



**FRANKLIN
TEMPLETON**

Annual Report

December 31, 2018

Franklin Templeton Variable Insurance Products Trust



Internet Delivery of Shareholder Reports: Effective January 1, 2021, as permitted by regulations adopted by the SEC, you may not be receiving paper copies of the Fund's annual or semiannual shareholder reports by mail, unless you specifically request them from the insurance company that offers your variable annuity or variable life insurance contract or your financial intermediary. Instead of delivering paper copies of the report, the insurance company may choose to make the reports available on a website, and will notify you by mail each time a shareholder report is posted and provide you with a website link to access the report. Instructions for requesting paper copies will be provided by your insurance company.

If you already elected to receive shareholder reports electronically, you will not be affected by this change and you need not take any action. You may elect to receive shareholder reports and other communications from the insurance company or your financial intermediary electronically by following the instructions provided by the insurance company or by contacting your financial intermediary.

You may elect to receive all future Fund shareholder reports in paper free of charge from the insurance company. You can inform the insurance company or your financial intermediary that you wish to continue receiving paper copies of your shareholder reports by following the instructions provided by the insurance company or by contacting your financial intermediary. Your election to receive reports in paper will apply to all portfolio companies available under your contract with the insurance company.

This notice is not legally a part of the shareholder report.

Franklin Templeton Variable Insurance Products Trust Annual Report

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*Not part of the annual report. Retain for your records.

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Important Notes to Performance Information

Performance data is historical and cannot predict or guarantee future results. Principal value and investment return will fluctuate with market conditions, and you may have a gain or loss when you withdraw your money. Inception dates of the funds may have preceded the effective dates of the subaccounts, contracts or their availability in all states.

When reviewing the index comparisons, please keep in mind that indexes have a number of inherent performance differentials over the funds. First, unlike the funds, which must hold a minimum amount of cash to maintain liquidity, indexes do not

have a cash component. Second, the funds are actively managed and, thus, are subject to management fees to cover salaries of securities analysts or portfolio managers in addition to other expenses. Indexes are unmanaged and do not include any commissions or other expenses typically associated with investing in securities. Third, indexes often contain a different mix of securities than the fund to which they are compared. Additionally, please remember that indexes are simply a measure of performance and cannot be invested in directly.

**SUPPLEMENT DATED JULY 10, 2018
TO THE PROSPECTUS DATED MAY 1, 2018
OF
FRANKLIN FLEX CAP GROWTH VIP FUND
FRANKLIN FOUNDING FUNDS ALLOCATION VIP FUND
FRANKLIN GLOBAL REAL ESTATE VIP FUND
FRANKLIN GROWTH AND INCOME VIP FUND
FRANKLIN INCOME VIP FUND
FRANKLIN LARGE CAP GROWTH VIP FUND
FRANKLIN MUTUAL GLOBAL DISCOVERY VIP FUND
FRANKLIN MUTUAL SHARES VIP FUND
FRANKLIN RISING DIVIDENDS VIP FUND
FRANKLIN SMALL CAP VALUE VIP FUND
FRANKLIN SMALL-MID CAP GROWTH VIP FUND
FRANKLIN STRATEGIC INCOME VIP FUND
FRANKLIN U.S. GOVERNMENT SECURITIES VIP FUND
FRANKLIN VOLSMART ALLOCATION VIP FUND
TEMPLETON DEVELOPING MARKETS VIP FUND
TEMPLETON FOREIGN VIP FUND
TEMPLETON GLOBAL BOND VIP FUND
TEMPLETON GROWTH VIP FUND
(each a series of Franklin Templeton Variable Insurance Products Trust)**

I. The following replaces the third paragraph in the prospectus under “Additional Information, All Funds – Fund Account Information – Fund Account Policies – Calculating Share Price:”

The Fund calculates the NAV per share each business day as of 1 p.m. Pacific time or the regularly scheduled close of the New York Stock Exchange (NYSE), whichever is earlier. The Fund does not calculate the NAV on days the NYSE is closed for trading, which include New Year’s Day, Martin Luther King Jr. Day, President’s Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and Christmas Day. If the NYSE has a scheduled early close, the Fund’s share price would be determined as of the time of the close of the NYSE. If, due to weather or other special or unexpected circumstances, the NYSE has an unscheduled early close on a day that it has opened for business, the Fund reserves the right to consider that day as a regular business day and accept purchase and redemption orders and calculate its share price as of the normally scheduled close of regular trading on the NYSE.

Please keep this supplement with your prospectus for future reference.

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Franklin Income VIP Fund

This annual report for Franklin Income VIP Fund covers the fiscal year ended December 31, 2018.

Class 2 Performance Summary as of December 31, 2018

Average annual total return of Class 2 shares* represents the average annual change in value, assuming reinvestment of dividends and capital gains. Average returns smooth out variations in returns, which can be significant; they are not the same as year-by-year results.

Periods ended 12/31/18	1-Year	5-Year	10-Year
Average Annual Total Return	-4.30%	+3.08%	+8.86%

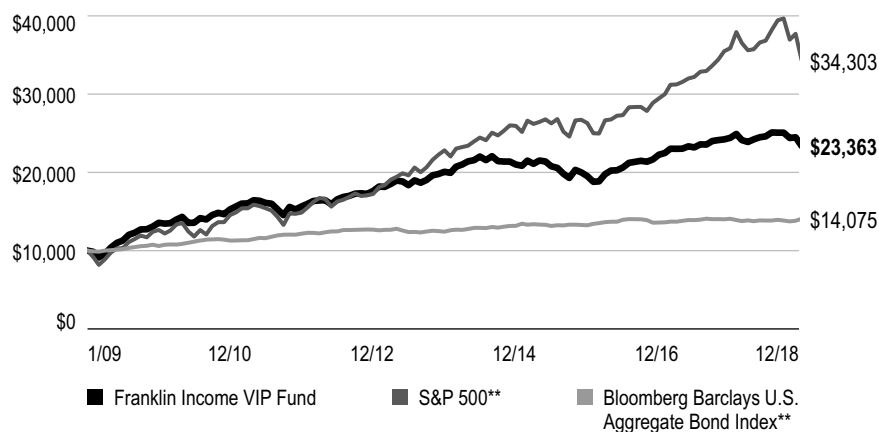
*The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 4/30/19. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

*Performance reflects the Fund's Class 2 operating expenses, but does **not** include any contract fees, expenses or sales charges. If they had been included, performance would be lower. These charges and deductions, particularly for variable life policies, can have a significant effect on contract values and insurance benefits. See the contract prospectus for a complete description of these expenses, including sales charges.*

Performance data represent past performance, which does not guarantee future results. Investment return and principal value will fluctuate, and you may have a gain or loss when you sell your shares. Current performance may differ from figures shown.

Total Return Index Comparison for a Hypothetical \$10,000 Investment (1/1/09–12/31/18)

The graph below shows the change in value of a hypothetical \$10,000 investment in the Fund over the indicated period and includes reinvestment of any income or distributions. The Fund's performance* is compared to the performance of the Standard & Poor's® 500 Index (S&P 500®) and the Bloomberg Barclays U.S. Aggregate Bond Index. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. **Please see Important Notes to Performance Information preceding the Fund Summaries.**



**Source: Morningstar. Please see Index Descriptions following the Fund Summaries.

Fund Goal and Main Investments

The Fund seeks to maximize income, while maintaining prospects for capital appreciation. Under normal market conditions, the Fund invests in a diversified portfolio of debt and equity securities.

Fund Risks

All investments involve risks, including possible loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. The Fund's portfolio includes a substantial portion of higher yielding, lower rated corporate bonds because of the relatively higher yields they offer. The Fund's share price and yield will be affected by interest rate movements. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the Fund adjust to a rise in interest rates, the Fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. Foreign investing carries additional risks such as currency and market volatility and political or social instability, risks that are heightened in developing countries. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

Performance Overview

You can find the Fund's one-year total return in the Performance Summary. For comparison, the Fund's equity benchmark, the S&P 500, had a -4.38% total return, and its fixed income benchmark, the Bloomberg Barclays U.S. Aggregate Bond Index, posted a +0.01% total return for the same period.¹

Economic and Market Overview

The U.S. economy grew during the 12 months under review. After moderating for three consecutive quarters, the economy grew faster in 2018's second quarter, driven by consumer spending, business investment, exports and government spending. However, growth moderated in the third quarter due to declines in exports and housing investment. The manufacturing and services sectors expanded during the period.

1. Source: Morningstar. One cannot invest directly in an index, and an index is not representative of the Fund's portfolio. Please see Index Descriptions following the Fund Summaries.

2. Source: Bureau of Labor Statistics.

Portfolio Composition

12/31/18

	% of Total Net Assets
Equity*	45.9%
Financials	6.7%
Utilities	6.5%
Energy	6.0%
Health Care	5.2%
Information Technology	4.9%
Materials	3.6%
Consumer Staples	3.4%
Communication Services	3.4%
Consumer Discretionary	3.2%
Industrials	2.5%
Real Estate	0.5%
Fixed Income	50.3%
Health Care	13.1%
Financials	12.9%
Communication Services	6.9%
Energy	6.6%
Consumer Discretionary	3.0%
Materials	1.9%
Utilities	1.7%
Industrials	1.6%
Consumer Staples	1.2%
Information Technology	0.7%
Real Estate	0.7%
Short-Term Investments & Other Net Assets	3.8%

*Includes convertible bonds.

The unemployment rate declined from 4.1% in December 2017 to 3.9% at period-end.² Annual inflation, as measured by the Consumer Price Index, decreased from 2.1% in December 2017 to 1.9% at period-end.²

The U.S. Federal Reserve (Fed) raised its target range for the federal funds rate four times during the period, to 2.25%–2.50%, and continued to reduce its balance sheet as part of its ongoing plan to normalize monetary policy. At its December meeting, the Fed reduced the projected 2019 rate increases to two, compared to three projected previously.

The 10-year Treasury yield, which moves inversely to its price, increased during the period. The yield rose to multi-year highs

The dollar value, number of shares or principal amount, and names of all portfolio holdings are listed in the Fund's Statement of Investments (SOI).

several times in 2018 amid investor concerns about higher inflation and the Fed's interest-rate path. Expectations that other central banks might scale back monetary stimulus and better-than-expected U.S. economic reports also pushed the yield higher. However, some factors weighed on the Treasury yield at certain points during the period, including concerns about political turmoil in Italy, political uncertainties in the U.S., tensions between the U.S. and North Korea, the Trump administration's protectionist trade policies, U.S. trade disputes with its allies and China, economic turmoil in Turkey and Argentina, slowing global economic growth and expectations the Fed would slow its pace of rate increases. Overall, the 10-year Treasury yield rose from 2.40% at the beginning of the period to 2.69% at period-end.

Investment Strategy

In analyzing debt and equity securities, we consider such factors as a company's experience and managerial strength; responsiveness to changes in interest rates and business conditions; debt maturity schedules and borrowing requirements; changing financial condition and market recognition of the change; and a security's relative value based on such factors as anticipated cash flow, interest or dividend coverage, asset coverage and earnings. When choosing investments for the Fund, we apply a bottom-up, value oriented, long-term approach, focusing on the market price of a company's securities relative to the investment manager's evaluation of the company's long-term earnings, asset value and cash flow potential.

Manager's Discussion

In our pursuit of what we considered attractive current income, while maintaining prospects for capital appreciation, we continued to hold a diversified mix of securities in our multi-asset income strategies, including common stocks, preferred stocks, equity-linked securities, government debt securities, corporate bonds (both investment grade and high yield), and floating-rate corporate term loans.

During the year, we increased our fixed income holdings, reflecting heightened uncertainty related to the potential effect of rising interest rates and quantitative tightening (i.e., Fed balance sheet reduction) on economic growth. Adding to these concerns in the latter part of 2018 were increased trade tensions (especially between China and the U.S.), rising political discord in the U.S. (e.g., government shutdown), and weakening global economic growth expectations (e.g., collapse in energy prices).

As a result of the numerous factors listed above, volatility increased during 2018 across a range of asset classes from the

Top Five Equity Holdings

12/31/18

Company Sector/Industry	% of Total Net Assets
Wells Fargo & Co. <i>Financials</i>	2.0%
The Southern Co. <i>Utilities</i>	1.8%
Dominion Energy Inc. <i>Utilities</i>	1.7%
Sempra Energy <i>Utilities</i>	1.6%
Verizon Communications Inc. <i>Communication Services</i>	1.5%

very low levels experienced in 2017. Our portfolio shifts were intended to help balance the Fund's asset mix and reduce the expected risk of the Fund going forward. Key to this was the addition of short- and intermediate-maturity U.S. Treasury securities into the Fund. The rise in interest rates over the last 12-18 months also made these securities more attractive to us on a relative value basis compared to the more full valuations across much of the equity and corporate credit markets.

At period-end, the Fund held 50.3% in fixed income securities, including 38.8% in corporate bonds, 7.5% in U.S. Treasury securities, and 3.7% in floating-rate corporate loans. We maintained an emphasis on select opportunities within corporate debt securities, particularly within non-investment grade where we prefer to emphasize company-specific factors rather than broad credit and interest-rate risk. (High yield bonds have the added advantage of being a fairly short duration asset class.) Rising interest rates and select widening in corporate credit spreads presented an opportunity to more than double our weighting of investment-grade corporate debt.

Corporate fixed income sector exposures remain fairly diversified, with health care, financials, communication services and energy the largest weightings.

Overall performance among fixed income holdings was slightly negative for the year, with key detractors concentrated in energy and consumer discretionary. Key contributions among fixed income positions came from U.S. Treasury holdings, health care and utilities.

At period-end, the Fund held 45.9% in equity securities.

While the overall performance from equity securities turned negative as equity markets came under significant pressure to end the year, performance was fairly mixed across sectors. Economically sensitive sectors came under the greatest

**Top Five Fixed Income Holdings
and Senior Floating Rate Interests***

12/31/18

Company Sector/Industry	% of Total Net Assets
U.S. Treasury Note <i>Financials</i>	7.5%
CHS/Community Health Systems Inc. <i>Health Care</i>	3.9%
Chesapeake Energy Corp. <i>Energy</i>	2.4%
Tenet Healthcare Corp. <i>Health Care</i>	2.2%
Citigroup Inc. <i>Financials</i>	1.8%

*Does not include convertible bonds.

pressure at year-end, with energy, financials, industrials and materials among the leading detractors. Partially offsetting the detractors were contributions from equity holdings in the health care, information technology and utilities sectors.

While markets remain relatively unsettled as we enter 2019, we continue to find what we believe to be attractive opportunities across a wide range of asset classes and securities that are capable of generating attractive income, while also offering the potential for long-term capital appreciation.

Thank you for your participation in Franklin Income VIP Fund. We look forward to serving your future investment needs.

The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2018, the end of the reporting period.

The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.

Class 2 Fund Expenses

As an investor in a variable insurance contract (Contract) that indirectly provides for investment in an underlying mutual fund, you can incur transaction and/or ongoing expenses at both the Fund level and the Contract Level: (1) transaction expenses can include sales charges (loads) on purchases, surrender fees, transfer fees and premium taxes; and (2) ongoing expenses can include management fees, distribution and service (12b-1) fees, contract fees, annual maintenance fees, mortality and expense risk fees and other fees and expenses. All mutual funds and Contracts have some types of ongoing expenses. The table below shows Fund-level ongoing expenses and can help you understand these costs and compare them with those of other mutual funds offered through the Contract. The table assumes a \$1,000 investment held for the six months indicated. Please refer to the Fund prospectus for additional information on operating expenses.

Actual Fund Expenses

The table below provides information about the actual account values and actual expenses in the columns under the heading “Actual.” In these columns the Fund’s actual return, which includes the effect of ongoing Fund expenses but does not include the effect of ongoing Contract expenses, is used to calculate the “Ending Account Value.” You can estimate the Fund-level expenses you paid during the period by following these steps (*of course, your account value and expenses will differ from those in this illustration*): Divide your account value by \$1,000 (*if your account had an \$8,600 value, then $\$8,600 \div \$1,000 = 8.6$*). Then multiply the result by the number under the headings “Actual” and “Fund-Level Expenses Paid During Period” (*if Fund-Level Expenses Paid During Period were \$ 7.50, then $8.6 \times \$ 7.50 = \64.50*). In this illustration, the estimated expenses paid this period at the Fund level are \$64.50.

Hypothetical Example for Comparison with Other Mutual Funds

Under the heading “Hypothetical” in the table, information is provided about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. This information may not be used to estimate the actual ending account balance or expenses you paid for the period, but it can help you compare ongoing costs of investing in the Fund with those of other mutual funds offered through the Contract. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of other funds offered through the Contract.

Please note that expenses shown in the table are meant to highlight ongoing costs at the Fund level only and do not reflect any ongoing expenses at the Contract level, or transaction expenses at either the Fund or Contract levels. In addition, while the Fund does not have transaction expenses, if the transaction and ongoing expenses at the Contract level were included, the expenses shown below would be higher. You should consult your Contract prospectus or disclosure document for more information.

Share Class	Beginning Account Value 7/1/18	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio ²
		Ending Account Value 12/31/18	Fund-Level Expenses Paid During Period 7/1/18–12/31/18 ^{1,2}	Ending Account Value 12/31/18	Fund-Level Expenses Paid During Period 7/1/18–12/31/18 ^{1,2}	
Class 2	\$1,000	\$949.70	\$3.44	\$1,021.68	\$3.57	0.70%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 184/365 to reflect the one-half year period.

2. Reflects expenses after fee waivers and expense reimbursements. Does not include any ongoing expenses of the Contract for which the Fund is an investment option or acquired fund fees and expenses.

**SUPPLEMENT DATED OCTOBER 30, 2018
TO THE PROSPECTUSES
DATED MAY 1, 2018
OF
FRANKLIN INCOME VIP FUND
(A series of Franklin Templeton Variable Insurance Products Trust)**

The prospectuses are amended as follows:

I. The second paragraph in the “Franklin Income VIP Fund – Fund Summaries – Principal Investment Strategies” section of the prospectuses is deleted.

II. The following is added to the “Franklin Income VIP Fund – Fund Summaries – Principal Investment Strategies” section of the prospectuses:

The Fund may, from time to time, use a variety of equity-related derivatives and complex equity securities, which may include purchasing or selling call and put options on equity securities and equity security indices, futures on equity securities and equity indexes, options on equity index futures and equity-linked notes, for various purposes including enhancing Fund returns, increasing liquidity, gaining exposure to particular instruments in more efficient or less expensive ways and/or hedging risks relating to changes in certain equity markets. In addition, the Fund may use interest rate derivatives, including interest rate swaps and interest rate and/or bond futures contracts (including U.S. Treasury futures contracts) for various purposes including enhancing Fund returns, increasing liquidity, gaining exposure to particular instruments in more efficient or less expensive ways and/or hedging risks relating to changes in interest rates. The Fund also may, from time to time, use currency derivatives, such as forward foreign currency exchange contracts, currency futures contracts, currency swaps and currency options to hedge (protect) against currency risks, and credit-related derivatives, such as credit default swaps and options on credit default swaps, to hedge (protect) against credit risks. The use of such derivative transactions may allow the Fund to obtain net long or net short exposures to selected markets, interest rates, countries or durations.

III. The following is added to the “Franklin Income VIP Fund – Fund Summaries – Principal Risks” section of the prospectuses:

Derivative Instruments The performance of derivative instruments depends largely on the performance of an underlying instrument, such as a currency, security, interest rate or index, and such instruments often have risks similar to the underlying instrument, in addition to other risks. Derivatives involve costs and can create economic leverage in the Fund’s portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that exceeds the Fund’s initial investment. Other risks include illiquidity, mispricing or improper valuation of the derivative instrument, and imperfect correlation between the value of the derivative and the underlying instrument so that the Fund may not realize the intended benefits. When a derivative is used for hedging, the change in value of the derivative may also not correlate specifically with the currency, security, interest rate, index or other risk being hedged. Derivatives also may present the risk that the other party to the transaction will fail to perform.

IV. The following replaces the eighth through eleventh paragraphs in the “Franklin Income VIP Fund – Fund Details – Principal Investment Policies and Practices” section of the prospectuses:

The Fund may, from time to time, use a variety of equity-related derivatives and complex equity securities, which may include purchasing or selling call and put options on equity securities and equity security indices, futures on equity securities and equity indexes, options on equity index futures and equity-linked notes, for various purposes including enhancing Fund returns, increasing liquidity, gaining exposure to particular instruments in more efficient or less expensive ways and/or hedging risks relating to changes in certain equity markets. In addition, the Fund may use interest rate derivatives, including interest rate swaps and interest rate and/or bond futures contracts (including U.S. Treasury futures contracts) for various purposes including enhancing Fund returns, increasing liquidity, gaining exposure to particular instruments in more efficient or less expensive ways and/or hedging risks relating to changes in interest rates. The Fund also may, from time to time, use currency derivatives, such as forward foreign currency exchange contracts, currency futures contracts, currency swaps and currency options to hedge (protect) against currency risks, and credit-related derivatives, such as credit default swaps and

options on credit default swaps, to hedge (protect) against credit risks. The use of such derivative transactions may allow the Fund to obtain net long or net short exposures to selected markets, interest rates, countries or durations. The investment manager considers various factors, such as availability and cost, in deciding whether, when and to what extent to enter into derivative transactions.

A currency forward contract is an obligation to purchase or sell a specific foreign currency at an agreed exchange rate (price) at a future date, which is typically individually negotiated and privately traded by currency traders and their customers in the interbank market. A futures contract is a standard binding agreement to buy or sell a specified quantity of an underlying instrument or asset, such as a specific currency, at a specified price at a specified later date that trade on an exchange.

Swap agreements, such as interest rate, currency, inflation index and credit default swaps, are contracts between the Fund and another party (the swap counterparty) involving the exchange of payments on specified terms over periods ranging from a few days to multiple years. A swap agreement may be negotiated bilaterally and traded over-the-counter (OTC) between two parties (for an uncleared swap) or, in some instances, must be transacted through a futures commission merchant (FCM) and cleared through a clearinghouse that serves as a central counterparty (for a cleared swap). In a basic swap transaction, the Fund agrees with the swap counterparty to exchange the returns (or differentials in rates of return) and/or cash flows earned or realized on a particular “notional amount” of underlying instruments. The notional amount is the set amount selected by the parties as the basis on which to calculate the obligations that they have agreed to exchange. The parties typically do not actually exchange the notional amount. Instead, they agree to exchange the returns that would be earned or realized if the notional amount were invested in given instruments or at given interest rates.

For credit default swaps, the “buyer” of the credit default swap agreement is obligated to pay the “seller” a periodic stream of payments over the term of the agreement in return for a payment by the seller that is contingent upon the occurrence of a credit event with respect to an underlying reference debt obligation. The buyer of the credit default swap is purchasing the obligation of its counterparty to offset losses the buyer could experience if there was such a credit event. Generally, a credit event means bankruptcy, failure to timely pay interest or principal, obligation acceleration or default, or repudiation or restructuring of the reference debt obligation. The contingent payment by the seller generally is either the face amount of the reference debt obligation in exchange for the physical delivery of the reference debt obligation or a cash payment equal to the decrease in market value of the reference debt obligation following the occurrence of the credit event.

An interest rate swap is an agreement between two parties to exchange interest rate payment obligations. Typically, one rate is based on an interest rate fixed to maturity while the other is based on an interest rate that changes in accordance with changes in a designated benchmark (for example, LIBOR, prime, commercial paper, or other benchmarks).

A currency swap is generally a contract between two parties to exchange one currency for another currency at the start of the contract and then exchange periodic floating or fixed rates during the term of the contract based upon the relative value differential between the two currencies. Unlike other types of swaps, currency swaps typically involve the delivery of the entire principal (notional) amounts of the two currencies at the time the swap is entered into. At the end of the swap contract, the parties receive back the principal amounts of the two currencies.

A call option gives the purchaser of the option, upon payment of a premium, the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. Conversely, a put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the seller of the option the obligation to buy, the underlying instrument at the exercise price. For example, when the investment manager expects the price of a stock held by the Fund to decline in value, the Fund may also purchase put options that are expected to increase in value as the market price of the stock declines to hedge against such anticipated decline in value.

Equity-linked notes (ELNs) are hybrid derivative-type instruments that are specially designed to combine the characteristics of one or more reference securities (usually a single stock, a stock index or a basket of stocks (underlying securities)) and a related equity derivative, such as a put or call option, in a single note form. The Fund may engage in all types of ELNs, including those that: (1) provide for protection of the Fund’s principal in exchange for limited participation in the appreciation of the underlying securities, and (2) do not provide for such protection and subject the Fund to the risk of loss of the Fund’s principal investment. ELNs can provide the Fund with an efficient investment tool that may be less expensive than investing directly in the underlying securities and the related equity derivative.

Please keep this supplement with your prospectus for future reference.

**SUPPLEMENT DATED JANUARY 31, 2019
TO THE PROSPECTUSES
DATED MAY 1, 2018
OF
FRANKLIN INCOME VIP FUND
(a series of Franklin Templeton Variable Insurance Products Trust)**

Effective February 1, 2019, the prospectus is amended as follows:

I. The portfolio management team under the “FUND SUMMARIES – Franklin Income VIP Fund – Portfolio Managers” section on page FI-S5 is replaced with the following:

Portfolio Managers

Edward D. Perks, CFA President and Director of Advisers and portfolio manager of the Fund since 2002.

Matthew D. Quinlan Vice President of Advisers and portfolio manager of the Fund since 2012.

Richard S. Hsu, CFA Vice President of Advisers and portfolio manager of the Fund since 2017.

Todd Brighton, CFA Portfolio Manager of Advisers and portfolio manager of the Fund since 2017.

Brendan Circle, CFA Portfolio Manager of Advisers and portfolio manager of the Fund since February 2019.

II. The portfolio management team under the “Fund Details – Franklin Income VIP Fund – Management” section on page FI-D8 is replaced with the following:

The Fund is managed by a team of dedicated professionals focused on investments in debt and equity securities. The portfolio managers of the team are as follows:

Edward D. Perks, CFA President and Director of Advisers

Mr. Perks has been a portfolio manager of the Fund since 2002. He has final authority over all aspects of the Fund’s investment portfolio, including but not limited to, purchases and sales of individual securities, portfolio risk assessment, and the management of daily cash balances in accordance with anticipated investment management requirements. The degree to which he may perform these functions, and the nature of these functions, may change from time to time. He joined Franklin Templeton Investments in 1992.

Matthew D. Quinlan Vice President of Advisers

Mr. Quinlan has been a portfolio manager of the Fund since 2012, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 2005.

Richard S. Hsu Vice President of Advisers

Mr. Hsu has been a portfolio manager of the Fund since 2017, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 1996.

Todd Brighton, CFA Portfolio Manager of Advisers

Mr. Brighton has been a portfolio manager of the Fund since 2017, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 2000.

Brendan Circle, CFA Portfolio Manager of Advisers

Mr. Circle has been a portfolio manager of the Fund since February 2019, providing research and advice on the purchases and sales of individual securities, and portfolio risk assessment. He joined Franklin Templeton Investments in 2014.

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Please keep this supplement with your prospectus for future reference.

**SUPPLEMENT DATED OCTOBER 30, 2018
TO THE STATEMENT OF ADDITIONAL INFORMATION
DATED MAY 1, 2018
OF
FRANKLIN INCOME VIP FUND
(A series of Franklin Templeton Variable Insurance Products Trust)**

The Statement of Additional Information (SAI) is amended as follows:

I. The following replaces the thirteenth through sixteenth and nineteenth bullet points in the list of bullet points under the “The Funds – Goals, Additional Strategies and Risks – Franklin Income VIP Fund (Income Fund)” heading in the SAI:

The Fund also may:

- engage in currency derivatives, such as currency forwards, currency futures, currency swaps and put and call options on currencies
- engage in equity-related derivatives and complex securities, such as buying and writing call and put options on securities and indices that trade on national securities exchanges and over-the-counter (OTC), buying and selling futures on equity securities and indexes and options on equity index futures, engaging in equity total return swaps and using equity-linked notes, including up to 2% of the Fund’s assets in equity-linked notes on commodity-linked ETFs
- engage in interest rate derivatives such as interest rate swaps and options thereon, interest rate/bond futures and options thereon, and inflation index swaps
- engage in credit-related derivatives and complex securities, including buying and selling single name, loan and index credit default swaps and options thereon, fixed income total return swaps, credit-linked notes, collateralized debt obligations.

Please keep this supplement with your prospectus for future reference.

Financial Highlights

Franklin Income VIP Fund

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class 1					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$16.72	\$15.87	\$14.64	\$16.48	\$16.53
Income from investment operations ^a :					
Net investment income ^b	0.71	0.69	0.67	0.71	0.72
Net realized and unrealized gains (losses)	(1.35)	0.87	1.34	(1.78)	0.11
Total from investment operations	(0.64)	1.56	2.01	(1.07)	0.83
Less distributions from net investment income	(0.82)	(0.71)	(0.78)	(0.77)	(0.88)
Net asset value, end of year	\$15.26	\$16.72	\$15.87	\$14.64	\$16.48
Total return ^c	(4.09)%	9.94%	14.33%	(6.84)%	4.92%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	0.47%	0.47%	0.47%	0.46%	0.47%
Expenses net of waiver and payments by affiliates ^d	0.45%	0.45%	0.44%	0.46% ^e	0.47%
Net investment income	4.33%	4.22%	4.47%	4.47%	4.26%
Supplemental data					
Net assets, end of year (000's)	\$612,657	\$735,149	\$696,227	\$604,228	\$714,664
Portfolio turnover rate	43.22%	20.96%	39.03%	31.53%	24.77%

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cTotal return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

^dBenefit of expense reduction rounds to less than 0.01%.

^eBenefit of waiver and payments by affiliates rounds to less than 0.01%.

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
FINANCIAL HIGHLIGHTS

Franklin Income VIP Fund (continued)

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class 2					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$16.17	\$15.38	\$14.20	\$16.00	\$16.07
Income from investment operations ^a :					
Net investment income ^b	0.65	0.63	0.61	0.65	0.66
Net realized and unrealized gains (losses)	(1.30)	0.83	1.31	(1.73)	0.11
Total from investment operations	(0.65)	1.46	1.92	(1.08)	0.77
Less distributions from net investment income	(0.78)	(0.67)	(0.74)	(0.72)	(0.84)
Net asset value, end of year	\$14.74	\$16.17	\$15.38	\$14.20	\$16.00
Total return ^c	(4.30)%	9.67%	14.02%	(7.05)%	4.62%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	0.72%	0.72%	0.72%	0.71%	0.72%
Expenses net of waiver and payments by affiliates ^d	0.70%	0.70%	0.69%	0.71% ^e	0.72%
Net investment income	4.08%	3.97%	4.22%	4.22%	4.01%
Supplemental data					
Net assets, end of year (000's)	\$4,086,652	\$5,041,498	\$5,088,556	\$4,907,599	\$6,022,804
Portfolio turnover rate	43.22%	20.96%	39.03%	31.53%	24.77%

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cTotal return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

^dBenefit of expense reduction rounds to less than 0.01%.

^eBenefit of waiver and payments by affiliates rounds to less than 0.01%.

Franklin Income VIP Fund (continued)

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Class 4					
Per share operating performance					
(for a share outstanding throughout the year)					
Net asset value, beginning of year	\$16.53	\$15.71	\$14.49	\$16.31	\$16.36
Income from investment operations ^a :					
Net investment income ^b	0.64	0.62	0.61	0.65	0.66
Net realized and unrealized gains (losses)	(1.33)	0.85	1.33	(1.76)	0.11
Total from investment operations	(0.69)	1.47	1.94	(1.11)	0.77
Less distributions from net investment income	(0.76)	(0.65)	(0.72)	(0.71)	(0.82)
Net asset value, end of year	\$15.08	\$16.53	\$15.71	\$14.49	\$16.31
Total return ^c	(4.42)%	9.55%	13.87%	(7.15)%	4.52%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	0.82%	0.82%	0.82%	0.81%	0.82%
Expenses net of waiver and payments by affiliates ^d	0.80%	0.80%	0.79%	0.81% ^e	0.82%
Net investment income	3.98%	3.87%	4.12%	4.12%	3.91%
Supplemental data					
Net assets, end of year (000's)	\$294,700	\$335,217	\$309,935	\$306,023	\$378,545
Portfolio turnover rate	43.22%	20.96%	39.03%	31.53%	24.77%

^aThe amount shown for a share outstanding throughout the period may not correlate with the Statement of Operations for the period due to the timing of sales and repurchases of the Fund's shares in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cTotal return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle.

^dBenefit of expense reduction rounds to less than 0.01%.

^eBenefit of waiver and payments by affiliates rounds to less than 0.01%.

Statement of Investments, December 31, 2018

Franklin Income VIP Fund

	Country	Shares	Value
Common Stocks 34.9%			
Communication Services 2.3%			
^a Alphabet Inc., A.	United States	20,000	\$ 20,899,200
BCE Inc.	Canada	466,000	18,411,942
Verizon Communications Inc.	United States	1,325,000	74,491,500
			<u>113,802,642</u>
Consumer Discretionary 1.3%			
Ford Motor Co.	United States	3,138,995	24,013,312
Target Corp.	United States	650,000	42,958,500
			<u>66,971,812</u>
Consumer Staples 3.4%			
Anheuser-Busch InBev SA/NV, ADR	Belgium	412,500	27,146,625
The Coca-Cola Co.	United States	700,000	33,145,000
PepsiCo Inc.	United States	384,000	42,424,320
Philip Morris International Inc.	United States	350,000	23,366,000
The Procter & Gamble Co.	United States	500,000	45,960,000
			<u>172,041,945</u>
Energy 5.0%			
Anadarko Petroleum Corp.	United States	400,000	17,536,000
Baker Hughes a GE Co., A.	United States	795,000	17,092,500
BP PLC, ADR	United Kingdom	750,000	28,440,000
Chevron Corp.	United States	400,000	43,516,000
Exxon Mobil Corp.	United States	500,000	34,095,000
Occidental Petroleum Corp.	United States	286,000	17,554,680
Royal Dutch Shell PLC, A, ADR.	United Kingdom	1,000,000	58,270,000
Schlumberger Ltd.	United States	225,000	8,118,000
TransCanada Corp.	Canada	350,000	12,495,000
The Williams Cos. Inc.	United States	600,000	13,230,000
			<u>250,347,180</u>
Financials 5.6%			
Bank of America Corp.	United States	1,200,000	29,568,000
Barclays PLC	United Kingdom	10,000,000	19,195,062
HSBC Holdings PLC	United Kingdom	2,194,113	18,100,537
JPMorgan Chase & Co.	United States	600,000	58,572,000
MetLife Inc.	United States	1,095,108	44,965,134
Morgan Stanley	United States	250,000	9,912,500
Wells Fargo & Co.	United States	2,200,000	101,376,000
			<u>281,689,233</u>
Health Care 4.8%			
AstraZeneca PLC	United Kingdom	900,000	67,405,886
Johnson & Johnson	United States	230,000	29,681,500
Medtronic PLC	United States	175,000	15,918,000
Merck & Co. Inc.	United States	806,100	61,594,101
Pfizer Inc.	United States	1,499,975	65,473,909
			<u>240,073,396</u>
Industrials 1.2%			
3M Co.	United States	125,000	23,817,500
^a CEVA Logistics AG	Switzerland	283,295	8,596,495
Cummins Inc.	United States	200,000	26,728,000
			<u>59,141,995</u>

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
STATEMENT OF INVESTMENTS

Franklin Income VIP Fund (continued)

	Country	Shares	Value
Common Stocks (continued)			
Information Technology 1.6%			
Analog Devices Inc.	United States	150,000	\$ 12,874,500
Apple Inc.	United States	53,317	8,410,224
Applied Materials Inc.	United States	286,000	9,363,640
Lam Research Corp.	United States	70,000	9,531,900
Microchip Technology Inc.	United States	150,000	10,788,000
Microsoft Corp.	United States	285,500	28,998,235
			<u>79,966,499</u>
Materials 2.7%			
BASF SE	Germany	700,000	48,759,650
DowDuPont Inc.	United States	447,500	23,932,300
Rio Tinto PLC, ADR	Australia	1,250,000	60,600,000
			<u>133,291,950</u>
Real Estate 0.5%			
Host Hotels & Resorts Inc.	United States	1,500,000	25,005,000
Utilities 6.5%			
Dominion Energy Inc.	United States	1,201,638	85,869,051
Duke Energy Corp.	United States	577,500	49,838,250
Sempra Energy	United States	720,000	77,896,800
The Southern Co.	United States	2,020,000	88,718,400
Xcel Energy Inc.	United States	400,000	19,708,000
			<u>322,030,501</u>
Total Common Stocks (Cost \$1,580,699,489)			<u>1,744,362,153</u>
^bEquity-Linked Securities 9.0%			
Communication Services 1.1%			
^c Royal Bank of Canada into Alphabet Inc., 6.00%, A, 144A	Belgium	10,000	10,734,758
^c Royal Bank of Canada into Comcast Corp., 7.00%, A, 144A	United States	1,270,000	43,607,726
			<u>54,342,484</u>
Consumer Discretionary 1.9%			
^c Merrill Lynch International & Co. CV into General Motor Co., 8.00%, 144A	United States	1,425,000	49,014,196
^c Wells Fargo Bank National Assn. into Ford Motor Co., 8.50%, 144A	United States	2,500,000	19,845,060
^c Wells Fargo Bank National Assn. into Target Corp., 8.00%, 144A	United States	400,000	27,044,025
			<u>95,903,281</u>
Energy 0.5%			
^c UBS AG London into Halliburton Co., 7.00%, 144A	United States	840,000	23,047,953
Industrials 1.3%			
^c Deutsche Bank AG London into Union Pacific Corp., 6.50%, 144A	United States	450,000	63,123,325
Information Technology 3.3%			
^c Citigroup Global Markets Holdings Inc. into Texas Instruments Inc., 7.00%, 144A	United States	520,000	50,268,829
^c Credit Suisse AG into International Business Machines Corp., 9.50%, 144A	United States	110,000	12,350,855
^c Royal Bank of Canada into Apple Inc., 6.50%, 144A	United States	310,000	49,636,457
^c Wells Fargo Bank National Assn. into Intel Corp., 8.00%, 144A	United States	1,100,000	52,865,381
			<u>165,121,522</u>
Materials 0.9%			
^c UBS AG London into DowDuPont Inc., 6.50%, 144A	United States	850,000	47,069,105
Total Equity-Linked Securities (Cost \$536,524,698)			<u>448,607,670</u>

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
STATEMENT OF INVESTMENTS

Franklin Income VIP Fund (continued)

	Country	Shares	Value
Convertible Preferred Stocks 1.1%			
Financials 1.1%			
Bank of America Corp., 7.25%, cvt. pfd., L	United States	34,600	\$ 43,336,500
^a FNMA, 5.375%, cvt. pfd..	United States	475	10,093,750
Total Convertible Preferred Stocks (Cost \$65,397,102)			<u>53,430,250</u>
		Units	
^dIndex-Linked Notes (Cost \$14,054,540) 0.3%			
Financials 0.3%			
^{c,e} Morgan Stanley Finance LLC, senior note, 144A, 7.43%, 10/03/19	United States	106,000	<u>12,995,484</u>
		Principal Amount*	
Convertible Bonds 0.9%			
Energy 0.5%			
Chesapeake Energy Corp., cvt., senior note, 5.50%, 9/15/26	United States	10,000,000	8,099,770
Weatherford International Ltd., cvt., senior note, 5.875%, 7/01/21	United States	22,000,000	<u>14,012,768</u>
			<u>22,112,538</u>
Health Care 0.4%			
^c Bayer Capital Corp BV, cvt., junior sub. note, 144A, 5.625%, 11/22/19	Germany	25,000,000	EUR <u>21,521,704</u>
Total Convertible Bonds (Cost \$58,051,219)			<u>43,634,242</u>
Corporate Bonds 38.8%			
Communication Services 6.1%			
AMC Entertainment Holdings Inc., senior sub. note, 5.875%, 11/15/26	United States	5,600,000	4,816,000
AT&T Inc., senior bond, 4.125%, 2/17/26	United States	12,000,000	11,742,289
CCO Holdings LLC/CCO Holdings Capital Corp.,			
senior bond, 5.125%, 2/15/23	United States	10,000,000	9,775,000
senior bond, 5.75%, 1/15/24	United States	9,000,000	8,977,500
^c senior bond, 144A, 5.50%, 5/01/26	United States	10,000,000	9,637,500
^c senior bond, 144A, 5.00%, 2/01/28	United States	5,000,000	4,612,500
DISH DBS Corp.,			
senior bond, 5.875%, 7/15/22	United States	40,000,000	36,950,000
senior bond, 5.00%, 3/15/23	United States	35,000,000	29,268,750
senior note, 5.875%, 11/15/24	United States	9,400,000	7,602,250
Netflix Inc., senior bond, 4.875%, 4/15/28	United States	24,000,000	21,960,000
^c Sirius XM Radio Inc., senior bond, 144A, 6.00%, 7/15/24	United States	7,500,000	7,546,875
Sprint Capital Corp., senior note, 6.90%, 5/01/19	United States	13,500,000	13,618,125
Sprint Communications Inc.,			
senior bond, 11.50%, 11/15/21	United States	30,000,000	34,125,000
senior note, 7.00%, 8/15/20	United States	7,500,000	7,697,250
senior note, 6.00%, 11/15/22	United States	6,300,000	6,198,129
Sprint Corp.,			
senior bond, 7.875%, 9/15/23	United States	37,500,000	38,578,125
senior bond, 7.125%, 6/15/24	United States	8,200,000	8,147,192
senior note, 7.625%, 3/01/26	United States	8,000,000	7,920,000

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
STATEMENT OF INVESTMENTS

Franklin Income VIP Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Communication Services (continued)			
° Sprint Spectrum Co. LLC, senior secured bond, first lien, 144A, 5.152%, 9/20/29	United States	16,000,000	\$ 15,760,000
° Univision Communications Inc., senior secured note, first lien, 144A, 5.125%, 5/15/23	United States	15,000,000	13,500,000
senior secured note, first lien, 144A, 5.125%, 2/15/25	United States	7,140,000	6,283,200
			304,715,685
Consumer Discretionary 1.7%			
° 24 Hour Holdings III LLC, senior note, 144A, 8.00%, 6/01/22	United States	6,300,000	5,969,250
Fiat Chrysler Automobiles NV, senior note, 5.25%, 4/15/23	United Kingdom	9,300,000	9,169,242
Ford Motor Co., senior note, 4.346%, 12/08/26	United States	18,500,000	16,540,812
General Motors Co., senior bond, 5.15%, 4/01/38	United States	16,000,000	13,722,274
° Shea Homes LP/Shea Homes Funding Corp., senior bond, 144A, 6.125%, 4/01/25	United States	8,000,000	7,120,000
senior note, 144A, 5.875%, 4/01/23	United States	5,000,000	4,587,500
° Tesla Inc., senior note, 144A, 5.30%, 8/15/25	United States	7,000,000	6,107,500
° Wynn Las Vegas LLC/Wynn Las Vegas Capital Corp., senior bond, 144A, 5.50%, 3/01/25	United States	13,200,000	12,342,000
senior bond, 144A, 5.25%, 5/15/27	United States	10,000,000	8,812,500
			84,371,078
Consumer Staples 1.0%			
BAT Capital Corp., senior note, 3.222%, 8/15/24	United Kingdom	10,000,000	9,221,228
senior note, 3.557%, 8/15/27	United Kingdom	20,000,000	17,797,098
Kraft Heinz Foods Co., senior bond, 4.625%, 1/30/29	United States	13,000,000	12,887,004
° Post Holdings Inc., senior bond, 144A, 5.00%, 8/15/26	United States	7,500,000	6,862,500
senior bond, 144A, 5.625%, 1/15/28	United States	2,500,000	2,309,375
			49,077,205
Energy 6.6%			
° Ascent Resources Utica Holdings LLC/ARU Finance Corp., senior note, 144A, 10.00%, 4/01/22	United States	6,500,000	6,680,700
Calumet Specialty Products Partners LP/Calumet Finance Corp., senior note, 6.50%, 4/15/21	United States	30,000,000	25,200,000
Chesapeake Energy Corp., senior bond, 6.125%, 2/15/21	United States	16,000,000	15,120,000
senior bond, 8.00%, 6/15/27	United States	26,000,000	21,970,000
senior note, 5.375%, 6/15/21	United States	12,875,000	11,845,000
senior note, 4.875%, 4/15/22	United States	5,000,000	4,387,500
senior note, 5.75%, 3/15/23	United States	5,000,000	4,337,500
senior note, 7.00%, 10/01/24	United States	17,500,000	15,225,000
senior note, 8.00%, 1/15/25	United States	31,500,000	27,956,250
senior note, 7.50%, 10/01/26	United States	10,000,000	8,600,000
° senior note, FRN, 5.686%, (3-month USD LIBOR + 3.25%), 4/15/19	United States	9,800,000	9,775,500
Ferrellgas LP/Ferrellgas Finance Corp., senior note, 6.50%, 5/01/21	United States	9,500,000	7,837,500
senior note, 6.75%, 6/15/23	United States	5,000,000	4,100,000
HighPoint Operating Corp., senior bond, 7.00%, 10/15/22	United States	17,937,000	16,591,725
senior note, 8.75%, 6/15/25	United States	23,400,000	22,698,000

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
STATEMENT OF INVESTMENTS

Franklin Income VIP Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Energy (continued)			
Kinder Morgan Inc.,			
senior bond, 7.75%, 1/15/32	United States	22,000,000	\$ 26,450,006
^c senior secured bond, first lien, 144A, 5.625%, 11/15/23	United States	6,400,000	6,779,057
Sanchez Energy Corp., senior note, 7.75%, 6/15/21	United States	27,000,000	6,480,000
Talos Production LLC/Talos Production Finance Inc., second lien, 11.00%, 4/03/22	United States	6,452,837	6,097,931
Weatherford International Ltd.,			
senior note, 5.125%, 9/15/20	United States	22,500,000	17,662,500
senior note, 7.75%, 6/15/21	United States	47,500,000	35,862,500
senior note, 4.50%, 4/15/22	United States	11,900,000	7,021,000
senior note, 8.25%, 6/15/23	United States	37,500,000	22,781,250
			<u>331,458,919</u>
Financials 5.1%			
Bank of America Corp.,			
⁹ junior sub. bond, AA, 6.10% to 3/17/25, FRN thereafter, Perpetual	United States	8,000,000	7,890,000
⁹ junior sub. bond, U, 5.20% to 6/01/23, FRN thereafter, Perpetual	United States	5,000,000	4,820,750
⁹ junior sub. bond, X, 6.25% to 9/05/24, FRN thereafter, Perpetual	United States	6,000,000	5,940,000
senior bond, 3.419% to 12/20/27, FRN thereafter, 12/20/28	United States	18,500,000	17,311,708
Capital One Financial Corp., senior sub. note, 4.20%, 10/29/25	United States	15,500,000	14,999,065
Citigroup Inc.,			
⁹ junior sub. bond, 5.35% to 5/15/23, FRN thereafter, Perpetual	United States	10,000,000	9,000,000
⁹ junior sub. bond, 5.90% to 2/15/23, FRN thereafter, Perpetual	United States	12,500,000	11,681,250
⁹ junior sub. bond, 5.95% to 1/30/23, FRN thereafter, Perpetual	United States	4,500,000	4,112,325
⁹ junior sub. bond, M, 6.30% to 5/15/24, FRN thereafter, Perpetual	United States	15,800,000	14,595,250
⁹ junior sub. bond, O, 5.875% to 3/27/20, FRN thereafter, Perpetual	United States	25,000,000	24,156,250
⁹ junior sub. bond, Q, 5.95% to 8/15/20, FRN thereafter, Perpetual	United States	10,000,000	9,668,750
sub. bond, 4.125%, 7/25/28	United States	18,500,000	17,391,982
The Goldman Sachs Group Inc., senior note, 3.272% to 9/29/24, FRN thereafter, 9/29/25	United States	15,500,000	14,539,368
HSBC Holdings PLC, senior note, 4.292% to 9/12/25, FRN thereafter, 9/12/26 . .	United Kingdom	28,500,000	28,601,602
⁹ JPMorgan Chase & Co.,			
^f junior sub. bond, FRN, 5.99%, (3-month USD LIBOR + 3.47%), Perpetual . .	United States	28,692,000	28,405,080
junior sub. bond, R, 6.00% to 8/01/23, FRN thereafter, Perpetual	United States	3,200,000	3,136,000
junior sub. bond, V, 5.00% to 7/30/19, FRN thereafter, Perpetual	United States	10,000,000	9,662,500
⁹ Morgan Stanley, junior sub. bond, 5.55% to 7/15/20, FRN thereafter, Perpetual . .	United States	7,300,000	7,093,775
Prudential Financial Inc., junior sub. bond, 5.70% to 9/15/28, FRN thereafter, 9/15/48	United States	17,000,000	15,852,500
⁹ Wells Fargo & Co., junior sub. bond, S, 5.90% to 6/15/24, FRN thereafter, Perpetual	United States	6,600,000	6,296,400
			<u>255,154,555</u>
Health Care 12.6%			
Allergan Funding SCS, senior bond, 3.80%, 3/15/25	United States	17,000,000	16,626,587
^c Bausch Health Cos. Inc.,			
senior bond, 144A, 6.125%, 4/15/25	United States	9,400,000	8,225,000
senior note, 144A, 5.50%, 3/01/23	United States	15,000,000	13,731,600
senior note, 144A, 5.875%, 5/15/23	United States	14,500,000	13,466,875
senior note, 144A, 9.00%, 12/15/25	United States	5,000,000	4,993,750
senior note, first lien, 144A, 7.00%, 3/15/24	United States	4,500,000	4,556,250
senior secured note, first lien, 144A, 6.50%, 3/15/22	United States	3,000,000	3,027,240
senior secured note, first lien, 144A, 5.50%, 11/01/25	United States	35,000,000	32,768,750

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
STATEMENT OF INVESTMENTS

Franklin Income VIP Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Health Care (continued)			
° Bayer US Finance II LLC, senior note, 144A, 4.25%, 12/15/25	Germany	15,000,000	\$ 14,627,398
CHS/Community Health Systems Inc.,			
senior note, 6.875%, 2/01/22	United States	104,415,000	48,030,900
° senior note, 144A, 8.125%, 6/30/24	United States	42,388,000	31,155,180
° senior note, 144A, 11.00% to 6/22/19, 9.875% thereafter, 6/30/23	United States	103,596,000	80,286,900
senior secured note, first lien, 6.25%, 3/31/23	United States	39,000,000	35,589,450
CVS Health Corp.,			
senior bond, 4.30%, 3/25/28	United States	8,000,000	7,848,251
senior bond, 5.05%, 3/25/48	United States	3,900,000	3,812,508
senior note, 4.10%, 3/25/25	United States	5,100,000	5,062,123
DaVita Inc.,			
senior bond, 5.125%, 7/15/24	United States	5,000,000	4,700,000
senior bond, 5.00%, 5/01/25	United States	4,000,000	3,645,000
° Endo DAC/Endo Finance LLC/Endo Finco Inc.,			
senior bond, 144A, 6.00%, 2/01/25	United States	10,000,000	7,225,000
senior note, 144A, 6.00%, 7/15/23	United States	15,000,000	11,512,500
° Endo Finance LLC, senior note, 144A, 5.75%, 1/15/22	United States	22,500,000	18,843,750
° Halfmoon Parent Inc., senior secured note, 144A, 3.75%, 7/15/23	United States	20,000,000	19,952,761
HCA Inc.,			
senior bond, 5.875%, 5/01/23	United States	7,500,000	7,612,500
senior note, 7.50%, 2/15/22	United States	25,000,000	26,625,000
senior secured note, first lien, 5.00%, 3/15/24	United States	10,400,000	10,322,000
Horizon Pharma USA Inc., senior note, 6.625%, 5/01/23	United States	8,000,000	7,760,000
Mallinckrodt International Finance SA, senior bond, 4.75%, 4/15/23	United States	5,000,000	3,375,000
° Mallinckrodt International Finance SA/Mallinckrodt CB LLC,			
senior note, 144A, 4.875%, 4/15/20	United States	20,200,000	19,594,000
^h senior note, 144A, 5.75%, 8/01/22	United States	27,000,000	23,220,000
senior note, 144A, 5.625%, 10/15/23	United States	14,300,000	10,921,625
senior note, 144A, 5.50%, 4/15/25	United States	10,000,000	6,950,000
Mylan NV, senior note, 3.95%, 6/15/26	United States	13,600,000	12,325,340
Tenet Healthcare Corp.,			
secured note, second lien, 5.125%, 5/01/25	United States	2,500,000	2,337,500
senior note, 8.125%, 4/01/22	United States	52,600,000	52,928,750
senior note, 6.75%, 6/15/23	United States	58,200,000	54,853,500
			<u>628,512,988</u>
Industrials 1.0%			
United Rentals North America Inc.,			
senior bond, 5.75%, 11/15/24	United States	3,000,000	2,898,750
senior bond, 4.875%, 1/15/28	United States	20,000,000	17,600,000
United Technologies Corp., senior note, 3.95%, 8/16/25	United States	15,000,000	14,912,052
° West Corp., senior note, 144A, 8.50%, 10/15/25	United States	10,000,000	7,950,000
° XPO Logistics Inc., senior note, 144A, 6.50%, 6/15/22	United States	4,134,000	4,113,330
			<u>47,474,132</u>
Information Technology 0.7%			
° CommScope Inc., senior bond, 144A, 5.50%, 6/15/24	United States	10,000,000	9,187,500
° Dell International LLC/EMC Corp., senior secured note, first lien, 144A, 5.45%, 6/15/23	United States	21,100,000	21,491,325
NCR Corp., senior note, 6.375%, 12/15/23	United States	4,212,000	4,092,843
			<u>34,771,668</u>

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
STATEMENT OF INVESTMENTS

Franklin Income VIP Fund (continued)

	Country	Principal Amount*	Value
Corporate Bonds (continued)			
Materials 1.9%			
° BWAY Holding Co.,			
secured note, 144A, 5.50%, 4/15/24	United States	10,000,000	\$ 9,437,500
senior note, 144A, 7.25%, 4/15/25.	United States	23,000,000	20,728,750
° Cemex Finance LLC, senior secured note, first lien, 144A, 6.00%, 4/01/24	Mexico	14,700,000	14,676,480
DowDuPont Inc., senior note, 4.493%, 11/15/25	United States	28,500,000	29,398,454
° FMG Resources (August 2006) Pty. Ltd., senior note, 144A, 5.125%, 5/15/24	Australia	6,700,000	6,266,577
° Syngenta Finance NV, senior note, 144A, 4.441%, 4/24/23.	Switzerland	16,500,000	16,033,380
			<u>96,541,141</u>
Real Estate 0.7%			
Equinix Inc., senior bond, 5.375%, 5/15/27	United States	16,500,000	16,170,000
Iron Mountain Inc., senior sub. bond, 5.75%, 8/15/24.	United States	18,000,000	17,145,000
			<u>33,315,000</u>
Utilities 1.4%			
Calpine Corp.,			
senior bond, 5.75%, 1/15/25	United States	10,000,000	9,175,000
senior note, 5.375%, 1/15/23	United States	20,000,000	18,800,000
senior note, 5.50%, 2/01/24	United States	16,375,000	15,044,531
Vistra Energy Corp.,			
senior note, 7.375%, 11/01/22	United States	20,000,000	20,700,000
senior note, 5.875%, 6/01/23	United States	8,000,000	8,040,000
			<u>71,759,531</u>
Total Corporate Bonds (Cost \$2,100,829,871)			<u>1,937,151,902</u>
fi Senior Floating Rate Interests 3.7%			
Communication Services 0.8%			
ji HeartCommunications Inc., Tranche E Term Loan, 9.193%, (3-month USD LIBOR + 7.50%), 7/30/19			
	United States	13,142,768	8,885,432
MH Sub I LLC & Micro Holding Corp.,			
Amendment No. 2 Initial Term Loan, 6.254%, (1-month USD LIBOR + 3.75%), 9/15/24.	United States	8,897,400	8,463,651
Second Lien Initial Term Loan, 10.004%, (1-month USD LIBOR + 7.50%), 9/15/25.	United States	5,000,000	4,675,000
Securus Technologies Holdings Inc.,			
k,l Delayed Draw Term Loan, TBD, 11/01/24.	United States	8,800,000	8,514,000
Initial Term Loan B, 7.022%, (1-month USD LIBOR + 4.50%), 11/01/24	United States	2,183,459	2,112,496
Second Lien Initial Loan, 10.772%, (1-month USD LIBOR + 8.25%), 11/01/25.	United States	6,000,000	5,805,000
			<u>38,455,579</u>
Consumer Discretionary 1.3%			
24 Hour Fitness Worldwide Inc., Term Loan, 6.022%, (1-month USD LIBOR + 3.50%), 5/30/25.	United States	13,930,000	13,677,519
Academy Ltd., Initial Term Loan, 6.349%, (1-month USD LIBOR + 4.00%), 7/02/22.	United States	1,562,373	1,051,672
Belk Inc., Closing Date Term Loan, 7.365%, (3-month USD LIBOR + 4.75%), 12/12/22	United States	24,246,330	19,673,230
PetSmart Inc., Tranche B-2 Loans, 5.38%, (1-month USD LIBOR + 3.00%), 3/11/22.	United States	18,404,639	14,605,370
Stars Group Holdings BV, Stars Group (US), USD Term Loan, 6.303%, (3-month USD LIBOR + 3.50%), 7/10/25	United States	19,900,000	19,290,562
			<u>68,298,353</u>

Franklin Income VIP Fund (continued)

	Country	Principal Amount*	Value
fi Senior Floating Rate Interests (continued)			
Consumer Staples 0.2%			
Almonde Inc., Tahoe Canada Bidco Inc. and Misys Europe SA, Dollar Term Loan, 6.303%, (3-month USD LIBOR + 3.50%), 6/13/24	United States	14,078,196	\$ 13,170,152
Health Care 0.5%			
Amneal Pharmaceuticals LLC, Initial Term Loans, 6.063%, (1-month USD LIBOR + 3.50%), 5/04/25	United States	24,869,222	23,646,402
Industrials 0.6%			
Commercial Barge Line Co., Initial Term Loan, 11.272%, (1-month USD LIBOR + 8.75%), 11/12/20	United States	8,625,000	6,289,065
Vertiv Group Corp., Term B Loans, 6.707%, (3-month USD LIBOR + 4.00%), 11/30/23	United States	8,574,569	7,888,603
West Corp., Term B Loans, 6.527%, (3-month USD LIBOR + 4.00%), 10/10/24	United States	17,461,292	16,049,844
			<u>30,227,512</u>
Utilities 0.3%			
Talen Energy Supply LLC, Initial Term Loan, 6.522%, (1-month USD LIBOR + 4.00%), 4/13/24	United States	7,820,000	7,718,989
Term B-1 Loans, 6.522%, (1-month USD LIBOR + 4.00%), 7/15/23	United States	5,895,000	5,824,997
			<u>13,543,986</u>
Total Senior Floating Rate Interests (Cost \$202,607,509)			<u>187,341,984</u>
U.S. Government and Agency Securities 7.5%			
U.S. Treasury Note,			
1.00%, 6/30/19	United States	50,000,000	49,627,424
2.25%, 3/31/20	United States	50,000,000	49,799,272
2.50%, 5/31/20	United States	75,000,000	74,938,136
2.50%, 6/30/20	United States	50,000,000	49,963,730
2.375%, 3/15/21	United States	50,000,000	49,868,432
2.75%, 4/30/23	United States	25,000,000	25,263,509
2.75%, 5/31/23	United States	50,000,000	50,553,879
2.875%, 5/31/25	United States	25,000,000	25,443,525
Total U.S. Government and Agency Securities (Cost \$374,249,107)			<u>375,457,907</u>
		Shares	
Escrows and Litigation Trusts (Cost \$62,602) 0.0%			
^{a,m} Motors Liquidation Co., Escrow Account, cvt. pfd., C	United States	1,400,000	—
Total Investments before Short Term Investments (Cost \$4,932,476,137)			<u>4,802,981,592</u>
Short Term Investments 3.2%			
Money Market Funds (Cost \$157,193,174) 3.2%			
^{n,o} Institutional Fiduciary Trust Money Market Portfolio, 1.99%	United States	157,193,174	157,193,174
p Investments from Cash Collateral Received for Loaned Securities 0.0%†			
Money Market Funds (Cost \$1,099,000) 0.0%†			
^{n,o} Institutional Fiduciary Trust Money Market Portfolio, 1.99%	United States	1,099,000	1,099,000

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
STATEMENT OF INVESTMENTS

Franklin Income VIP Fund (continued)

	Country	Principal Amount*	Value
Short Term Investments (continued)			
Investments from Cash Collateral Received for Loaned Securities (continued)			
Repurchase Agreement (Cost \$275,043) 0.0%[†]			
[¶] Joint Repurchase Agreement, 2.95%, 1/02/19 (Maturity Value \$275,088)			
BNP Paribas Securities Corp.			
Collateralized by U.S. Treasury, Strip, 8/15/19 – 11/15/20; U.S. Treasury Bill, 3/28/19; U.S. Treasury Note, 1.125% - 2.75%, 9/30/19 – 11/15/23 (valued at \$280,544)			
	United States	275,043	\$ 275,043
Total Investments from Cash Collateral Received for Loaned Securities (Cost \$1,374,043)			1,374,043
Total Investments (Cost \$5,091,043,354) 99.4%			4,961,548,809
Other Assets, less Liabilities 0.6%			32,460,826
Net Assets 100.0%			\$4,994,009,635

See Abbreviations on page FI-35.

[†]Rounds to less than 0.1% of net assets.

*The principal amount is stated in U.S. dollars unless otherwise indicated.

[¶]Non-income producing.

[§]See Note 1(g) regarding equity-linked securities.

^{||}Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2018, the aggregate value of these securities was \$1,042,978,736, representing 20.9% of net assets.

[∞]See Note 1(f) regarding index-linked notes.

[∞]Security pays a fixed 2.00% coupon rate and a variable coupon based on the distribution of the Morgan Stanley Custom Enhanced SPX B DT Index 20 Delta. The coupon rate shown represents the combined rate at period end. Cash payment at maturity or upon early redemption is based on the performance of the Morgan Stanley Custom Enhanced SPX B Index 20 Delta.

[∞]The coupon rate shown represents the rate at period end.

[∞]Perpetual security with no stated maturity date.

[∞]A portion or all of the security is on loan at December 31, 2018. See Note 1(h).

[∞]See Note 1(i) regarding senior floating rate interests.

[∞]See Note 7 regarding defaulted securities.

[∞]Security purchased on a delayed delivery basis. See Note 1(d).

[∞]A portion or all of the security represents an unsettled loan commitment. The coupon rate is to-be determined (TBD) at the time of settlement and will be based upon a reference index/floor plus a spread.

[∞]Fair valued using significant unobservable inputs. See Note 10 regarding fair value measurements.

[∞]See Note 3(e) regarding investments in affiliated management investment companies.

[∞]The rate shown is the annualized seven-day effective yield at period end.

[∞]See Note 1(h) regarding securities on loan.

[∞]See Note 1(c) regarding repurchase agreement.

[∞]The security was issued on a discount basis with no stated coupon rate.

Financial Statements

Statement of Assets and Liabilities

December 31, 2018

	Franklin Income VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$4,932,476,137
Cost - Non-controlled affiliates (Note 3e)	158,292,174
Cost - Unaffiliated repurchase agreements	275,043
Value - Unaffiliated issuers*	\$4,802,981,592
Value - Non-controlled affiliates (Note 3e)	158,292,174
Value - Unaffiliated repurchase agreements	275,043
Cash	6,676,343
Receivables:	
Investment securities sold	6,098,327
Capital shares sold	887,247
Dividends and interest	37,601,832
Other assets	694
Total assets	5,012,813,252
Liabilities:	
Payables:	
Investment securities purchased	8,778,000
Capital shares redeemed	4,337,957
Management fees	1,923,555
Distribution fees	1,970,366
Payable upon return of securities loaned	1,374,043
Accrued expenses and other liabilities	419,696
Total liabilities	18,803,617
Net assets, at value	\$4,994,009,635
Net assets consist of:	
Paid-in capital	\$4,778,931,120
Total distributable earnings (loss)	215,078,515
Net assets, at value	\$4,994,009,635
Class 1:	
Net assets, at value	\$ 612,656,977
Shares outstanding	40,141,624
Net asset value and maximum offering price per share	\$15.26
Class 2:	
Net assets, at value	\$4,086,652,487
Shares outstanding	277,303,541
Net asset value and maximum offering price per share	\$14.74
Class 4:	
Net assets, at value	\$ 294,700,171
Shares outstanding	19,537,193
Net asset value and maximum offering price per share	\$15.08
*Includes securities loaned	\$ 1,307,200

Statement of Operations

for the year ended December 31, 2018

	Franklin Income VIP Fund
Investment income:	
Dividends: (net of foreign taxes)*	
Unaffiliated issuers	\$ 90,603,027
Non-controlled affiliates (Note 3e)	3,827,185
Interest:	
Unaffiliated issuers	179,493,518
Income from securities loaned:	
Unaffiliated issuers (net of fees and rebates)	33,198
Non-controlled affiliates (Note 3e)	127,105
Total investment income	<u>274,084,033</u>
Expenses:	
Management fees (Note 3a)	26,034,552
Distribution fees: (Note 3c)	
Class 2	11,760,863
Class 4	1,135,920
Custodian fees (Note 4)	65,560
Reports to shareholders	460,080
Professional fees	151,267
Trustees' fees and expenses	41,822
Other	121,916
Total expenses	39,771,980
Expense reductions (Note 4)	(55,355)
Expenses waived/paid by affiliates (Note 3e)	(971,286)
Net expenses	<u>38,745,339</u>
Net investment income	<u>235,338,694</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	347,360,552
Written options	3,958,115
Realized gain distributions from REITs	139,700
Foreign currency transactions	(317,612)
Net realized gain (loss)	<u>351,140,755</u>
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers	(810,146,467)
Translation of other assets and liabilities denominated in foreign currencies	(37,554)
Written options	575,894
Net change in unrealized appreciation (depreciation)	<u>(809,608,127)</u>
Net realized and unrealized gain (loss)	(458,467,372)
Net increase (decrease) in net assets resulting from operations	<u>\$(223,128,678)</u>

*Foreign taxes withheld on dividends \$ 2,399,880

Statements of Changes in Net Assets

	Franklin Income VIP Fund	
	Year Ended December 31,	
	2018	2017
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 235,338,694	\$ 246,080,825
Net realized gain (loss)	351,140,755	161,381,487
Net change in unrealized appreciation (depreciation)	(809,608,127)	162,933,235
Net increase (decrease) in net assets resulting from operations	(223,128,678)	570,395,547
Distributions to shareholders: (Note 1k)		
Class 1	(34,377,723)	(30,736,550)
Class 2	(227,495,537)	(212,433,443)
Class 4	(14,948,805)	(12,598,021)
Total distributions to shareholders	(276,822,065)	(255,768,014)
Capital share transactions: (Note 2)		
Class 1	(62,663,457)	1,111,670
Class 2	(543,422,123)	(307,051,941)
Class 4	(11,817,756)	8,458,865
Total capital share transactions	(617,903,336)	(297,481,406)
Net increase (decrease) in net assets	(1,117,854,079)	17,146,127
Net assets:		
Beginning of year	6,111,863,714	6,094,717,587
End of year (Note 1k)	\$ 4,994,009,635	\$6,111,863,714

Notes to Financial Statements

Franklin Income VIP Fund

1. Organization and Significant Accounting Policies

Franklin Templeton Variable Insurance Products Trust (Trust) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company, consisting of eighteen separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Franklin Income VIP Fund (Fund) is included in this report. Shares of the Fund are generally sold only to insurance company separate accounts to fund the benefits of variable life insurance policies or variable annuity contracts. The Fund offers three classes of shares: Class 1, Class 2 and Class 4. Each class of shares may differ by its distribution fees, voting rights on matters affecting a single class and its exchange privilege.

The following summarizes the Fund's significant accounting policies.

a. Financial Instrument Valuation

The Fund's investments in financial instruments are carried at fair value daily. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The Fund calculates the net asset value (NAV) per share each business day as of 4 p.m. Eastern time or the regularly scheduled close of the New York Stock Exchange (NYSE), whichever is earlier. Under compliance policies and procedures approved by the Trust's Board of Trustees (the Board), the Fund's administrator has responsibility for oversight of valuation, including leading the cross-functional Valuation Committee (VC). The Fund may utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded, or as of 4 p.m. Eastern time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple

exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

Debt securities generally trade in the OTC market rather than on a securities exchange. The Fund's pricing services use multiple valuation techniques to determine fair value. In instances where sufficient market activity exists, the pricing services may utilize a market-based approach through which quotes from market makers are used to determine fair value. In instances where sufficient market activity may not exist or is limited, the pricing services also utilize proprietary valuation models which may consider market characteristics such as benchmark yield curves, credit spreads, estimated default rates, anticipated market interest rate volatility, coupon rates, anticipated timing of principal repayments, underlying collateral, and other unique security features in order to estimate the relevant cash flows, which are then discounted to calculate the fair value. Securities denominated in a foreign currency are converted into their U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the date that the values of the foreign debt securities are determined.

Investments in open-end mutual funds are valued at the closing NAV. Investments in repurchase agreements are valued at cost, which approximates fair value.

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the Fund primarily employs a market-based approach which may use related or comparable assets or liabilities, recent transactions, market multiples, book values, and other relevant information for the investment to determine the fair value of the investment. An income-based valuation approach may also be used in which the anticipated future cash flows of the investment are discounted to calculate fair value. Discounts may also be applied due to the nature or duration of any restrictions on the disposition of the investments. Due to the inherent uncertainty of valuations of such investments, the fair values may differ significantly from the values that would have been used had an active market existed.

Trading in securities on foreign securities stock exchanges and OTC markets may be completed before 4 p.m. Eastern time. In addition, trading in certain foreign markets may not take place on every Fund's business day. Occasionally, events occur

Franklin Income VIP Fund (continued)

between the time at which trading in a foreign security is completed and 4 p.m. Eastern time that might call into question the reliability of the value of a portfolio security held by the Fund. As a result, differences may arise between the value of the Fund's portfolio securities as determined at the foreign market close and the latest indications of value at 4 p.m. Eastern time. In order to minimize the potential for these differences, the VC monitors price movements following the close of trading in foreign stock markets through a series of country specific market proxies (such as baskets of American Depositary Receipts, futures contracts and exchange traded funds). These price movements are measured against established trigger thresholds for each specific market proxy to assist in determining if an event has occurred that may call into question the reliability of the values of the foreign securities held by the Fund. If such an event occurs, the securities may be valued using fair value procedures, which may include the use of independent pricing services. At December 31, 2018, a market event occurred resulting in a portion of the securities held by the Fund being valued using fair value procedures.

When the last day of the reporting period is a non-business day, certain foreign markets may be open on those days that the Fund's NAV is not calculated, which could result in differences between the value of the Fund's portfolio securities on the last business day and the last calendar day of the reporting period. Any significant security valuation changes due to an open foreign market are adjusted and reflected by the Fund for financial reporting purposes.

b. Foreign Currency Translation

Portfolio securities and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the exchange rate of such currencies against U.S. dollars on the date of valuation. The Fund may enter into foreign currency exchange contracts to facilitate transactions denominated in a foreign currency. Purchases and sales of securities, income and expense items denominated in foreign currencies are translated into U.S. dollars at the exchange rate in effect on the transaction date. Portfolio securities and assets and liabilities denominated in foreign currencies contain risks that those currencies will decline in value relative to the U.S. dollar. Occasionally, events may impact the availability or reliability of foreign exchange rates used to convert the U.S. dollar equivalent value. If such an event occurs, the foreign exchange rate will be valued at fair value using procedures established and approved by the Board.

The Fund does not separately report the effect of changes in foreign exchange rates from changes in market prices on securities held. Such changes are included in net realized and unrealized gain or loss from investments in the Statement of Operations.

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 and the difference between the recorded amounts of dividends, interest, and foreign withholding taxes and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in foreign exchange rates on foreign denominated assets and liabilities other than investments in securities held at the end of the reporting period.

c. Joint Repurchase Agreement

The Fund enters into a joint repurchase agreement whereby its uninvested cash balance is deposited into a joint cash account with other funds managed by the investment manager or an affiliate of the investment manager and is used to invest in one or more repurchase agreements. The value and face amount of the joint repurchase agreement are allocated to the funds based on their pro-rata interest. A repurchase agreement is accounted for as a loan by the Fund to the seller, collateralized by securities which are delivered to the Fund's custodian. The fair value, including accrued interest, of the initial collateralization is required to be at least 102% of the dollar amount invested by the funds, with the value of the underlying securities marked to market daily to maintain coverage of at least 100%. Repurchase agreements are subject to the terms of Master Repurchase Agreements (MRAs) with approved counterparties (sellers). The MRAs contain various provisions, including but not limited to events of default and maintenance of collateral for repurchase agreements. In the event of default by either the seller or the Fund, certain MRAs may permit the non-defaulting party to net and close-out all transactions, if any, traded under such agreements. The Fund may sell securities it holds as collateral and apply the proceeds towards the repurchase price and any other amounts owed by the seller to the Fund in the event of default by the seller. This could involve costs or delays in addition to a loss on the securities if their value falls below the repurchase price owed by the seller. The joint repurchase agreement held by the Fund at year end, as indicated in the Statement of Investments, had been entered into on December 31, 2018.

Franklin Income VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

d. Securities Purchased on a Delayed Delivery Basis

The Fund purchases securities on a delayed delivery basis, with payment and delivery scheduled for a future date. These transactions are subject to market fluctuations and are subject to the risk that the value at delivery may be more or less than the trade date purchase price. Although the Fund will generally purchase these securities with the intention of holding the securities, it may sell the securities before the settlement date. Sufficient assets have been segregated for these securities.

e. Derivative Financial Instruments

The Fund invested in derivative financial instruments in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential for market movements which expose the Fund to gains or losses in excess of the amounts shown in the Statement of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

The Fund purchased or wrote exchange traded option contracts primarily to gain exposure to equity price risk. An option is a contract entitling the holder to purchase or sell a specific amount of shares or units of an asset or notional amount of a swap (swaption), at a specified price. When an option is purchased or written, an amount equal to the premium paid or received is recorded as an asset or liability, respectively. Upon exercise of an option, the acquisition cost or sales proceeds of the underlying investment is adjusted by any premium received or paid. Upon expiration of an option, any premium received or paid is recorded as a realized gain or loss. Upon closing an option other than through expiration or exercise, the difference between the premium received or paid and the cost to close the position is recorded as a realized gain or loss.

See Note 8 regarding other derivative information.

f. Index-Linked Notes

The Fund invests in index-linked notes. Index-linked notes are senior, unsecured, subordinated debt securities issued by a financial institution, and the value is based on the price movements of the underlying index. Index-linked notes are designed to provide investors access to the returns of various market benchmarks and intended to replicate the economic effects that would apply had the Fund directly purchased the underlying referenced asset or basket of assets. The risks of investing in index-linked notes include unfavorable price movements in the underlying index and the credit risk of the issuing financial institution. There may be no guarantee of a return of principal with index-linked notes and the appreciation potential may be limited. Index-linked notes may be more volatile and less liquid than other investments held by the Fund.

g. Equity-Linked Securities

The Fund invests in equity-linked securities. Equity-linked securities are hybrid financial instruments that generally combine both debt and equity characteristics into a single note form. Income received from equity-linked securities is recorded as realized gains in the Statement of Operations and may be based on the performance of an underlying equity security, an equity index, or an option position. The risks of investing in equity-linked securities include unfavorable price movements in the underlying security and the credit risk of the issuing financial institution. There may be no guarantee of a return of principal with equity-linked securities and the appreciation potential may be limited. Equity-linked securities may be more volatile and less liquid than other investments held by the Fund.

h. Securities Lending

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund, and/or a joint repurchase agreement. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the

Franklin Income VIP Fund (continued)

borrower. Income from securities loaned, net of fees paid to the securities lending agent and/or third-party vendor, is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower.

i. Senior Floating Rate Interests

The Fund invests in senior secured corporate loans that pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR). Senior secured corporate loans often require prepayment of principal from excess cash flows or at the discretion of the borrower. As a result, actual maturity may be substantially less than the stated maturity. Senior secured corporate loans in which the Fund invests are generally readily marketable, but may be subject to certain restrictions on resale.

j. Income and Deferred Taxes

It is the Fund's policy to qualify as a regulated investment company under the Internal Revenue Code. The Fund intends to distribute to shareholders substantially all of its taxable income and net realized gains to relieve it from federal income and if applicable, excise taxes. As a result, no provision for U.S. federal income taxes is required.

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date.

As a result of several court cases, in certain countries across the European Union, the Fund filed additional tax reclaims for previously withheld taxes on dividends earned in those countries (EU reclaims). These additional filings are subject to various administrative proceedings by the local jurisdictions'

tax authorities within the European Union, as well as a number of related judicial proceedings. Income recognized, if any, for EU reclaims is reflected as other income in the Statement of Operations and any related receivable, if any, is reflected as European Union tax reclaims in the Statement of Assets and Liabilities. When uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these EU reclaims, and the potential timing of payment, no amounts are reflected in the financial statements. For U.S. income tax purposes, when EU reclaims are received by the Fund and the Fund previously passed foreign tax credit on to its shareholders, the Fund must either amend historic tax reporting to shareholders or enter into a closing agreement with the Internal Revenue Service (IRS) in order to pay the associated tax liability on behalf of the Fund's shareholders.

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2018, the Fund has determined that no tax liability is required in its financial statements related to uncertain tax positions for any open tax years (or expected to be taken in future tax years). Open tax years are those that remain subject to examination and are based on the statute of limitations in each jurisdiction in which the Fund invests.

k. Security Transactions, Investment Income, Expenses and Distributions

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Facility fees are recognized as income over the expected term of the loan. Dividend income is recorded on the ex-dividend date except for certain dividends from securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions to shareholders are recorded on the ex-dividend date. Distributable earnings are determined according to income tax regulations (tax basis) and may differ from earnings recorded in accordance with U.S. GAAP. These differences may be permanent or temporary. Permanent differences are reclassified among capital accounts to reflect

Franklin Income VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

k. Security Transactions, Investment Income, Expenses and Distributions (continued)

their tax character. These reclassifications have no impact on net assets or the results of operations. Temporary differences are not reclassified, as they may reverse in subsequent periods.*

Common expenses incurred by the Trust are allocated among the Funds based on the ratio of net assets of each Fund to the combined net assets of the Trust or based on the ratio of number of shareholders of each Fund to the combined number of shareholders of the Trust. Fund specific expenses are charged directly to the Fund that incurred the expense.

Realized and unrealized gains and losses and net investment income, excluding class specific expenses, are allocated daily to each class of shares based upon the relative proportion of net assets of each class. Differences in per share distributions by class are generally due to differences in class specific expenses.

*Effective during the current reporting period, it is no longer required to present certain line items in the Statements of Changes in Net Assets. The below prior period amounts affected by this change are shown as they were in the prior year Statements of Changes in Net Assets.

For the year ended December 31, 2017, distributions to shareholders were as follows:

Distributions from net investment income :	
Class 1	\$ (30,736,550)
Class 2	(212,433,443)
Class 4	(12,598,021)

For the year ended December 31, 2017, undistributed net investment income included in net assets was \$269,525,427.

2. Shares of Beneficial Interest

At December 31, 2018, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2018		2017	
	Shares	Amount	Shares	Amount
Class 1 Shares:				
Shares sold	1,947,322	\$ 31,806,598	2,556,049	\$ 41,649,315
Shares issued in reinvestment of distributions	2,128,651	34,377,723	1,925,849	30,736,550
Shares redeemed	(7,908,010)	(128,847,778)	(4,368,760)	(71,274,195)
Net increase (decrease)	(3,832,037)	\$ (62,663,457)	113,138	\$ 1,111,670

Franklin Income VIP Fund (continued)

	Year Ended December 31,			
	2018		2017	
	Shares	Amount	Shares	Amount
Class 2 Shares:				
Shares sold	11,659,052	\$ 185,115,657	12,063,249	\$ 190,265,472
Shares issued in reinvestment of distributions	14,573,705	227,495,537	13,740,843	212,433,443
Shares redeemed	(60,726,257)	(956,033,317)	(44,928,166)	(709,750,856)
Net increase (decrease)	(34,493,500)	\$(543,422,123)	(19,124,074)	\$(307,051,941)
Class 4 Shares:				
Shares sold	2,953,880	\$ 48,028,259	3,354,488	\$ 54,048,239
Shares issued in reinvestment of distributions	934,885	14,948,805	796,839	12,598,021
Shares redeemed	(4,625,977)	(74,794,820)	(3,605,896)	(58,187,395)
Net increase (decrease)	(737,212)	\$ (11,817,756)	545,431	\$ 8,458,865

3. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton. Certain officers and trustees of the Fund are also officers and/or directors of the following subsidiaries:

Subsidiary	Affiliation
Franklin Advisers, Inc. (Advisers)	Investment manager
Franklin Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

a. Management Fees

The Fund pays an investment management fee to Advisers based on the average daily net assets of the Fund as follows:

Annualized Fee Rate	Net Assets
0.625%	Up to and including \$100 million
0.500%	Over \$100 million, up to and including \$250 million
0.450%	Over \$250 million, up to and including \$7.5 billion
0.440%	Over \$7.5 billion, up to and including \$10 billion
0.430%	Over \$10 billion, up to and including \$12.5 billion
0.420%	Over \$12.5 billion, up to and including \$15 billion
0.400%	In excess of \$15 billion

For the year ended December 31, 2018, the gross effective investment management fee rate was 0.455% of the Fund's average daily net assets.

b. Administrative Fees

Under an agreement with Advisers, FT Services provides administrative services to the Fund. The fee is paid by Advisers based on the Fund's average daily net assets, and is not an additional expense of the Fund.

Franklin Income VIP Fund (continued)

3. Transactions with Affiliates (continued)

c. Distribution Fees

The Board has adopted distribution plans for Class 2 and Class 4 shares pursuant to Rule 12b-1 under the 1940 Act. Under the Fund's compensation distribution plans, the Fund pays Distributors for costs incurred in connection with the servicing, sale and distribution of the Fund's shares up to 0.35% per year of its average daily net assets of each class. The Board has agreed to limit the current rate to 0.25% per year for Class 2. The plan year, for purposes of monitoring compliance with the maximum annual plan rates, is February 1 through January 31.

d. Transfer Agent Fees

Investor Services, under terms of an agreement, performs shareholder servicing for the Fund and is not paid by the Fund for the services.

e. Investments in Affiliated Management Investment Companies

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the year ended December 31, 2018, the Fund held investments in affiliated management investment companies as follows:

	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Investment Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Non-Controlled Affiliates						Dividends		
Institutional Fiduciary Trust Money Market Portfolio, 1.99%	351,784,455	1,767,175,613	(1,961,766,894)	157,193,174	\$157,193,174	\$3,827,185 Income from securities loaned	\$ —	\$ —
Institutional Fiduciary Trust Money Market Portfolio, 1.99%	1,040,000	105,498,000	(105,439,000)	1,099,000	1,099,000	127,105	—	—
Total Affiliated Securities					\$158,292,174	\$3,954,290	\$ —	\$ —

f. Other Affiliated Transactions

At December 31, 2018, Franklin Templeton Variable Insurance Products Trust - Franklin Founding Funds Allocation VIP Fund owned 5.1% of the Fund's outstanding shares.

4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2018, the custodian fees were reduced as noted in the Statement of Operations.

5. Income Taxes

For tax purposes, capital losses may be carried over to offset future capital gains. Capital loss carryforwards with no expiration, if any, must be fully utilized before those losses with expiration dates.

Franklin Income VIP Fund (continued)

During the year ended December 31, 2018, the Fund utilized \$230,169,469 of capital loss carryforwards.

The tax character of distributions paid during the years ended December 31, 2018 and 2017, was as follows:

	2018	2017
Distributions paid from ordinary income	\$276,822,065	\$255,768,014

At December 31, 2018, the cost of investments, net unrealized appreciation (depreciation), undistributed ordinary income and undistributed long term capital gains for income tax purposes were as follows:

Cost of investments	\$5,094,918,384
Unrealized appreciation	\$ 387,537,001
Unrealized depreciation	(520,906,576)
Net unrealized appreciation (depreciation)	\$ (133,369,575)
Distributable earnings:	
Undistributed ordinary income	\$ 268,406,913
Undistributed long term capital gains	80,908,172
Total distributable earnings	\$ 349,315,085

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of bond discounts and premiums and equity-linked securities.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2018, aggregated \$2,339,321,168 and \$2,745,193,123, respectively.

At December 31, 2018, in connection with securities lending transactions, the Fund loaned corporate bonds and received \$1,374,043 of cash collateral. The gross amount of recognized liability for such transactions is included in payable upon return of securities loaned in the Statement of Assets and Liabilities. The agreements can be terminated at any time.

7. Credit Risk and Defaulted Securities

At December 31, 2018, the Fund had 35.6% of its portfolio invested in high yield, senior secured floating rate loans, or other securities rated below investment grade and unrated securities, if any. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to default than higher rated securities.

The Fund held defaulted securities and/or other securities for which the income has been deemed uncollectible. At December 31, 2018, the value of this security was \$8,885,432, representing 0.2% of the Fund's net assets. The Fund discontinues accruing income on securities for which income has been deemed uncollectible and provides an estimate for losses on interest receivable. The security has been identified in the accompanying Statement of Investments.

Franklin Income VIP Fund (continued)

8. Other Derivative Information

For the year ended December 31, 2018, the effect of derivative contracts in the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Location	Net Realized Gain (Loss) for the Year	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Year
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Equity contracts	Investments	\$(1,532,000) ^a	Investments	\$1,147,000 ^a
	Written options	3,958,115	Written options	575,894
Totals		<u>\$ 2,426,115</u>		<u>\$1,722,894</u>

^aPurchased option contracts are included in net realized gain (loss) from investments and net change in unrealized appreciation (depreciation) on investments in the Statement of Operations.

For the year ended December 31, 2018, the average month end notional amount of options represented 582,154 shares.

See Note 1(e) regarding derivative financial instruments.

9. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton, are borrowers in a joint syndicated senior unsecured credit facility totaling \$2 billion (Global Credit Facility) which matured on February 8, 2019. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. Effective February 8, 2019, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 7, 2020, for a total of \$2 billion.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2018, the Fund did not use the Global Credit Facility.

10. Fair Value Measurements

The Fund follows a fair value hierarchy that distinguishes between market data obtained from independent sources (observable inputs) and the Fund's own market assumptions (unobservable inputs). These inputs are used in determining the value of the Fund's financial instruments and are summarized in the following fair value hierarchy:

- Level 1 – quoted prices in active markets for identical financial instruments
- Level 2 – other significant observable inputs (including quoted prices for similar financial instruments, interest rates, prepayment speed, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of financial instruments)

The input levels are not necessarily an indication of the risk or liquidity associated with financial instruments at that level.

Franklin Income VIP Fund (continued)

A summary of inputs used as of December 31, 2018, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities: ^a				
Equity Investments: ^b				
Financials	\$ 325,025,733	\$ 10,093,750	\$ —	\$ 335,119,483
Industrials	50,545,500	8,596,495	—	59,141,995
Materials	84,532,300	48,759,650	—	133,291,950
All Other Equity Investments	1,270,238,975	—	—	1,270,238,975
Equity-Linked Securities	—	448,607,670	—	448,607,670
Index-Linked Notes	—	12,995,484	—	12,995,484
Convertible Bonds	—	43,634,242	—	43,634,242
Corporate Bonds	—	1,937,151,902	—	1,937,151,902
Senior Floating Rate Interests	—	187,341,984	—	187,341,984
U.S. Government and Agency Securities	—	375,457,907	—	375,457,907
Escrows and Litigation Trusts	—	—	— ^c	—
Short Term Investments	158,292,174	275,043	—	158,567,217
Total Investments in Securities	\$ 1,888,634,682	\$ 3,072,914,127	\$ —	\$ 4,961,548,809

^aFor detailed categories, see the accompanying Statement of Investments.

^bIncludes common and convertible preferred stocks.

^cIncludes securities determined to have no value at December 31, 2018.

A reconciliation of assets in which Level 3 inputs are used in determining fair value is presented when there are significant Level 3 financial instruments at the beginning and/or end of the year.

11. Subsequent Events

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure other than those already disclosed in the financial statements.

Abbreviations

Currency	Selected Portfolio
EUR Euro	ADR American Depositary Receipt
USD United States Dollar	FNMA Federal National Mortgage Association
	FRN Floating Rate Note
	LIBOR London InterBank Offered Rate

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Franklin Templeton Variable Insurance Products Trust and Shareholders of Franklin Income VIP Fund

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Franklin Income VIP Fund (the "Fund") as of December 31, 2018, the related statement of operations for the year ended December 31, 2018, the statement of changes in net assets for each of the two years in the period ended December 31, 2018, including the related notes, and the financial highlights for each of the five years in the period ended December 31, 2018 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as of December 31, 2018, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period ended December 31, 2018 and the financial highlights for each of the five years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the Fund's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Fund in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our procedures included confirmation of securities owned as of December 31, 2018 by correspondence with the custodian, transfer agent and brokers; when replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 15, 2019

We have served as the auditor of one or more investment companies in the Franklin Templeton Group of Funds since 1948.

Tax Information (unaudited)

Franklin Income VIP Fund

Under Section 854(b)(1)(A) of the Internal Revenue Code, the Fund hereby reports 22.73% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2018.

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Index Descriptions

The indexes are unmanaged and include reinvestment of any income or distributions. They do not reflect any fees, expenses or sales charges.

For Russell Indexes: Frank Russell Company is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Frank Russell Company.

See www.franklintempletondatasources.com for additional data provider information.

Bloomberg Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index representing the U.S. investment-grade, fixed-rate, taxable bond market with index components for government and corporate, mortgage pass-through and asset-backed securities. All issues included are SEC registered, taxable, dollar denominated and nonconvertible, must have at least one year to final maturity and must be rated investment grade (Baa3/BBB-/BBB- or higher) using the middle rating of Moody's, Standard & Poor's and Fitch, respectively.

Bloomberg Barclays U.S. Government Index: Intermediate Component is the intermediate component of the Barclays U.S. Government Index, which includes public obligations of the U.S. Treasury with at least one year to final maturity and publicly issued debt of U.S. government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the U.S. government.

Consumer Price Index (CPI) is a commonly used measure of the inflation rate.

FTSE® EPRA®/NAREIT® Developed Index is a free float-adjusted index designed to measure the performance of publicly traded real estate securities in the North American, European and Asian real estate markets.

FTSE World Government Bond Index is a market capitalization-weighted index consisting of investment-grade world government bond markets.

J.P. Morgan (JPM) Global Government Bond Index (GGBI) tracks total returns for liquid, fixed-rate, domestic government bonds with maturities greater than one year issued by developed countries globally.

Lipper Multi-Sector Income Funds Classification Average is calculated by averaging the total returns of all funds within the Lipper Multi-Sector Income Funds Classification in the Lipper Open-End underlying funds universe. Lipper Multi-Sector Income Funds are defined as funds that seek current income by allocation of assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including U.S. and foreign governments, with a significant portion rated below investment grade. For the 12-month period ended 12/31/18, there were 320 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP Equity Income Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper Equity Income Funds classification in the Lipper VIP underlying funds universe. Lipper Equity Income Funds seek relatively high current income and growth of income through investing 60% or more of their portfolios in equities. For the 12-month period ended 12/31/18, there were 81 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP General U.S. Government Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper General U.S. Government Funds classification in the Lipper VIP underlying funds universe. Lipper General U.S. Government Funds invest primarily in U.S. government and agency issues. For the 12-month period ended 12/31/18, there were 56 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

MSCI All Country World Index (ACWI) is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed and emerging markets.

MSCI All Country World Index (ACWI) ex USA Index captures large- and mid-capitalization representation across 22 of 23 developed markets countries (excluding the U.S.) and 23 emerging markets countries. The index covers approximately 85% of the global equity opportunity set outside the U.S.

MSCI Emerging Markets (EM) Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global emerging markets.

MSCI World Index is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets.

Russell 1000® Growth Index is market capitalization weighted and measures performance of those Russell 1000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Index is market capitalization weighted and measures performance of the largest companies in the Russell 3000® Index, which represents the majority of the U.S. market's total capitalization.

Russell 2000® Index is market capitalization weighted and measures performance of the 2,000 smallest companies in the Russell 3000® Index, which represent a small amount of the total market capitalization of the Russell 3000® Index.

Russell 2000® Value Index is market capitalization weighted and measures performance of those Russell 2000® Index companies with lower price-to-book ratios and lower forecasted growth values.

Russell 2500™ Index is market capitalization weighted and measures performance of the smallest companies in the Russell 3000® Index, which represent a modest amount of the Russell 3000® Index's total market capitalization.

Russell 3000® Growth Index is market capitalization weighted and measures performance of those Russell 3000® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell Midcap® Growth Index is market capitalization weighted and measures performance of those Russell Midcap® Index companies with higher price-to-book ratios and higher forecasted growth values.

Russell Midcap® Index is market capitalization weighted and measures performance of the smallest companies in the Russell 1000® Index, which represents a modest amount of the Russell 1000® Index's total market capitalization.

Standard & Poor's® 500 Index (S&P 500®) is a market capitalization-weighted index of 500 stocks designed to measure total U.S. equity market performance.

Standard & Poor's®/International Finance Corporation Investable (S&P/IFCI) Composite Index is a free float-adjusted, market capitalization-weighted index designed to measure equity performance in global emerging markets.

Board Members and Officers

The name, year of birth and address of the officers and board members, as well as their affiliations, positions held with the Trust, principal occupations during at least the past five years and number of U.S. registered portfolios overseen in the Franklin Templeton Investments fund complex, are shown below. Generally, each board member serves until that person's successor is elected and qualified.

Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Harris J. Ashton (1932) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1988	136	Bar-S Foods (meat packing company) (1981-2010).
Principal Occupation During at Least the Past 5 Years: Director of various companies; and formerly , Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).				
Terrence J. Checki (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2017	112	Hess Corporation (exploration of oil and gas) (2014-present).
Principal Occupation During at Least the Past 5 Years: Member of the Council on Foreign Relations (1996-present); Member of the National Committee on U.S.-China Relations (1999-present); member of the Board of Trustees of the Economic Club of New York (2013-present); member of the Board of Trustees of the Foreign Policy Association (2005-present) and member of various other boards of trustees and advisory boards; and formerly , Executive Vice President of the Federal Reserve Bank of New York and Head of its Emerging Markets and Internal Affairs Group and Member of Management Committee (1995-2014); and Visiting Fellow at the Council on Foreign Relations (2014).				
Mary C. Choksi (1950) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2014	136	Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and White Mountains Insurance Group, Ltd. (holding company) (2017-present)
Principal Occupation During at Least the Past 5 Years: Director of various companies; and formerly , Founder and Senior Advisor, Strategic Investment Group (investment management group) (2015-2017); Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).				
Edith E. Holiday (1952) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	136	Hess Corporation (exploration of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), Santander Consumer USA Holdings, Inc. (consumer finance) (2016-present), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013).
Principal Occupation During at Least the Past 5 Years: Director or Trustee of various companies and trusts; and formerly , Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison—United States Treasury Department (1988-1989).				
J. Michael Luttig (1954) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	136	Boeing Capital Corporation (aircraft financing) (2006-2013).
Principal Occupation During at Least the Past 5 Years: Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company) (2006-present); and formerly , Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).				

Independent Board Members (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Larry D. Thompson (1945) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	136	The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012).

Principal Occupation During at Least the Past 5 Years:

Director of various companies; Counsel, Finch McCranie, LLP (law firm) (2015-present); Independent Compliance Monitor and Auditor, Volkswagen AG (manufacturer of automobiles and commercial vehicles) (2017-present); John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (2015; previously 2011-2012); and **formerly**, Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

John B. Wilson (1959) One Franklin Parkway San Mateo, CA 94403-1906	Lead Independent Trustee	Trustee since 2007 and Lead Independent Trustee since 2008	112	None
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Principal Occupation During at Least the Past 5 Years:

President and Founder, Hyannis Port Capital, Inc. (real estate and private equity investing) (2002-present); Senior Advisor, McKinsey & Co. (consulting) (2017-present); serves on private and non-profit boards; and **formerly**, President, Staples International and Head of Global Transformation (office supplies) (2012-2016); Chief Operating Officer and Executive Vice President, Gap, Inc. (retail) (1996-2000); Chief Financial Officer and Executive Vice President – Finance and Strategy, Staples, Inc. (1992-1996); Senior Vice President – Corporate Planning, Northwest Airlines, Inc. (airlines) (1990-1992); and Vice President and Partner, Bain & Company (consulting firm) (1986-1990).

Interested Board Members and Officers

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
**Gregory E. Johnson (1961) One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2013	150	None

Principal Occupation During at Least the Past 5 Years:

Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and **formerly**, President, Franklin Resources, Inc. (1994-2015).

**Rupert H. Johnson, Jr. (1940) One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board, and Trustee	Chairman of the Board since 2013, and Trustee since 1988	136	None
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Principal Occupation During at Least the Past 5 Years:

Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 40 of the investment companies in Franklin Templeton Investments.

Alison E. Baur (1964) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2012	Not Applicable	Not Applicable
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Principal Occupation During at Least the Past 5 Years:

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Gaston Gardey (1967) One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 28 of the investment companies in Franklin Templeton Investments.				
Aliya S. Gordon (1973) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Steven J. Gray (1955) One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Co-Secretary	Vice President since 2009 and Co-Secretary since January 2019	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and FASA, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Matthew T. Hinkle (1971) One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2017	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Vice President, Franklin Templeton Services, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and formerly , Vice President, Global Tax (2012-April 2017) and Treasurer/Assistant Treasurer, Franklin Templeton Investments (2009-2017).				
Robert Lim (1948) One Franklin Parkway San Mateo, CA 94403-1906	Vice President – AML Compliance	Since 2016	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Kimberly H. Novotny (1972) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel, Franklin Templeton Investments; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Edward D. Perks (1970) One Franklin Parkway San Mateo, CA 94403-1906	President and Chief Executive Officer – Investment Management	Since December 2018	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: President and Director, Franklin Advisers, Inc.; and officer of nine of the investment companies in Franklin Templeton Investments (since December 2018).				

Interested Board Members and Officers (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
Robert C. Rosselot (1960) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 44 of the investment companies in Franklin Templeton Investments; and formerly , Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).				
Navid J. Tofigh (1972) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2015	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Associate General Counsel, Franklin Templeton Investments; and officer of 44 of the investment companies in Franklin Templeton Investments.				
Craig S. Tyle (1960) One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments.				
Lori A. Weber (1964) 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President and Co-Secretary	Vice President since 2011 and Co-Secretary since January 2019	Not Applicable	Not Applicable
Principal Occupation During at Least the Past 5 Years: Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 44 of the investment companies in Franklin Templeton Investments.				

*We base the number of portfolios on each separate series of the U.S. registered investment companies within the Franklin Templeton Investments fund complex. These portfolios have a common investment manager or affiliated investment managers.

**Gregory E. Johnson is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director of Franklin Resources, Inc. (Resources), which is the parent company of the Fund's investment manager and distributor. Rupert H. Johnson, Jr. is considered to be an interested person of the Fund under the federal securities laws due to his position as an officer and director and major shareholder of Resources.

Note 1: Rupert H. Johnson, Jr. is the uncle of Gregory E. Johnson.

Note 2: Officer information is current as of the date of this report. It is possible that after this date, information about officers may change.

The Sarbanes-Oxley Act of 2002 and Rules adopted by the Securities and Exchange Commission require the Fund to disclose whether the Fund's Audit Committee includes at least one member who is an audit committee financial expert within the meaning of such Act and Rules. The Fund's Board has determined that there is at least one such financial expert on the Audit Committee and has designated John B. Wilson as its audit committee financial expert. The Board believes that Mr. Wilson qualifies as such an expert in view of his extensive business background and experience, including service as chief financial officer of Staples, Inc. from 1992 to 1996. Mr. Wilson has been a Member and Chairman of the Fund's Audit Committee since 2007. As a result of such background and experience, the Board believes that Mr. Wilson has acquired an understanding of generally accepted accounting principles and financial statements, the general application of such principles in connection with the accounting estimates, accruals and reserves, and analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues generally comparable to those of the Fund, as well as an understanding of internal controls and procedures for financial reporting and an understanding of audit committee functions. Mr. Wilson is an independent Board member as that term is defined under the relevant Securities and Exchange Commission Rules and Releases.

The Statement of Additional Information (SAI) includes additional information about the board members and is available, without charge, upon request. Shareholders may call (800) DIAL BEN/342-5236 to request the SAI.

Shareholder Information

Board Approval of Investment Management Agreements

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

Franklin Founding Funds Allocation VIP Fund (Fund)

At a meeting held on October 23, 2018 (Meeting), the Board of Trustees (Board) of Franklin Templeton Variable Insurance Products Trust (Trust), including a majority of the trustees who are not “interested persons” as defined in the Investment Company Act of 1940 (Independent Trustees), reviewed and approved (i) a new investment management agreement between Franklin Advisers, Inc. (FAV) and the Trust, on behalf of the Fund, and (ii) new investment sub-advisory agreements (each a Sub-Advisory Agreement) between FAV and each of Franklin Templeton Institutional, LLC and Templeton Global Advisors Limited (each a Sub-Adviser), affiliates of FAV, on behalf of the Fund (each a Management Agreement) for an initial two year period effective on or about May 1, 2019, subject to prior approval of the shareholders of the Fund. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve each new Management Agreement. FAV and the Sub-Advisers are each referred to herein as a Manager.

The Board reviewed and considered information provided by each Manager at the Meeting. The Board also considered a form of Management Agreement and Sub-Advisory Agreement, which have terms that are consistent with the current investment management agreements and investment sub-advisory agreements used for other funds in the Franklin Templeton Investments (FTI) fund complex. The Board further considered the code of ethics applied to the employees of each Manager and compliance policies and procedures applied to the employees of each Manager. The Board noted that the Fund currently maintains a static allocation to underlying funds and so does not currently have an investment manager, nor pay investment management fees. The Board discussed with FAV the reasons for its request that the Board approve the new Management Agreements, including the proposed repositioning of the Fund from a fund-of-funds with a static allocation strategy to a direct investment fund with an actively managed dynamic allocation strategy. The Board noted FAV’s explanation that, as currently structured, the Fund generally does not meet the eligibility criteria for insurance companies’ living benefits products. The Board also noted that the Fund’s assets have declined substantially, from \$4.2 billion as of

August 31, 2012, to \$923 million as of August 31, 2018. The Board further noted management’s belief that the proposed repositioning will enable the Fund to be more widely distributed across insurance company platforms, reduce the volatility of the Fund’s returns and reduce the Fund’s overall expenses.

The Board reviewed and considered all of the factors it deemed relevant in approving each new Management Agreement, including, but not limited to: (i) the nature, extent and quality of the services to be provided by each Manager; (ii) the investment performance of the Fund; (iii) the costs of the services to be provided to the Fund; and (iv) the extent to which economies of scale are expected to be realized. The Board noted management’s proposal to request shareholder approval to allow the Fund to use a manager-of-manager structure as many other funds in the FTI fund complex have in place. The Board also noted that the Fund’s name would be changed to the “Franklin Allocation VIP Fund” to better reflect the repositioned strategy and structure of the Fund. In determining that the terms of each Management Agreement are fair and reasonable, the Board noted the level of services to be provided under each Management Agreement and the anticipated decrease in the overall fees and expenses of the Fund.

Nature, Extent and Quality of Services

The Board considered information regarding the nature, extent and quality of investment management services to be provided by each Manager and its affiliates to the Fund and its shareholders. In particular, the Board took into account management’s belief that the proposed repositioning, including the change from a static allocation fund-of-funds to a direct investment allocation fund, will enable the Fund to be more widely distributed across insurance company platforms and reduce the Fund’s overall expenses. The Board noted each Manager’s experience as manager of other funds and accounts, including those within the FTI organization; the personnel, operations, financial condition, and investment management capabilities, methodologies and resources of each Manager and each Manager’s capabilities, as demonstrated by, among other things, their policies and procedures designed to prevent violations of the Federal securities laws, which had previously been approved by the Board in connection with its oversight of other funds in the FTI organization.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services to be

provided by each Manager and its affiliates to the Fund and its shareholders.

Fund Performance

The Board reviewed and considered the performance results of the Fund over various time periods ended August 31, 2018. The Board considered the performance returns for the Fund in comparison to the performance returns of mutual funds deemed comparable to the Fund included in a universe (Performance Universe) selected by Broadridge Financial Solutions, Inc. (Broadridge), an independent provider of investment company data. The Board received a description of the methodology used by Broadridge to select the mutual funds included in the Performance Universe. The Board also considered Fund performance reports provided and discussions that occurred with portfolio managers at Board meetings throughout the year. A summary of the Fund's performance results is below.

The Performance Universe for the Fund included the Fund and all mixed-asset target allocation growth funds underlying variable insurance products (VIPs). The Board noted that the Fund's annualized income return for the one-, three-, five- and 10-year periods was above the median of its Performance Universe. The Board also noted that the Fund's annualized total return for the one-, three-, five- and 10-year periods was below the median of its Performance Universe. Given the Fund's income-oriented focus, the Board concluded that the Fund's performance was satisfactory, but noted that it did not consider the current performance of the Fund to be a material factor in its consideration of the Management Agreements given the proposed repositioning and restructuring of the Fund.

Comparative Fees and Expenses

The Board reviewed and considered information regarding the Fund's proposed total expense ratio and its various components, including, as applicable, management fees; transfer agent expenses; underlying fund expenses; Rule 12b-1 and non-Rule 12b-1 service fees; and other non-management fees. The Board considered the proposed total expense ratio and, separately, the proposed contractual management fee rate, without the effect of fee waivers (Management Rate), if any, of the Fund in comparison to the median expense ratio and median Management Rate, respectively, of other mutual funds deemed comparable to and with a similar expense structure as proposed for the Fund selected by Broadridge (Expense Group). Broadridge fee and expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market

volatility. While recognizing such inherent limitation and the fact that expense ratios and Management Rates generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Broadridge to be an appropriate measure of comparative fees and expenses. The Broadridge Management Rate includes administrative charges, and the proposed total expense ratio was shown for Class 4 of the Fund and an actual total expense ratio was shown for Class B, Class 2, Class II, Service Class and Class S of the other funds in the Expense Group. The Board received a description of the methodology used by Broadridge to select the mutual funds included in the Expense Group.

The Expense Group for the Fund included the Fund and seven other mixed-asset target allocation growth funds underlying VIPs. The Board noted that the Management Rate and proposed total expense ratio were below the medians of its Expense Group. The Board concluded that the Management Rate to be charged to the Fund is reasonable. In doing so, the Board noted that the Fund's proposed total expense ratio reflected a fee waiver from management and that the Sub-Advisers would be paid by FAV out of the management fee FAV would receive from the Fund.

Profitability

The Board then noted that FAV and its affiliates could not report any financial results from their relationships with the Fund because the Fund does not currently have an investment manager, nor pay investment management fees, and thus, the Board could not evaluate FAV's or its affiliates' profitability with respect to the Fund. The Board noted that investment management fees are currently paid by the underlying funds in which the Fund invests.

Economies of Scale

The Board considered the extent to which FAV and its affiliates may realize economies of scale, if any, and whether the Fund's proposed management fee structure reflects any economies of scale for the benefit of shareholders. The Board noted that FAV (and its affiliates) could not report on any potential economies of scale at this time given the repositioning and restructuring of the Fund, but would be able to do so in connection with the Fund's annual contract renewal process.

Conclusion

Based on its review, consideration and evaluation of all factors it believed relevant, including the above-described factors and conclusions, the Board unanimously approved each Management Agreement for an initial two year period effective

on or about May 1, 2019, subject to prior approval of the shareholders of the Fund.

Proxy Voting Policies and Procedures

The Trust's investment manager has established Proxy Voting Policies and Procedures (Policies) that the Trust uses to determine how to vote proxies relating to portfolio securities. Shareholders may view the Trust's complete Policies online at franklintempleton.com. Alternatively, shareholders may request copies of the Policies free of charge by calling the Proxy Group collect at (954) 527-7678 or by sending a written request to: Franklin Templeton Companies, LLC, 300 S.E. 2nd Street, Fort Lauderdale, FL 33301, Attention: Proxy Group. Copies of the Trust's proxy voting records are also made available online at franklintempleton.com and posted on the U.S. Securities and Exchange Commission's website at sec.gov and reflect the most recent 12-month period ended June 30.

Quarterly Statement of Investments

The Trust files a complete statement of investments with the U.S. Securities and Exchange Commission for the first and third quarters for each fiscal year on Form N-Q. Shareholders may view the filed Form N-Q by visiting the Commission's website at sec.gov. The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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Annual Report
Franklin Templeton Variable Insurance Products Trust

Investment Managers

Franklin Advisers, Inc.
Franklin Advisory Services, LLC
Franklin Mutual Advisers, LLC
Franklin Templeton Institutional, LLC
Templeton Asset Management Ltd.
Templeton Global Advisors Limited
Templeton Investment Counsel, LLC

Fund Administrator

Franklin Templeton Services, LLC

Distributor

Franklin Templeton Distributors, Inc.

Franklin Templeton Variable Insurance Products Trust (FTVIP) shares are not offered to the public; they are offered and sold only to: (1) insurance company separate accounts (Separate Account) to serve as the underlying investment vehicle for variable contracts; (2) certain qualified plans; and (3) other mutual funds (funds of funds).

Authorized for distribution to investors in Separate Accounts only when accompanied or preceded by the current prospectus for the applicable contract, which includes the Separate Account and the FTVIP prospectuses. Investors should carefully consider a fund's investment goals, risks, charges and expenses before investing. The prospectus contains this and other information; please read it carefully before investing.

To help ensure we provide you with quality service, all calls to and from our service areas are monitored and/or recorded.