |
| | ----- | |
| Total expenses | | 2,067,792 |
| | | ----- |
| Net investment income | | 5,530,209 |
| Realized and unrealized gain: | | |
| Net realized gain (loss) on: | | |
| Investments | 13,379,607 | |
| Foreign currency transactions | (137,179) | |
| | ----- | |
| | 13,242,428 | |
| | ----- | |
| Net unrealized appreciation on: | | |
| Investments | 30,216,770 | |
| Foreign currency translations of other assets and liabilities | 61,421 | |
| | ----- | |
| | 30,278,191 | |
| | ----- | |
| Net realized and unrealized gain | | 43,520,619 |
| | | ----- |
| Net increase in net assets resulting from operations | | \$49,050,828 |
| | | ===== |

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

12

15

TEMPLETON INSTITUTIONAL FUNDS, INC.
GROWTH SERIES
Financial Statements (cont.)

STATEMENTS OF CHANGES IN NET ASSETS

for the year ended December 31, 1996 and 1995

| | 1996 | 1995 |
|---|---------------|---------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| Increase (decrease) in net assets: | | |
| Operations: | | |
| Net investment income | \$ 5,530,209 | \$ 4,785,046 |
| Net realized gain on investment and foreign currency transactions | 13,242,428 | 13,038,929 |
| Net unrealized appreciation | 30,278,191 | 15,928,251 |
| | ----- | ----- |
| Net increase in net assets resulting from operations | 49,050,828 | 33,752,226 |
| Distributions to shareholders: | | |
| From net investment income | (5,396,197) | (4,785,045) |
| From net realized gain | (13,667,361) | (12,351,357) |
| Amount in excess of net realized gain | (717,828) | -- |
| Capital share transactions (Note 2) | 11,925,340 | 16,288,306 |
| | ----- | ----- |
| Net increase in net assets | 41,194,782 | 32,904,130 |
| Net assets: | | |
| Beginning of year | 226,963,009 | 194,058,879 |
| | ----- | ----- |
| End of year | \$268,157,791 | \$226,963,009 |
| | ===== | ===== |

</TABLE>

SEE NOTES TO FINANCIAL STATEMENTS.

TEMPLETON INSTITUTIONAL FUNDS, INC.
 GROWTH SERIES
 Notes to Financial Statements

1. SUMMARY OF ACCOUNTING POLICIES

Growth Series (the Fund) is a separate series of Templeton Institutional Funds, Inc. (the Company) which is an open-end, diversified management investment company registered under the Investment Company Act of 1940. The Fund seeks to achieve long-term capital growth by investing in stocks and debt obligations of companies and governments of any nation. The following summarizes the Fund's significant accounting policies.

A. SECURITIES VALUATIONS:

Securities listed or traded on a recognized national or foreign stock exchange or NASDAQ are valued at the last reported sales prices on the principal exchange on which the securities are traded. Over-the-counter securities and listed securities for which no sale is reported are valued at the mean between the last current bid and asked prices. Securities for which market quotations are not readily available are valued at fair value as determined in good faith by management and approved by the Board of Directors.

B. FOREIGN CURRENCY TRANSACTIONS:

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. Purchases and sales of portfolio securities and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. When the Fund purchases or sells foreign securities it customarily enters into foreign exchange contracts to minimize foreign exchange risk between the trade date and the settlement date of such transactions.

The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and

settlement dates on securities transactions, the differences between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books, and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at the end of the fiscal period, resulting from changes in the exchange rate.

C. INCOME TAXES:

It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies and to distribute all its taxable income to its shareholders. Therefore, no provision has been made for federal income taxes.

D. UNAMORTIZED ORGANIZATION COSTS:

Organization costs are being amortized on a straight line basis over a five year period.

E. SECURITY TRANSACTIONS, INVESTMENT INCOME, DISTRIBUTIONS, AND EXPENSES:

Security transactions are accounted for on a trade date basis. Dividend income is recorded on the ex-dividend date. Certain dividend income on foreign securities is recorded as soon as information is available to the Fund. Interest income and estimated expenses are accrued daily. Distributions to shareholders, are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. These differences all primarily due to differing treatments for passive foreign investment companies held by the Fund. Distributions are recorded on the ex-dividend date.

F. ACCOUNTING ESTIMATES:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expense during the reporting period. Actual results could differ from those estimates.

14

17

TEMPLETON INSTITUTIONAL FUNDS, INC.
GROWTH SERIES
Notes to Financial Statements (cont.)

2. TRANSACTIONS IN SHARES OF CAPITAL STOCK

At December 31, 1996, there were 700 million shares of the Company's (\$0.01 par value) capital stock authorized of which 120 million shares have been classified as Fund shares. Transactions in the Fund's shares are as follows:

<TABLE>
<CAPTION>

| | YEAR ENDED DECEMBER 31, 1996 | | YEAR ENDED DECEMBER 31, 1995 | |
|--|---------------------------------|---------------|---------------------------------|---------------|
| | SHARES | AMOUNT | SHARES | AMOUNT |
| <S> | <C> | <C> | <C> | <C> |
| Shares sold | 2,056,255 | \$ 26,562,455 | 1,479,630 | \$ 17,359,602 |
| Shares issued on reinvestment of distributions | 1,531,208 | 19,697,616 | 1,442,985 | 16,551,516 |
| Shares redeemed | (2,735,648) | (34,334,731) | (1,521,712) | (17,622,812) |
| Net increase | 851,815 | \$ 11,925,340 | 1,400,903 | \$ 16,288,306 |

</TABLE>

3. INVESTMENT MANAGEMENT FEES AND OTHER TRANSACTIONS WITH AFFILIATES

Certain officers of the Company are also directors or officers of Templeton Investment Counsel, Inc. (TICI), Franklin Templeton Services, Inc. (FTSI), Franklin Templeton Distributors, Inc. (FTD), and Franklin Templeton Investor Services, Inc. (FTIS), the Fund's investment manager, administrative manager,

principal underwriter and transfer agent, respectively.

The Fund pays monthly an investment management fee to TICI equal, on an annual basis, to 0.70% of the average daily net assets of the Fund. The Fund pays FTSI monthly its allocated share of an administrative fee of 0.15% per annum on the first \$200 million of the Company's aggregate average daily net assets, 0.135% of the next \$500 million, 0.10% of the next \$500 million and 0.075% per annum of such average net assets in excess of \$1.2 billion. FTSI has voluntarily agreed to limit the total expenses of the Fund to an annual rate of 1.00% of the Fund's average net assets through year ended December 31, 1996. For the year ended December 31, 1996, no reimbursement was necessary under the agreement. For the year ended December 31, 1996, FTD and FTIS received no amounts with respect to the Fund.

An officer of the Fund is a partner of Dechert Price & Rhoads, legal counsel for the Funds, which firm received fees for the year ended December 31, 1996.

4. PURCHASES AND SALES OF SECURITIES

Purchases and sales of securities (excluding short-term securities) for the year ended December 31, 1996, aggregated \$35,456,311 and \$51,486,459, respectively. The cost of securities for federal tax purposes aggregated \$213,827,836. Realized gains and losses are reported on an identified cost basis.

At December 31, 1996, the aggregate gross unrealized appreciation and depreciation of portfolio securities, based on cost for federal income tax purposes, was as follows:

| <TABLE> | <S> | <C> |
|---------|-----------------------------|---------------------------------|
| | Unrealized appreciation | \$ 66,915,352 |
| | Unrealized depreciation | (13,237,860) |
| | Net unrealized appreciation | ----- \$ 53,677,492 ===== |

</TABLE>

15

18

TEMPLETON INSTITUTIONAL FUNDS, INC.
GROWTH SERIES
Independent Auditor's Report

The Board of Directors and Shareholders
Templeton Institutional Funds, Inc.--Growth Series

We have audited the accompanying statement of assets and liabilities, including the investment portfolio, of the Growth Series of Templeton Institutional Funds, Inc. as of December 31, 1996, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and the financial highlights for the three years in the period then ended and the period May 3, 1993 (commencement of operations) to December 31, 1993. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audit 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 and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 1996, by correspondence with the custodian and brokers. 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 and financial highlights referred to above present fairly, in all material respects, the financial position of the Growth Series of Templeton Institutional Funds, Inc. as of December 31, 1996, the results of its operations, the changes in its net assets and the financial highlights for the period indicated, in conformity with generally accepted

accounting principles.

[McGLADREY & PULLEN, LLP SIGNATURE]

New York, New York
January 31, 1997

16

19

This report must be preceded or accompanied by the current prospectus of the Templeton Institutional Funds, Inc., which contains more complete information including risk factors, charges, and expenses.

Investors should be aware that the value of investments made for the Fund may go up as well as down and that the Investment Manager may make errors in selecting the securities for the Fund's portfolio. Like any investment in securities, the Fund's portfolio will be subject to the risk of loss from market, currency, economic, political, and other factors. The Fund and Fund investors are not protected from such losses by the Investment Manager. Therefore, investors who cannot accept the risk of such losses should not invest in shares of the Fund.

Principal Underwriter:

FRANKLIN TEMPLETON
DISTRIBUTORS, INC.
700 Central Avenue
St. Petersburg, Florida 33701-3628

[RECYCLE LOGO]

Institutional Services: 1-800-321-8563
Fund Information: 1-800-362-6243