



**FRANKLIN
TEMPLETON**

Annual Report

December 31, 2018

Franklin Templeton Variable Insurance Products Trust



Franklin Templeton Variable Insurance Products Trust Annual Report

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

Not FDIC Insured | May Lose Value | No Bank Guarantee

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 Small Cap Value VIP Fund

This annual report for Franklin Small Cap Value 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	-12.88%	+3.17%	+11.63%

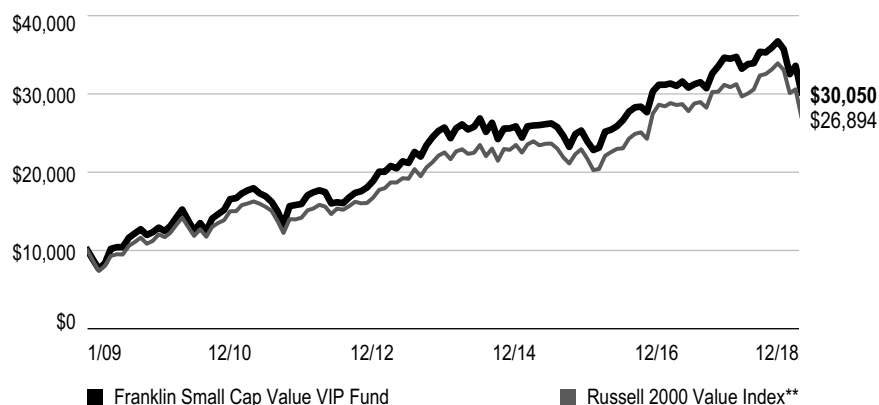
*The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through 4/30/19. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

*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 Russell 2000® Value 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 long-term total return. Under normal market conditions, the Fund invests at least 80% of its net assets in investments of small capitalization companies. For this Fund, small capitalization companies are those with market capitalizations not exceeding either the highest market capitalization in the Russell 2000® Index or the 12-month average of the highest market capitalization in the Russell 2000® Index, whichever is greater, at the time of purchase. The Fund generally invests in equity securities of companies that the manager believes are undervalued at the time of purchase and have the potential for capital appreciation.

Fund Risks

All investments involve risks, including possible loss of principal. Value securities may not increase in price as anticipated, or may decline further in value. The Fund's investments in smaller company stocks carry special risks as such stocks have historically exhibited greater price volatility than large-company stocks, particularly over the short term. Additionally, smaller companies often have relatively small revenues, limited product lines and a small market share. In addition, the Fund may invest up to 25% of its total assets in foreign securities, which involve special risks, including currency fluctuations and economic and political uncertainty. The Fund also may invest in equity real estate investment trusts (REITs). 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. In comparison, the Russell 2000® Value Index had a -12.86% total return for the same period.¹ Please note the Fund employs a bottom-up stock selection process, and the managers invest in securities without regard to benchmark comparisons.

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. 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.

U.S. equity markets overall declined during the period amid concerns about tighter regulation of technology companies, the pace of the Fed's rate increases, U.S. political uncertainties, the Trump administration's protectionist policies, and the potential impact of the U.S.-China trade dispute on U.S. and global growth and corporate earnings. However, these concerns were partially alleviated by an overall easing of tensions in the Korean peninsula, ongoing trade negotiations between the U.S. and the European Union, and a new trade deal between the U.S., Mexico and Canada (pending ratification by the three countries' legislatures), and intermittent U.S.-China trade negotiations, including a temporary truce that the two countries reached in December. Markets also benefited from mostly upbeat economic data, better U.S. corporate earnings, results of the U.S. mid-term elections and a potentially slower pace to the Fed's rate increases. In this environment, the broad U.S. stock market, as measured by the Standard & Poor's® 500 Index (S&P 500®), reached a new all-time high in September 2018, but had a -4.38% total return for the 12-month period.¹

Investment Strategy

Our strategy is to invest in small-cap companies that we believe are undervalued at the time of purchase and have the potential for capital appreciation. A stock is undervalued, or is a "value," when it trades at less than the price at which the investment manager believes it would trade if the market reflected all factors relating to the company's worth. Following this strategy, the Fund invests in companies that the investment

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.

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).

manager believes have, for example: stock prices that are low relative to current, or historical or future earnings, book value, cash flow or sales; recent sharp price declines but the potential for good long-term earnings prospects; and valuable intangibles not reflected in the stock price. The Fund also may invest in equity real estate investment trusts (REITs).

The Fund may invest up to 25% of its total assets in foreign securities.

Manager's Discussion

For the fiscal year ended December 31, 2018, some contributors to absolute Fund performance included Esterline Technologies, Zebra Technologies and Brinker.

Shares of Esterline Technologies, an aerospace and defense component supplier, jumped on reports in July 2018 that it was exploring a possible sale. The aerospace industry has been undergoing a consolidation phase fueled by a combination of likely increases in U.S. defense spending, growing passenger air traffic and increased industry competitiveness. In August, the company posted improved results for its fiscal third quarter, including 20% operating margins in its materials business. Ultimately, in October, Esterline announced an agreement to be purchased by Transdigm (not a fund holding) at a nearly 40% premium to the prior closing price.

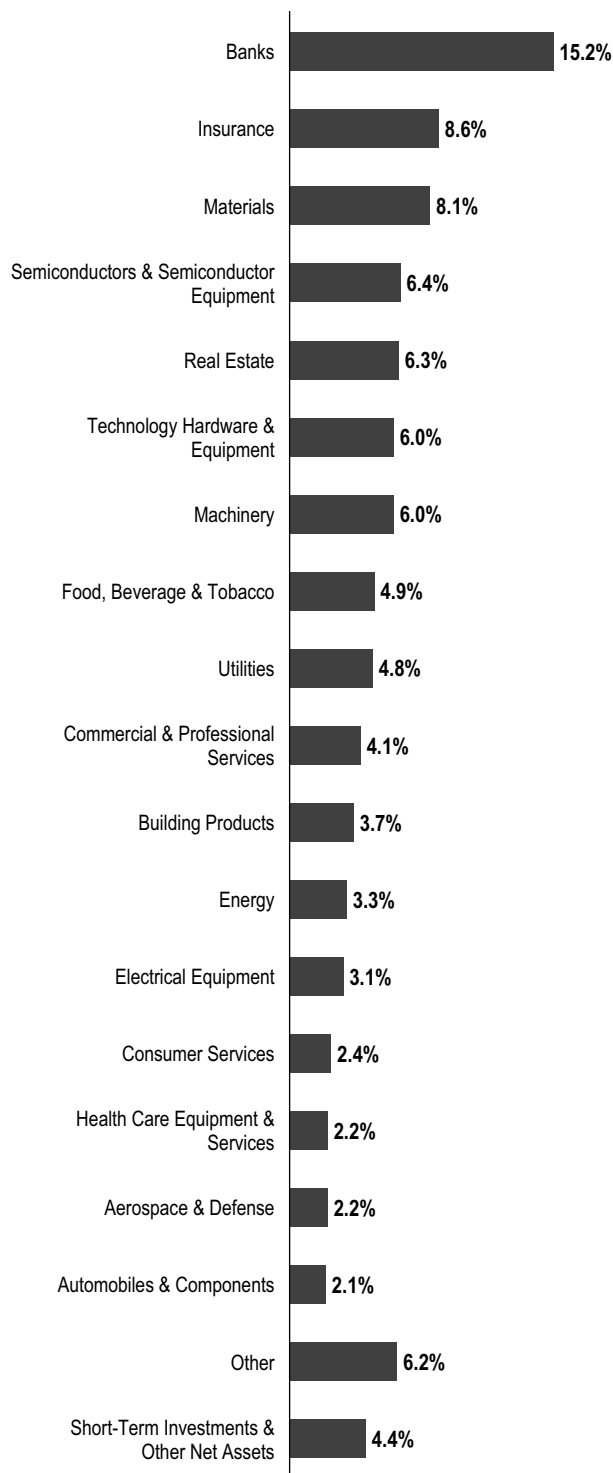
Zebra Technologies is a leader in the automatic identification and data capture market. Shares of Zebra Technologies rose during the year, as the company reported an acceleration in year-over-year organic revenue growth, improved its gross profit margins, and made substantial progress on reducing and refinancing its debt. These positive developments helped increase the company's earnings power. Toward the end of 2018, we reduced our investment position in the company as the stock price advanced toward our estimate of intrinsic value.

Casual dining restaurant company Brinker's shares rose in the first half of 2018 on signs of further improvement in sales as a healthier labor market and U.S. income tax cuts resulted in greater levels of consumer confidence. In the case of Brinker more specifically, a revamped menu and focus on driving increased traffic through quality and value offerings helped to improve same-store sales trends to the highest levels since 2015. In late October, Brinker reported solid quarterly earnings driven in part by menu changes that boosted customer traffic, which helped push its stock price higher in November.

Detractors from absolute Fund performance included First Horizon, Astec Industries and LCI Industries.

Portfolio Composition

Based on Total Net Assets as of 12/31/18



Shares of First Horizon, a regional bank with a footprint in the southeastern U.S., declined due to weaker-than-expected operational results tied to lower interest rate spread income and challenging fixed income capital markets conditions. While

Top 10 Holdings

12/31/18

Company Sector/Industry	% of Total Net Assets
The Hanover Insurance Group Inc. <i>Insurance</i>	3.7%
OceanaGold Corp. (Australia) <i>Materials</i>	3.0%
Columbia Banking System Inc. <i>Banks</i>	2.8%
Gibraltar Industries Inc. <i>Building Products</i>	2.8%
Regal Beloit Corp. <i>Electrical Equipment</i>	2.7%
Old Republic International Corp. <i>Insurance</i>	2.7%
First Horizon National Corp. <i>Banks</i>	2.5%
Brinker International Inc. <i>Consumer Services</i>	2.3%
Maple Leaf Foods Inc. <i>Food, Beverage & Tobacco</i>	2.3%
Horace Mann Educators Corp. <i>Insurance</i>	2.2%

some of the operational challenges likely resulted from the integration of Capital Bank (not a Fund holding), which it acquired in late 2017, the banking industry is facing a more challenging interest-rate spread outlook. Interest rates for customer deposits and competition between banks have risen, while the yield curve has flattened, hurting net interest margins. Consequently, bank stocks, including First Horizon, have been under pressure from lower earnings growth expectations and a corresponding decline in valuation levels.

Astec Industries, a leading manufacturer of road paving and mining equipment, saw its shares negatively impacted by declining orders and a substantial charge related to its wood pellet business. We continue to see opportunities for Astec to increase earnings and free cash flow generation. It is also taking steps to improve margins and capital allocation, including retaining an outside consulting firm to assist in reducing procurement costs.

LCI Industries (formerly, Drew Industries) is a leading manufacturer of original equipment and replacement components for recreational vehicles (RVs), manufactured homes and watercraft. The stock price declined as an increase in RV dealer inventories was expected to cause a reduction in RV production rates, in order to better match supply and demand. In addition, an increase in interest rates negatively impacted investor sentiment. LCI has spent several years

diversifying its business away from sole reliance on RVs, which has helped to mitigate an otherwise more negative impact. We are hopeful that as consumers remain interested in the RV lifestyle, orders will rebound and investor sentiment will improve.

During the reporting period, we added some new positions with the largest purchases including Synaptics, a developer of human interface hardware and software; Carpenter Technology, a producer of stainless steels and special corrosion-resistant alloys; and laser manufacturer Coherent. We added to existing positions in Regal Beloit, a provider of electric motors; and MKS Instruments, a provider of subsystems solutions and instruments to the semiconductor and other advanced manufacturing industries. Conversely, we exited some positions including Energen, Spirit Airlines and BRP. We also reduced our positions in Simpson Manufacturing, AAR and the aforementioned Zebra Technologies.

Thank you for your participation in Franklin Small Cap Value 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	\$851.30	\$4.25	\$1,020.62	\$4.63	0.91%

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 NOVEMBER 2, 2018
TO THE PROSPECTUS DATED MAY 1, 2018
OF
FRANKLIN SMALL CAP VALUE VIP FUND
(A series of Franklin Templeton Variable Insurance Products Trust)**

The prospectus is amended as follows:

I. On November 1, 2018, the investment management services provided by Franklin Advisory Services, LLC (Advisory Services), a wholly owned subsidiary of Franklin Resources, Inc. (Resources), and the personnel that provide such services to the Fund were restructured into Franklin Mutual Advisers, LLC (Franklin Mutual), also a wholly owned subsidiary of Resources. In particular, Franklin Mutual will assume the duties and obligations of Advisory Services under the investment management agreement between Advisory Services and Franklin Templeton Variable Insurance Products Trust on behalf of the Fund. Employees of Advisory Services that currently provide investment management services to the Fund will become employees of Franklin Mutual and will continue to provide the same investment management services to the Fund under the same investment management fee schedule. This restructuring will not involve a change in actual control or management of the Fund's investment manager and the same individuals will continue to provide portfolio management services to the Fund. Because there is no actual change in control or management of the investment adviser, this restructuring does not constitute an "assignment" of the investment management agreement for purposes of the Investment Company Act of 1940 and, therefore, a shareholder vote is not required.

II. Therefore, the following replaces the "Investment Manager" and "Portfolio Managers" sections in the "Fund Summaries – Franklin Small Cap Value VIP Fund" section of the prospectus:

Investment Manager

Franklin Mutual Advisers, LLC (Franklin Mutual)

Portfolio Managers

Steven B. Raineri

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2012.

Christopher Meeker, CFA

Portfolio Manager of Franklin Mutual and portfolio manager of the Fund since 2015.

III. The following is added as the first paragraph under the "Fund Details – Management" section of the prospectus:

On November 1, 2018, the investment management services provided by Franklin Advisory Services, LLC (Advisory Services), a wholly owned subsidiary of Franklin Resources, Inc. (Resources), and the personnel that provided such services to the Fund, were restructured into Franklin Mutual Advisers, LLC (Franklin Mutual), also a wholly owned subsidiary of Resources. In particular, Franklin Mutual assumed the duties and obligations of Advisory Services under the investment management agreement between Advisory Services and the Trust on behalf of the Fund. Employees of Advisory Services that provided investment management services to the Fund became employees of Franklin Mutual and continued to provide the same investment management services to the Fund under the same investment management fee schedule.

IV. In the remainder of the prospectus, all references to "Franklin Advisory Services, LLC" and "Advisory Services" as they relate to the investment manager of the Fund are replaced with "Franklin Mutual Advisers, LLC" and "Franklin Mutual," respectively.

Please keep this supplement with your prospectus for future reference.

**SUPPLEMENT DATED NOVEMBER 2, 2018
TO THE STATEMENT OF ADDITIONAL INFORMATION
DATED MAY 1, 2018
OF
FRANKLIN SMALL CAP VALUE VIP FUND
(A series of Franklin Templeton Variable Insurance Products Trust)**

The statement of additional information (SAI) is amended as follows:

I. On November 1, 2018, the investment management services provided by Franklin Advisory Services, LLC (Advisory Services), a wholly owned subsidiary of Franklin Resources, Inc. (Resources), and the personnel that provide such services to the Fund were restructured into Franklin Mutual Advisers, LLC (Franklin Mutual), also a wholly owned subsidiary of Resources. In particular, Franklin Mutual will assume the duties and obligations of Advisory Services under the investment management agreement between Advisory Services and Franklin Templeton Variable Insurance Products Trust on behalf of the Fund. Employees of Advisory Services that currently provide investment management services to the Fund will become employees of Franklin Mutual and will continue to provide the same investment management services to the Fund under the same investment management fee schedule. This restructuring will not involve a change in actual control or management of the Fund’s investment manager and the same individuals will continue to provide portfolio management services to the Fund. Because there is no actual change in control or management of the investment adviser, this restructuring does not constitute an “assignment” of the investment management agreement for purposes of the Investment Company Act of 1940 and, therefore, a shareholder vote is not required.

II. Therefore, all references to “Franklin Advisory Services, LLC” and “Advisory Services” as they relate to the investment manager of the Fund, are replaced with “Franklin Mutual Advisers, LLC” and “Franklin Mutual,” respectively.

III. In addition, the following is added as the first paragraph under the section “Management and Other Services” in the SAI:

On November 1, 2018, the investment management services provided by Franklin Advisory Services, LLC (Advisory Services), a wholly owned subsidiary of Franklin Resources, Inc. (Resources), and the personnel that provided such services to the Franklin Small Cap Value VIP Fund, were restructured into Franklin Mutual Advisers, LLC (Franklin Mutual), also a wholly owned subsidiary of Resources. In particular, Franklin Mutual assumed the duties and obligations of Advisory Services under the investment management agreement between Advisory Services and the Trust on behalf of the Fund. Employees of Advisory Services that provided investment management services to the Fund became employees of Franklin Mutual and continued to provide the same investment management services to the Fund under the same investment management fee schedule. References to Franklin Mutual as it relates to the investment manager of the Fund in the remainder of this SAI relate to Franklin Mutual and Advisory Services as its predecessor.

Please keep this supplement with your prospectus for future reference.

Financial Highlights

Franklin Small Cap Value 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	\$20.43	\$19.93	\$18.12	\$22.81	\$24.54
Income from investment operations ^a :					
Net investment income ^b	0.21	0.21 ^c	0.15	0.21	0.19
Net realized and unrealized gains (losses)	(2.29)	1.82	4.79	(1.53)	0.06
Total from investment operations	(2.08)	2.03	4.94	(1.32)	0.25
Less distributions from:					
Net investment income	(0.23)	(0.15)	(0.21)	(0.20)	(0.20)
Net realized gains	(2.98)	(1.38)	(2.92)	(3.17)	(1.78)
Total distributions	(3.21)	(1.53)	(3.13)	(3.37)	(1.98)
Net asset value, end of year	\$15.14	\$20.43	\$19.93	\$18.12	\$22.81
Total return ^d	(12.69)%	10.92%	30.54%	(7.18)%	0.88%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	0.66%	0.66%	0.66%	0.65%	0.63%
Expenses net of waiver and payments by affiliates	0.65% ^e	0.65% ^e	0.64% ^e	0.64% ^e	0.63% ^{e,f}
Net investment income	1.13%	1.06% ^c	0.84%	1.04%	0.82%
Supplemental data					
Net assets, end of year (000's)	\$40,644	\$51,245	\$47,831	\$45,897	\$57,843
Portfolio turnover rate	47.82%	33.36%	34.60%	27.05%	19.45%

^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 share in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.06 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.75%.

^dTotal 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.

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

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

Franklin Small Cap Value 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	\$19.80	\$19.36	\$17.68	\$22.32	\$24.07
Income from investment operations ^a :					
Net investment income ^b	0.16	0.15 ^c	0.10	0.16	0.13
Net realized and unrealized gains (losses)	(2.20)	1.77	4.66	(1.49)	0.05
Total from investment operations	(2.04)	1.92	4.76	(1.33)	0.18
Less distributions from:					
Net investment income	(0.18)	(0.10)	(0.16)	(0.14)	(0.15)
Net realized gains	(2.98)	(1.38)	(2.92)	(3.17)	(1.78)
Total distributions	(3.16)	(1.48)	(3.08)	(3.31)	(1.93)
Net asset value, end of year	\$14.60	\$19.80	\$19.36	\$17.68	\$22.32
Total return ^d	(12.88)%	10.65%	30.19%	(7.39)%	0.57%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	0.91%	0.91%	0.91%	0.90%	0.88%
Expenses net of waiver and payments by affiliates	0.90% ^e	0.90% ^e	0.89% ^e	0.89% ^e	0.88% ^{e,f}
Net investment income	0.88%	0.81% ^c	0.59%	0.79%	0.57%
Supplemental data					
Net assets, end of year (000's)	\$978,675	\$1,302,055	\$1,366,807	\$1,172,173	\$1,445,325
Portfolio turnover rate	47.82%	33.36%	34.60%	27.05%	19.45%

^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 share in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.06 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.50%.

^dTotal 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.

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

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

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
FINANCIAL HIGHLIGHTS

Franklin Small Cap Value 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	\$20.22	\$19.74	\$17.96	\$22.63	\$24.37
Income from investment operations ^a :					
Net investment income ^b	0.15	0.14 ^c	0.09	0.14	0.11
Net realized and unrealized gains (losses)	(2.28)	1.81	4.75	(1.52)	0.05
Total from investment operations	(2.13)	1.95	4.84	(1.38)	0.16
Less distributions from:					
Net investment income	(0.15)	(0.09)	(0.14)	(0.12)	(0.12)
Net realized gains	(2.98)	(1.38)	(2.92)	(3.17)	(1.78)
Total distributions	(3.13)	(1.47)	(3.06)	(3.29)	(1.90)
Net asset value, end of year	\$14.96	\$20.22	\$19.74	\$17.96	\$22.63
Total return ^d	(13.01)%	10.56%	30.12%	(7.52)%	0.48%
Ratios to average net assets					
Expenses before waiver and payments by affiliates	1.01%	1.01%	1.01%	1.00%	0.98%
Expenses net of waiver and payments by affiliates	1.00% ^e	1.00% ^e	0.99% ^e	0.99% ^e	0.98% ^{e,f}
Net investment income	0.78%	0.71% ^c	0.49%	0.69%	0.47%
Supplemental data					
Net assets, end of year (000's)	\$24,592	\$32,053	\$32,751	\$26,128	\$30,452
Portfolio turnover rate	47.82%	33.36%	34.60%	27.05%	19.45%

^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 share in relation to income earned and/or fluctuating fair value of the investments of the Fund.

^bBased on average daily shares outstanding.

^cNet investment income per share includes approximately \$0.06 per share related to income received in the form of special dividends in connection with certain Fund holdings. Excluding this amount, the ratio of net investment income to average net assets would have been 0.40%.

^dTotal 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.

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

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

Statement of Investments, December 31, 2018
Franklin Small Cap Value VIP Fund

	Shares	Value
Common Stocks 94.5%		
Aerospace & Defense 2.2%		
AAR Corp.	316,870	\$ 11,831,926
^a Esterline Technologies Corp.	50,255	6,103,470
^a Wesco Aircraft Holdings Inc.	657,334	5,192,938
		<u>23,128,334</u>
Automobiles & Components 2.1%		
Gentex Corp.	36,000	727,560
LCI Industries	237,470	15,862,996
Thor Industries Inc.	108,514	5,642,728
		<u>22,233,284</u>
Banks 15.2%		
Access National Corp.	244,865	5,222,971
Bryn Mawr Bank Corp.	380,483	13,088,615
Chemical Financial Corp.	548,442	20,078,462
Columbia Banking System Inc.	795,500	28,868,695
First Horizon National Corp.	1,971,637	25,946,743
First of Long Island Corp.	614,355	12,256,382
German American Bancorp Inc.	137,322	3,813,432
Glacier Bancorp Inc.	209,600	8,304,352
Lakeland Financial Corp.	516,362	20,737,098
Peoples Bancorp Inc.	289,712	8,720,331
TrustCo Bank Corp. NY	708,200	4,858,252
Washington Trust Bancorp Inc.	147,491	7,010,247
		<u>158,905,580</u>
Building Products 3.7%		
^a Gibraltar Industries Inc.	806,679	28,709,706
Insteel Industries Inc.	225,239	5,468,803
Simpson Manufacturing Co. Inc.	17,360	939,697
Universal Forest Products Inc.	140,640	3,651,014
		<u>38,769,220</u>
Commercial & Professional Services 4.1%		
^a Huron Consulting Group Inc.	264,100	13,550,971
McGrath RentCorp	422,195	21,734,599
^a Team Inc.	503,600	7,377,740
		<u>42,663,310</u>
Consumer Durables & Apparel 0.6%		
Toll Brothers Inc.	91,905	3,026,432
^a Unifi Inc.	121,800	2,781,912
		<u>5,808,344</u>
Consumer Services 2.4%		
Brinker International Inc.	555,540	24,432,649
Electrical Equipment 3.1%		
Encore Wire Corp.	75,262	3,776,647
Regal Beloit Corp.	407,900	28,573,395
		<u>32,350,042</u>
Energy 2.4%		
Hunting PLC (United Kingdom)	3,119,124	19,092,781
^a Natural Gas Services Group Inc.	173,987	2,860,346
^a Oil States International Inc.	164,323	2,346,533

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
STATEMENT OF INVESTMENTS

Franklin Small Cap Value VIP Fund (continued)

	Shares	Value
Common Stocks (continued)		
Energy (continued)		
^a Rowan Cos. PLC	42,157	\$ 353,697
		<u>24,653,357</u>
Food, Beverage & Tobacco 4.9%		
Dairy Crest Group PLC (United Kingdom)	3,182,780	17,136,422
^a Landec Corp.	848,600	10,047,424
Maple Leaf Foods Inc. (Canada)	1,213,649	24,300,544
		<u>51,484,390</u>
Health Care Equipment & Services 2.2%		
^a AMN Healthcare Services Inc.	154,800	8,770,968
Hill-Rom Holdings Inc.	90,101	7,978,444
STERIS PLC	59,750	6,384,287
		<u>23,133,699</u>
Industrial Conglomerates 0.6%		
Carlisle Cos. Inc.	66,400	6,674,528
Insurance 8.6%		
The Hanover Insurance Group Inc.	329,000	38,417,330
Horace Mann Educators Corp.	608,478	22,787,501
Old Republic International Corp.	1,382,600	28,440,082
		<u>89,644,913</u>
Machinery 5.8%		
Astec Industries Inc.	149,196	4,504,227
Federal Signal Corp.	141,700	2,819,830
The Greenbrier Cos. Inc.	121,600	4,808,064
Kennametal Inc.	199,136	6,627,246
^a The Manitowoc Co. Inc.	256,912	3,794,590
Mueller Industries Inc.	221,300	5,169,568
Mueller Water Products Inc., A	2,440,700	22,210,370
Oshkosh Corp.	109,900	6,737,969
Titan International Inc.	782,153	3,644,833
		<u>60,316,697</u>
Materials 8.1%		
Carpenter Technology Corp.	514,324	18,315,077
^a Ingevity Corp.	12,600	1,054,494
Minerals Technologies Inc.	364,552	18,716,100
OceanaGold Corp. (Australia)	8,559,600	31,229,575
PH Glatfelter Co.	797,300	7,781,648
Reliance Steel & Aluminum Co.	110,700	7,878,519
		<u>84,975,413</u>
Pharmaceuticals, Biotechnology & Life Sciences 1.5%		
^a Cambrex Corp.	218,667	8,256,866
^a Syneos Health Inc., A	181,000	7,122,350
		<u>15,379,216</u>
Real Estate 6.3%		
Brandywine Realty Trust	814,300	10,480,041
Highwoods Properties Inc.	401,600	15,537,904
LTC Properties Inc.	319,555	13,319,053
Retail Properties of America Inc., A	1,668,211	18,100,089

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
STATEMENT OF INVESTMENTS

Franklin Small Cap Value VIP Fund (continued)

	Shares	Value
Common Stocks (continued)		
Real Estate (continued)		
Sunstone Hotel Investors Inc.	672,297	\$ 8,746,584
		<u>66,183,671</u>
Retailing 1.4%		
Caleres Inc.	533,899	14,858,409
Semiconductors & Semiconductor Equipment 6.4%		
^a Advanced Energy Industries Inc.	351,776	15,101,744
Kulicke and Soffa Industries Inc. (Singapore)	138,700	2,811,449
MKS Instruments Inc.	81,694	5,278,249
^a Synaptics Inc.	571,114	21,251,152
Versum Materials Inc.	804,614	22,303,900
		<u>66,746,494</u>
Software & Services 0.9%		
LogMeIn Inc.	112,700	9,192,939
Technology Hardware & Equipment 6.0%		
^a Coherent Inc.	141,308	14,937,668
^a Finisar Corp.	992,200	21,431,520
^a Plexus Corp.	329,174	16,814,208
^a Zebra Technologies Corp., A	60,200	9,585,646
		<u>62,769,042</u>
Transportation 1.2%		
Heartland Express Inc.	701,600	12,839,280
Utilities 4.8%		
Black Hills Corp.	333,500	20,937,130
IDACORP Inc.	117,289	10,914,914
Spire Inc.	243,155	18,012,923
		<u>49,864,967</u>
Total Common Stocks (Cost \$969,951,784)		<u>987,007,778</u>
	Principal Amount	
Corporate Bonds 1.1%		
Energy 0.9%		
Unit Corp., senior sub. note, 6.625%, 5/15/21	\$ 9,632,000	8,813,280
Machinery 0.2%		
Mueller Industries Inc., sub. bond, 6.00%, 3/01/27	2,378,000	2,223,430
Total Corporate Bonds (Cost \$11,723,904)		<u>11,036,710</u>
Total Investments before Short Term Investments (Cost \$981,675,688)		<u>998,044,488</u>

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
STATEMENT OF INVESTMENTS

Franklin Small Cap Value VIP Fund (continued)

	Shares	Value
Short Term Investments (Cost \$45,444,842) 4.4%		
Money Market Funds 4.4%		
^{b,c} Institutional Fiduciary Trust Money Market Portfolio, 1.99%	45,444,842	\$ 45,444,842
Total Investments (Cost \$1,027,120,530) 100.0%		1,043,489,330
Other Assets, less Liabilities 0.0% [†]		421,193
Net Assets 100.0%		<u>\$1,043,910,523</u>

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

^aNon-income producing.

^bSee Note 3(e) regarding investments in affiliated management investment companies.

^cThe rate shown is the annualized seven-day effective yield at period end.

Financial Statements

Statement of Assets and Liabilities

December 31, 2018

	Franklin Small Cap Value VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$ 981,675,688
Cost - Non-controlled affiliates (Note 3e)	45,444,842
Value - Unaffiliated issuers	\$ 998,044,488
Value - Non-controlled affiliates (Note 3e)	45,444,842
Receivables:	
Investment securities sold	297,448
Capital shares sold	804,266
Dividends and interest	1,492,463
Other assets	154
Total assets	1,046,083,661
Liabilities:	
Payables:	
Investment securities purchased	299,643
Capital shares redeemed	633,256
Management fees	575,471
Distribution fees	452,235
Reports to shareholders	156,200
Accrued expenses and other liabilities	56,333
Total liabilities	2,173,138
Net assets, at value	\$1,043,910,523
Net assets consist of:	
Paid-in capital	\$ 825,829,262
Total distributable earnings (loss)	218,081,261
Net assets, at value	\$1,043,910,523
Class 1:	
Net assets, at value	\$ 40,644,080
Shares outstanding	2,684,609
Net asset value and maximum offering price per share	\$15.14
Class 2:	
Net assets, at value	\$ 978,674,827
Shares outstanding	67,047,860
Net asset value and maximum offering price per share	\$14.60
Class 4:	
Net assets, at value	\$ 24,591,616
Shares outstanding	1,643,814
Net asset value and maximum offering price per share	\$14.96

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST
FINANCIAL STATEMENTS

Statement of Operations

for the year ended December 31, 2018

	Franklin Small Cap Value VIP Fund
Investment income:	
Dividends: (net of foreign taxes)*	
Unaffiliated issuers	\$ 21,428,933
Non-controlled affiliates (Note 3e)	632,091
Interest:	
Unaffiliated issuers	883,295
Total investment income	<u>22,944,319</u>
Expenses:	
Management fees (Note 3a)	8,133,921
Distribution fees: (Note 3c)	
Class 2	3,016,126
Class 4	103,206
Custodian fees (Note 4)	17,465
Reports to shareholders	274,665
Professional fees	61,514
Trustees' fees and expenses	9,503
Other	53,164
Total expenses	11,669,564
Expense reductions (Note 4)	(191)
Expenses waived/paid by affiliates (Note 3e)	(156,940)
Net expenses	<u>11,512,433</u>
Net investment income	<u>11,431,886</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments:	
Unaffiliated issuers	191,799,018
Realized gain distributions from REITs	680,677
Foreign currency transactions	39,195
Net realized gain (loss)	<u>192,518,890</u>
Net change in unrealized appreciation (depreciation) on:	
Investments:	
Unaffiliated issuers	(356,980,750)
Translation of other assets and liabilities denominated in foreign currencies	<u>(4,741)</u>
Net change in unrealized appreciation (depreciation)	<u>(356,985,491)</u>
Net realized and unrealized gain (loss)	<u>(164,466,601)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$(153,034,715)</u>

*Foreign taxes withheld on dividends \$ 95,525

Statements of Changes in Net Assets

	Franklin Small Cap Value VIP Fund	
	Year Ended December 31,	
	2018	2017
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 11,431,886	\$ 11,278,129
Net realized gain (loss)	192,518,890	193,444,952
Net change in unrealized appreciation (depreciation)	(356,985,491)	(67,851,820)
Net increase (decrease) in net assets resulting from operations	(153,034,715)	136,871,261
Distributions to shareholders: (Note 1d)		
Class 1	(7,555,429)	(3,701,401)
Class 2	(194,090,505)	(97,706,351)
Class 4	(4,574,106)	(2,314,166)
Total distributions to shareholders	(206,220,040)	(103,721,918)
Capital share transactions: (Note 2)		
Class 1	2,769,926	2,002,869
Class 2	14,343,221	(95,665,942)
Class 4	698,981	(1,521,461)
Total capital share transactions	17,812,128	(95,184,534)
Net increase (decrease) in net assets	(341,442,627)	(62,035,191)
Net assets:		
Beginning of year	1,385,353,150	1,447,388,341
End of year (Note 1d)	\$1,043,910,523	\$1,385,353,150

Notes to Financial Statements

Franklin Small Cap Value 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 Small Cap Value 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.

Investments in open-end mutual funds are valued at the closing NAV.

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 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

Franklin Small Cap Value VIP Fund (continued)

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.

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. 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.

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.

d. 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

Franklin Small Cap Value VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

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

accretion of discount on debt securities are included in interest income. Dividend income and capital gain distributions are 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 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.

*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	\$ (357,335)
Class 2	(6,657,162)
Class 4	(135,526)
Distributions from net realized gains:	
Class 1	(3,344,066)
Class 2	(91,049,189)
Class 4	(2,178,640)

For the year ended December 31, 2017, undistributed net investment income included in net assets was \$12,100,998.

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.

e. Accounting Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

f. Guarantees and Indemnifications

Under the Trust's organizational documents, its officers and trustees are indemnified by the Trust against certain liabilities arising out of the performance of their duties to the Trust. Additionally, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with service providers that contain general indemnification clauses. The Trust's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Trust that have not yet occurred. Currently, the Trust expects the risk of loss to be remote.

Franklin Small Cap Value VIP Fund (continued)

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	140,744	\$ 2,624,857	296,526	\$ 5,843,664
Shares issued in reinvestment of distributions	419,746	7,555,429	198,148	3,701,401
Shares redeemed	(384,144)	(7,410,360)	(386,641)	(7,542,196)
Net increase (decrease)	176,346	\$ 2,769,926	108,033	\$ 2,002,869
Class 2 Shares:				
Shares sold	3,241,202	\$ 57,622,650	4,717,681	\$ 89,392,050
Shares issued in reinvestment of distributions	11,167,463	194,090,505	5,389,208	97,706,351
Shares redeemed	(13,111,818)	(237,369,934)	(14,948,104)	(282,764,343)
Net increase (decrease)	1,296,847	\$ 14,343,221	(4,841,215)	\$ (95,665,942)
Class 4 Shares:				
Shares sold	142,312	\$ 2,499,385	232,357	\$ 4,483,471
Shares issued in reinvestment of distributions	256,684	4,574,106	124,955	2,314,166
Shares redeemed	(340,602)	(6,374,510)	(430,938)	(8,319,098)
Net increase (decrease)	58,394	\$ 698,981	(73,626)	\$ (1,521,461)

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 Mutual Advisers, LLC (Franklin Mutual)	Investment manager
Franklin Advisory Services, LLC (Advisory Services)	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

Effective November 1, 2018, Franklin Mutual began serving as the Fund's investment manager. Prior to November 1, 2018, Advisory Services served as the Fund's investment manager.

Franklin Small Cap Value VIP Fund (continued)

3. Transactions with Affiliates (continued)

a. Management Fees (continued)

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

Annualized Fee Rate	Net Assets
0.750%	Up to and including \$200 million
0.635%	Over \$200 million, up to and including \$700 million
0.600%	Over \$700 million, up to and including \$1.2 billion
0.575%	Over \$1.2 billion, up to and including \$1.3 billion
0.475%	In excess of \$1.3 billion

For the year ended December 31, 2018, the gross effective investment management fee rate was 0.633% of the Fund's average daily net assets.

b. Administrative Fees

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

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	Dividend Income	Realized Gain (Loss)	Net Change in Unrealized Appreciation (Depreciation)
Non-Controlled Affiliates								
Institutional Fiduciary Trust Money Market Portfolio, 1.99%	43,492,005	298,285,679	(296,332,842)	45,444,842	\$45,444,842	\$632,091	\$ —	\$ —

Franklin Small Cap Value VIP Fund (continued)

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

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	\$ 23,876,649	\$ 7,150,023
Long term capital gain	182,343,391	96,571,895
	\$206,220,040	\$103,721,918

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	\$1,027,953,505
Unrealized appreciation	\$ 121,511,391
Unrealized depreciation	(105,975,566)
Net unrealized appreciation (depreciation)	\$ 15,535,825
Distributable earnings:	
Undistributed ordinary income	\$ 23,311,531
Undistributed long term capital gains	179,233,907
Total distributable earnings	\$ 202,545,438

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatment of wash sales.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2018, aggregated \$590,813,666 and \$770,203,306, respectively.

7. 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.

Franklin Small Cap Value VIP Fund (continued)

7. Credit Facility (continued)

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.

8. 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.

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	\$ 987,007,778	\$ —	\$ —	\$ 987,007,778
Corporate Bonds	—	11,036,710	—	11,036,710
Short Term Investments	45,444,842	—	—	45,444,842
Total Investments in Securities	\$ 1,032,452,620	\$ 11,036,710	\$ —	\$ 1,043,489,330

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

9. 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.

Report of Independent Registered Public Accounting Firm

To the Board of Trustees of Franklin Templeton Variable Insurance Products Trust and Shareholders of Franklin Small Cap Value VIP Fund

Opinion on the Financial Statements

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Franklin Small Cap Value 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 Small Cap Value VIP Fund

Under Section 852(b)(3)(C) of the Internal Revenue Code, the Fund hereby reports the maximum amount allowable but no less than \$182,343,391 as a long term capital gain dividend for the fiscal year ended December 31, 2018.

Under Section 854(b)(1)(A) of the Internal Revenue Code, the Fund hereby reports 69.95% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2018.

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.