FRANKLIN TEMPLETON INVESTMENTS

Semiannual Report

June 30, 2017

Franklin Templeton Variable Insurance Products Trust

Franklin Templeton Variable Insurance Products Trust Semiannual Report

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Important Notes to Performance Information

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

When reviewing the index comparisons, please keep in mind that indexes have a number of inherent performance differentials over the funds. First, unlike the funds, which must hold a minimum amount of cash to maintain liquidity, indexes do not have a cash component. Second, the funds are actively managed and, thus, are subject to management fees to cover salaries of securities analysts or portfolio managers in addition to other expenses. Indexes are unmanaged and do not include any commissions or other expenses typically associated with investing in securities. Third, indexes often contain a different mix of securities than the fund to which they are compared. Additionally, please remember that indexes are simply a measure of performance and cannot be invested in directly.

Franklin Mutual Shares VIP Fund

This semiannual report for Franklin Mutual Shares VIP Fund covers the period ended June 30, 2017.

Class 2 Performance Summary as of June 30, 2017

The Fund's Class 2 Shares delivered a +5.43% total return for the six-month period ended June 30, 2017.

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.

Fund Goal and Main Investments

The Fund seeks capital appreciation, with income as a secondary goal, by investing primarily in equity securities of companies the Fund's managers believe are at prices below their intrinsic value. The Fund may invest up to 35% of its assets in foreign securities.

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 foreign securities involve special risks including currency fluctuations, and economic and political uncertainties. Derivatives involve costs and can create economic leverage in the Fund's portfolio which may result in significant volatility and cause the Fund to participate in losses (as well as gains) in an amount that exceeds the Fund's initial investment. The Fund may also invest in companies engaged in mergers, reorganizations or liquidations, which involve special risks as pending deals may not be completed on time or on favorable terms, as well as lower rated bonds, which entail higher credit risk. 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.

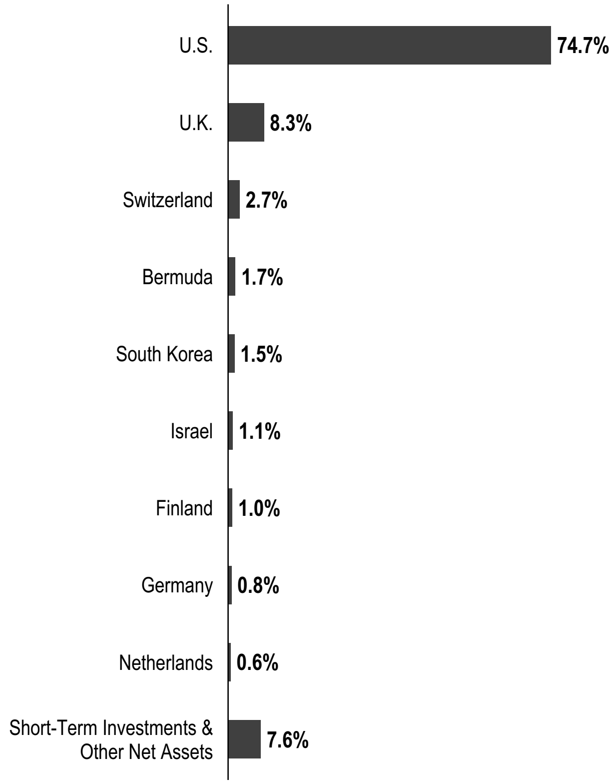
Performance Overview

You can find the Fund's six-month total return in the Performance Summary. In comparison, the Fund's benchmark, the Standard & Poor's® 500 Index, generated a +9.34% total return for the period under review.[1]

Economic and Market Overview

The global economy generally expanded during the period under review. In this environment, global developed and emerging market stocks rose significantly, as measured by the MSCI All Country World Index. Global markets were aided by improved industrial commodity prices at certain points during the period, generally upbeat economic data across regions, investor optimism about pro-growth and pro-business policies in the U.S, hopes of tax reforms under the Trump administration, Emmanuel Macron's election as France's president and encouraging corporate earnings reports.

Geographic Composition*
Based on Total Net Assets as of 6/30/17



*Figures are stated as a percentage of total and may not equal 100% or may be negative due to rounding, use of any derivatives, unsettled trades or other factors.

However, investors expressed concerns about the timing and economic effects of the U.K.'s exit from the European Union (also known as "Brexit"). Other headwinds included the health of European banks, concerns about political uncertainty in the U.S. and European Union, geopolitical tensions in certain regions, worries about global oversupply in oil production despite a pact to extend cuts, and hawkish comments from key central bankers around the world toward period-end.

U.S. economic growth decelerated in 2017's first quarter, largely due to slower growth in consumer spending and declines in private inventory investment and government spending. However, growth accelerated in the second quarter due to increases in consumer spending, business investment and federal government spending. The unemployment rate decreased from 4.7% in December 2016 to 4.4% at

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.

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).

period-end.[2] Annual inflation, as measured by the Consumer Price Index, decreased from 2.1% to 1.6% during the period. After increasing its benchmark interest rate in March, the U.S. Federal Reserve (Fed), at its June meeting, made the widely anticipated increase to its target range for the federal funds rate from 0.75%–1.00% to 1.00%–1.25%, amid signs of a growing U.S. economy, a strengthening labor market and an improvement in business spending.

In Europe, the U.K.'s economy grew at a slower rate in 2017's first quarter over the previous quarter, largely due to slower growth in household spending. The eurozone's growth increased in the first quarter over the previous quarter. The bloc's annual inflation rate fluctuated during the reporting period and ended slightly higher from where it began. During the period, the European Central Bank kept its key policy rates unchanged.

In Asia, Japan's quarterly gross domestic product (GDP) remained unchanged in 2017's first quarter compared to 2016's fourth quarter. In April 2017, the Bank of Japan (BOJ) slightly increased its GDP forecasts for the 2017–2018 fiscal year. However, the BOJ lowered its inflation forecast.

In emerging markets, Brazil's quarterly GDP grew for the first time in two years, as its first-quarter 2017 GDP grew compared to the previous quarter. The country's central bank cut its benchmark interest rate four times between January and June 2017 to spur economic growth. Russia's GDP grew in 2017's first quarter compared to the prior-year period. The Bank of Russia reduced its key interest rate in March, April and June 2017 to try to revive its economy. China's economy grew faster in the first half of 2017 compared to the first half of 2016, driven by solid growth in industrial production, services, fixed-asset investment, retail sales, and imports and exports. The People's Bank of China left its benchmark interest rate unchanged during the period. Overall, emerging market stocks, as measured by the MSCI Emerging Markets Index, rose during the period.

Investment Strategy

At Franklin Mutual Advisors, we are committed to our distinctive value approach to investing. Our major investment strategy is investing in undervalued stocks. When selecting undervalued equities, we are attracted to what we believe are fundamentally strong companies with healthy balance sheets, high-quality assets, substantial free cash flow and shareholder-oriented management teams and whose stocks are trading at discounts to our assessment of the companies' intrinsic or business value. We also look for asset-rich companies whose shares may be trading at depressed levels due to concerns over short-term earnings disappointments, litigation, management strategy or other perceived negatives. While the vast majority of our undervalued equity investments are made in publicly traded companies globally, we may invest occasionally in privately held companies as well.

We complement this more traditional investment strategy with two others. One is distressed investing, which is complex and can take many forms. The most common distressed investment the Fund undertakes is the purchase of financially troubled or bankrupt companies' debt at a substantial discount to face value. After the financially distressed company is reorganized, often in bankruptcy court, the old debt is typically replaced with new securities issued by the financially stronger company.

The other piece of our investment strategy is participating in arbitrage situations, another highly specialized field. When companies announce proposed mergers or takeovers, commonly referred to as "deals," the target company may trade at a discount to the bid it ultimately accepts. One form of arbitrage involves purchasing the target company's stock when it is trading below the value we believe it would receive in a deal. In keeping with our commitment to a relatively conservative investment approach, we typically focus our arbitrage efforts on announced deals, and eschew rumored deals or other situations we consider relatively risky.

In addition, it is our practice to hedge the Fund's currency exposure when we deem it advantageous for our shareholders.

What is meant by "hedge"?

To hedge an investment is to take a position intended to offset potential losses/gains that may be incurred by a companion financial instrument.

Manager's Discussion

Many equity markets posted meaningful gains in 2017's first half, across most regions and with minimal volatility. Global markets were aided by generally upbeat economic data, improved corporate earnings in the U.S., Europe and Japan, as well as improved industrial commodity prices at certain points during the period. However, those largely positive headline conditions overshadowed a fair amount of turbulence and uncertainty.

2. Source: Bureau of Labor Statistics.

In the U.S., markets began 2017 rallying as investors hoped that a Republican sweep of U.S. elections in November 2016 would lead to a general loosening in regulations and tax reform, including lower corporate tax rates. However, political gridlock took hold. The political drama in Washington, D.C., tempered the rally in U.S. markets overall. Many stocks that led the way in the post-election rally subsequently gave back some or all of their outperformance, particularly value stocks dominated by companies in cyclical sectors most likely to benefit from acceleration in economic growth. In an environment of modest economic growth and low interest rates, investors continued to favor growth stocks. During the period, the Russell 1000® Growth Index generated a total return of +13.99%, while the Russell 1000® Value Index posted a total return of +4.66%.[1] Within the Russell 1000® Growth Index, stocks with the largest weights were technology firms that dominated the headlines: Apple,[3] Alphabet (a.k.a. Google),[3] Microsoft, Amazon.com[3] and Facebook.[3]

European equity markets started 2017 slowly, but political events combined with upbeat economic news sparked strong performance during the period, with the notable exception of the U.K. Elections in Europe produced generally positive outcomes, with voters in the Netherlands and France rejecting extremist candidates. Political stability in the European Union (EU) helped to support equity markets on the belief that it would help facilitate the ongoing economic recovery. In the U.K., however, a snap election resulting in no party having a majority in Parliament appeared to make a "hard Brexit," in which the U.K. leaves the EU in March 2019 without a negotiated deal, even more likely than before.

As value investors, we managed to benefit from steady economic growth despite underlying market turbulence. We seek to invest prudently in securities that we believe represent good value, and then we adjust our views as the world around us changes.

The energy sector has been a significant area of investment for the Fund.[4] Following an extended period of high prices, crude oil and natural gas prices have been significantly lower during the past few years. The benchmark oil price dropped from more than $100 a barrel to below $30, and has more recently stayed between $40 and $60. The impact on the sector, and the securities of companies in the sector, has been unsurprisingly quite dramatic. Although many uncertainties exist, we continue to expect demand for oil and gas to rise for a number of years, which we believe will require continued investment by the sector, not only to meet that growth but also to replace declining production in mature fields around the world. Accordingly, we expect some combination of higher prices or lower costs over time to provide the sufficient returns needed to justify the required investment.

Top 10 Sectors/Industries
6/30/17

	% of Total Net Assets
Banks	9.5%
Insurance	9.2%
Pharmaceuticals	8.3%
Oil, Gas & Consumable Fuels	7.4%
Media	6.1%
Software	5.7%
Health Care Equipment & Supplies	5.2%
Tobacco	4.7%
Food & Staples Retailing	4.0%
Communications Equipment	2.6%

After an initial period of distress, most companies within the energy sector appear to have made considerable progress in resizing their cost structures and strengthening their balance sheets. In aggregate, capital spending has been cut massively, and cash flow breakeven levels suggest an ability to fund a base level of investment activity given crude oil and gas prices as of period-end. From an investment standpoint, in many cases we are finding securities with reasonable prospects at current commodity prices, and substantively greater upside potential should our longer term price-versus-cost outlook come to pass. We expect continued commodity price volatility, but would look to use that to our advantage when seeking to buy or sell energy sector securities.

Our energy sector investment process has focused on finding situations where commodity price upside is not necessary to generate attractive security returns. One such area is within the infrastructure space. Companies such as Kinder Morgan and Williams provide critical pipelines, processing facilities, ports, and other assets used to bring vital commodities to market. Investors shunned these companies due to a combination of counterparty risk related to exploration and production companies, their own balance sheet concerns and dividend levels. As our analysis about the criticality of their assets and the flexibility of their funding options has, in our view, been

3. Not a Fund holding.
4. The energy sector comprises energy equipment and services and oil, gas and consumable fuels in the SOI.

Top 10 Holdings
6/30/17

Company *Sector/Industry, Country*	% of Total Net Assets
Medtronic PLC *Health Care Equipment & Supplies, U.S.*	3.6%
Merck & Co. Inc. *Pharmaceuticals, U.S.*	2.8%
Eli Lilly & Co. *Pharmaceuticals, U.S.*	2.4%
Microsoft Corp. *Software, U.S.*	2.2%
Time Warner Inc. *Media, U.S.*	2.1%
Symantec Corp. *Software, U.S.*	2.0%
Novartis AG *Pharmaceuticals, Switzerland*	2.0%
American International Group Inc. *Insurance, U.S.*	2.0%
British American Tobacco PLC *Tobacco, U.K.*	1.9%
Charter Communications Inc. *Media, U.S.*	1.8%

proven, the securities of infrastructure companies have recovered significantly from their lows. Moreover, if expectations of an oil and gas supply glut from greater North American production hold true, more infrastructure investment should be needed to move this product to export markets.

Royal Dutch Shell, a leading integrated oil and gas company, is another investment held by the Fund for which fears about the impact of low commodity prices were overblown, in our view. The company used the initial phase of the crude oil price downturn to acquire BG Group, a major exploration and production company with significant positions and strength in liquefied natural gas and a great oil asset in the pre-salt Santos Basin in Brazil. The assets were highly complementary to Shell's existing positions, allowing the post-merger company to prune other areas of its portfolio and still show considerable growth. Management, under the leadership of relatively new chief executive officer Ben van Beurden, has been focused on reducing costs so that the company can still grow, while funding all required capital expenditures and its dividend, at an oil price below $50 per barrel. As Shell shows continued progress in its efforts and demonstrates the resilience of its portfolio and balance sheet, we expect the shares to continue to benefit.

Merger and acquisition activity has remained healthy, with the number of deals remaining high, although the average size of deals fell. Very large deals may have been affected by ongoing political and regulatory uncertainty. Although many mega-deals were rumored, the largest deal actually announced during the period was Becton, Dickinson and Company's[3] takeover of C.R. Bard.[3] Meanwhile, many large deals initiated in 2016 await regulatory approval, including Bayer's[3] acquisition of Monsanto, AT&T's[3] acquisition of Time Warner, and 21st Century Fox's[3] offer for Sky. Several key regulatory agencies remain short of members, including the Federal Communication Commission and the Federal Trade Commission, and these openings may be affecting regulatory approvals.

Credit spreads narrowed in 2016 and continued that trend in the first half of 2017 for higher quality credit, with the exception of a brief period of volatility in March and April. High yield credit has remained at levels seen at the start of 2017. The spread compression provided the Fund with the opportunity to exit many of the opportunities that presented themselves in early 2016, including several "hung deals," as prices improved, spreads shrank, and the risk-adjusted returns were no longer mispriced. As the year progressed and investors became more willing buyers of credit, mispriced risk became more difficult to find, in our opinion. However, we found what we viewed as value in some unloved industries like specialty pharmaceuticals, hospitals, media/broadcasting and telecommunications[5] that faced increasing political or secular challenges. In sorting through these less-favored industries, we sought out securities that we believed could benefit most from liquidity-enhancing events like asset sales, the ability within existing agreements to issue secured debt, and free cash flow that could create a long enough runway to weather the storm and/or provide enough current recovery to create the enterprise at a significant discount to our assessment of its intrinsic value. In times when the credit markets fluctuate and value is difficult to easily identify, we believe our industry specific expertise, deep fundamental analysis with a focus on cash flow, and intensive credit and covenant review combine seamlessly and provide us with unique ways of looking at the same ideas others may disregard.

Turning to Fund performance, top positive contributors included U.S.-based medical device maker Medtronic, South Korea-based Samsung Electronics, and Switzerland-based health care company Novartis.

5. The telecommunication services sector comprises diversified telecommunication services and wireless telecommunication services in the SOI.

Investors responded positively to quarterly results issued by Medtronic in February and May. On both occasions, earnings exceeded consensus expectations, driven by solid revenues and successful cost control efforts, which led to better operating profitability. The positive results led to improved investor confidence in Medtronic's ability to deliver on future growth goals, especially given concerns following tough quarterly results issued in November 2016. Medtronic's agreement in April to sell its medical supplies business to Cardinal Health[3] provided additional support to Medtronic's stock price. Medtronic obtained the medical supplies business as part of its 2014 acquisition of Covidien. The medical supplies business, in our view, was not core to Medtronic's operations and had less attractive profitability and future growth prospects. In addition, Medtronic intends to use the after-tax proceeds for additional share buybacks and to pay down debt.

Samsung Electronics is a low cost provider of commodity memory products (e.g., dynamic random-access memory and flash memory), which have seen very strong pricing recently. Samsung also produces smartphones, consumer electronics and other goods. In February, shares retreated as Samsung chief Jay Y. Lee was arrested for bribery as part of a wider government influence-peddling scandal that led to the impeachment of then president Park Geun-hye. However, the stock price rallied as investors turned their focus to Samsung's better-than-expected earnings results announced in April. Samsung reported strong sales in its core businesses, including memory chips and OLED (organic light-emitting diode) displays. Despite adverse publicity surrounding its Note 7 smartphone in the fall of 2016, sales of its newest generation of smartphones have been running ahead of market expectations. Management also surprised investors in April by announcing a plan to cancel existing treasury shares held by the company.

Novartis has meaningful market positions in biopharmaceuticals, especially oncology, generic pharmaceuticals through its Sandoz division, and eye care through its Alcon division. Investors reacted positively to decent quarterly results in January and April when Novartis beat consensus expectations. Investors also reacted positively to news reports in April that the process of reviewing strategic options for its Alcon division may be moving along. Novartis has made substantial investments to turn around Alcon, but the process has taken longer than expected. We believe a sale or spin-off of Alcon may make sense at the right price. In June, Novartis made good progress on its pipeline with two positive late-stage trials, one for a drug to treating neovascular age-related macular degeneration and second for a cardiovascular treatment for heart attack patients.

During the period under review, Fund investments that detracted from performance included Cincinnati-based grocery retailer Kroger, U.S.-based oil and gas exploration and production company Marathon Oil and U.S.-based drugstore chain Rite Aid.

Kroger operates over 2,400 grocery and multi-department stores in 31 states. Kroger's stock price declined as investors remained focused on the industry-wide impact of food price deflation, which is pressuring the revenue growth of grocery retailers. Quarterly results released in early March reflected the pressure of food price deflation on Kroger's revenues. The stock price further declined in mid-June due to Kroger's negative full-year earnings guidance update and the announced acquisition of Whole Foods[3] by Amazon.com.[3] Kroger reduced its full-year 2017 earning range due to a combination of higher costs and lower margins. The company selectively increased starting wages to lower employee turnover and improve productivity. In addition, Kroger decided to match major promotions by some competitors. Kroger's management believes promotion activity will likely persist through 2017 as other grocery chains fight to maintain market share. In our view, the Whole Foods acquisition by Amazon was another sign of encroaching competition from non-traditional grocery retailers and hard discounters. Overall, we believe Kroger is still among the strongest grocery retailers, including a sharp management team, and that it has the capability to successfully adjust to the shifting competitive landscape.

Shares of Marathon Oil generally followed the path of declining oil prices. During the first half of 2017, oil prices retreated as U.S. crude oil production increased and data showed that worldwide supply had not yet begun to decline. The supply and price trends for crude oil prices overshadowed some moves by Marathon that we believe were positive. As part of its portfolio transformation effort, in March Marathon announced agreements to exit a Canadian oil sands asset, and two transactions to acquire acreage in the northern Delaware basin of New Mexico. Although we regard the price received for the oil sands asset to be merely adequate, we look favorably upon the continuing expansion of the company's resource portfolio and increasing focus on predictable, higher return onshore assets. Additionally, the three transactions led to a further improvement in Marathon's balance sheet. These favorable changes were nonetheless overshadowed by an oil market which remains both volatile and challenging.

Shares of Rite Aid declined as a deal to be acquired by Walgreens Boots Alliance fell apart. The transaction was mired in antitrust review by the Federal Trade Commission (FTC) during much of the period as the FTC questioned whether

Walgreens' proposed divestitures were sufficient to maintain competition. In late June, Walgreens announced the immediate termination of the merger agreement. Instead, Rite Aid agreed to sell numerous stores and related distribution assets to Walgreens. The new agreement is also subject to antitrust review, but we believe FTC approval is likely.

During the period, the Fund held currency forwards and futures seeking to hedge most of the currency risk of the portfolio's non-U.S. dollar investments. The currency forwards had a negative impact on the Fund's performance because of the depreciation of the U.S. dollar versus the hedged currencies, while currency futures had a negligible impact.

What is a currency forward?

A currency forward is an agreement between the Fund and a counterparty to buy or sell a foreign currency in exchange for another currency at a specific exchange rate on a future date.

What is a future?

A future is an agreement between the Fund and a counterparty made through a U.S. or foreign futures exchange to buy or sell an underlying instrument or asset at a specific price on a future date.

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

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2017, 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 (o*f 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 ÷ $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 x $ 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.

		Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		
Share Class	**Beginning Account Value 1/1/17**	**Ending Account Value 6/30/17**	**Fund-Level Expenses Paid During Period 1/1/17–6/30/17[1,2]**	**Ending Account Value 6/30/17**	**Fund-Level Expenses Paid During Period 1/1/17–6/30/17[1,2]**	**Net Annualized Expense Ratio[2]**
Class 2	$1,000	$1,054.30	$4.89	$1,020.03	$4.81	0.96%

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 181/365 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.

Financial Highlights

Franklin Mutual Shares VIP Fund

	Six Months Ended June 30, 2017 (unaudited)	Year Ended December 31, 2016	2015	2014	2013	2012
Class 1						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$20.40	$19.48	$22.91	$21.92	$17.45	$15.57
Income from investment operations[a]:						
Net investment income[b]	0.21	0.50	0.44	0.62[c]	0.42	0.35
Net realized and unrealized gains (losses)	0.92	2.56	(1.54)	1.01	4.52	1.92
Total from investment operations	1.13	3.06	(1.10)	1.63	4.94	2.27
Less distributions from:						
Net investment income	—	(0.46)	(0.77)	(0.52)	(0.47)	(0.39)
Net realized gains	—	(1.68)	(1.56)	(0.12)	—	—
Total distributions	—	(2.14)	(2.33)	(0.64)	(0.47)	(0.39)
Net asset value, end of period	$21.53	$20.40	$19.48	$22.91	$21.92	$17.45
Total return[d]	5.54%	16.35%	(4.69)%	7.38%	28.53%	14.61%
Ratios to average net assets[e]						
Expenses[f]	0.71%[g,h]	0.72%[g,h]	0.73%[g,h]	0.73%[g]	0.71%[g]	0.71%
Expenses incurred in connection with securities sold short	—%	0.01%	0.02%	0.03%	—%[i]	—%[i]
Net investment income	1.96%	2.57%	2.00%	2.83%[c]	2.08%	2.06%
Supplemental data						
Net assets, end of period (000's)	$644,175	$610,395	$643,438	$656,463	$552,163	$449,343
Portfolio turnover rate	8.66%	24.45%	19.88%	21.33%	24.05%	34.07%[j]

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.23 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 1.79%.

[d]Total 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. Total return is not annualized for periods less than one year.

[e]Ratios are annualized for periods less than one year.

[f]Includes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f).

[g]Benefit of expense reduction rounds to less than 0.01%.

[h]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[i]Rounds to less than 0.01%.

[j]Excludes the value of portfolio securities delivered as a result of a redemption in-kind.

Franklin Mutual Shares VIP Fund (continued)

	Six Months Ended June 30, 2017 (unaudited)	Year Ended December 31, 2016	2015	2014	2013	2012
Class 2						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$20.08	$19.20	$22.60	$21.63	$17.23	$15.38
Income from investment operations[a]:						
Net investment income[b]	0.18	0.45	0.38	0.58[c]	0.36	0.30
Net realized and unrealized gains (losses)	0.91	2.52	(1.51)	0.97	4.46	1.90
Total from investment operations	1.09	2.97	(1.13)	1.55	4.82	2.20
Less distributions from:						
Net investment income	—	(0.41)	(0.71)	(0.46)	(0.42)	(0.35)
Net realized gains	—	(1.68)	(1.56)	(0.12)	—	—
Total distributions	—	(2.09)	(2.27)	(0.58)	(0.42)	(0.35)
Net asset value, end of period	$21.17	$20.08	$19.20	$22.60	$21.63	$17.23
Total return[d]	5.43%	16.06%	(4.94)%	7.12%	28.26%	14.24%
Ratios to average net assets[e]						
Expenses[f]	0.96%[g,h]	0.97%[g,h]	0.98%[g,h]	0.98%[g]	0.96%[g]	0.96%
Expenses incurred in connection with securities sold short	—%	0.01%	0.02%	0.03%	—%[i]	—%[i]
Net investment income	1.71%	2.32%	1.75%	2.58%[c]	1.83%	1.81%
Supplemental data						
Net assets, end of period (000's)	$3,574,863	$3,621,358	$3,353,505	$4,218,342	$4,558,547	$4,069,803
Portfolio turnover rate	8.66%	24.45%	19.88%	21.33%	24.05%	34.07%[j]

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.23 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 1.54%.

[d]Total 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. Total return is not annualized for periods less than one year.

[e]Ratios are annualized for periods less than one year.

[f]Includes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f).

[g]Benefit of expense reduction rounds to less than 0.01%.

[h]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[i]Rounds to less than 0.01%.

[j]Excludes the value of portfolio securities delivered as a result of a redemption in-kind.

Franklin Mutual Shares VIP Fund (continued)

	Six Months Ended June 30, 2017 (unaudited)	Year Ended December 31, 2016	2015	2014	2013	2012
Class 4						
Per share operating performance						
(for a share outstanding throughout the period)						
Net asset value, beginning of period	$20.23	$19.32	$22.72	$21.74	$17.31	$15.45
Income from investment operations[a]:						
Net investment income[b]	0.17	0.44	0.36	0.57[c]	0.34	0.28
Net realized and unrealized gains (losses)	0.92	2.53	(1.52)	0.96	4.49	1.91
Total from investment operations	1.09	2.97	(1.16)	1.53	4.83	2.19
Less distributions from:						
Net investment income	—	(0.38)	(0.68)	(0.43)	(0.40)	(0.33)
Net realized gains	—	(1.68)	(1.56)	(0.12)	—	—
Total distributions	—	(2.06)	(2.24)	(0.55)	(0.40)	(0.33)
Net asset value, end of period	$21.32	$20.23	$19.32	$22.72	$21.74	$17.31
Total return[d]	5.39%	15.94%	(5.05)%	7.04%	28.05%	14.20%
Ratios to average net assets[e]						
Expenses[f]	1.06%[g,h]	1.07%[g,h]	1.08%[g,h]	1.08%[g]	1.06%[g]	1.06%
Expenses incurred in connection with securities sold short	—%	0.01%	0.02%	0.03%	—%[i]	—%[i]
Net investment income	1.61%	2.22%	1.65%	2.48%[c]	1.73%	1.71%
Supplemental data						
Net assets, end of period (000's)	$120,304	$122,476	$130,978	$158,020	$188,153	$165,015
Portfolio turnover rate	8.66%	24.45%	19.88%	21.33%	24.05%	34.07%[j]

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

[b]Based on average daily shares outstanding.

[c]Net investment income per share includes approximately $0.23 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 1.44%.

[d]Total 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. Total return is not annualized for periods less than one year.

[e]Ratios are annualized for periods less than one year.

[f]Includes dividend and/or interest expense on securities sold short and security borrowing fees, if any. See below for the ratios of such expenses to average net assets for the periods presented. See Note 1(f).

[g]Benefit of expense reduction rounds to less than 0.01%.

[h]Benefit of waiver and payments by affiliates rounds to less than 0.01%.

[i]Rounds to less than 0.01%.

[j]Excludes the value of portfolio securities delivered as a result of a redemption in-kind.

Statement of Investments, June 30, 2017 (unaudited)
Franklin Mutual Shares VIP Fund

	Country	Shares/ Units	Value
Common Stocks and Other Equity Interests 87.0%			
Aerospace & Defense 0.6%			
[a] KLX Inc.	United States	224,586	$ 11,229,300
Rockwell Collins Inc.	United States	125,222	13,158,328
			24,387,628
Auto Components 0.7%			
The Goodyear Tire & Rubber Co.	United States	632,638	22,117,024
[a,b] International Automotive Components Group Brazil LLC	Brazil	1,730,515	42,327
[a,b,c] International Automotive Components Group North America LLC	United States	15,382,424	9,468,128
			31,627,479
Automobiles 1.2%			
General Motors Co.	United States	1,510,630	52,766,306
Banks 9.5%			
Barclays PLC	United Kingdom	10,534,300	27,820,247
CIT Group Inc.	United States	757,326	36,881,776
Citigroup Inc.	United States	926,419	61,958,903
Citizens Financial Group Inc.	United States	1,851,966	66,078,147
[a] FCB Financial Holdings Inc., A	United States	493,723	23,575,273
Guaranty Bancorp	United States	209,583	5,700,658
JPMorgan Chase & Co.	United States	757,320	69,219,048
PNC Financial Services Group Inc.	United States	571,295	71,337,607
State Bank Financial Corp.	United States	352,200	9,551,664
Wells Fargo & Co.	United States	698,860	38,723,832
			410,847,155
Beverages 0.8%			
PepsiCo Inc.	United States	319,942	36,950,102
Chemicals 1.1%			
[a,d,e] Dow Corning Corp., Contingent Distribution	United States	100,000	—
Monsanto Co.	United States	405,580	48,004,449
			48,004,449
Communications Equipment 2.6%			
Cisco Systems Inc.	United States	2,183,380	68,339,794
Nokia OYJ, A.	Finland	3,670,248	22,449,985
Nokia OYJ, ADR	Finland	3,299,845	20,327,045
			111,116,824
Construction Materials 0.7%			
LafargeHolcim Ltd., B	Switzerland	547,060	31,325,783
Consumer Finance 1.3%			
Ally Financial Inc.	United States	943,970	19,728,973
Capital One Financial Corp.	United States	436,885	36,095,439
			55,824,412
Containers & Packaging 2.2%			
International Paper Co.	United States	1,044,075	59,105,086
WestRock Co.	United States	681,512	38,614,470
			97,719,556
Diversified Financial Services 0.8%			
Voya Financial Inc.	United States	959,810	35,407,391
Diversified Telecommunication Services 0.6%			
Koninklijke KPN NV	Netherlands	8,378,890	26,807,774

Franklin Mutual Shares VIP Fund (continued)

	Country	Shares/ Units	Value
Common Stocks and Other Equity Interests (continued)			
Electrical Equipment 1.1%			
[a] Sensata Technologies Holding NV	United States	1,104,530	$ 47,185,522
Energy Equipment & Services 1.3%			
Baker Hughes Inc.	United States	1,003,685	54,710,870
[a,b] Gulfmark Offshore Inc.	United States	48,169	10,067
			54,720,937
Equity Real Estate Investment Trusts (REITs) 1.2%			
Alexander's Inc.	United States	40,126	16,911,504
Vornado Realty Trust	United States	358,219	33,636,764
			50,548,268
Food & Staples Retailing 4.0%			
CVS Health Corp.	United States	821,861	66,126,936
The Kroger Co.	United States	2,243,460	52,317,487
[a] Rite Aid Corp.	United States	2,439,970	7,197,912
Walgreens Boots Alliance Inc.	United States	628,158	49,191,053
			174,833,388
Health Care Equipment & Supplies 5.2%			
Medtronic PLC	United States	1,734,212	153,911,315
Stryker Corp.	United States	512,391	71,109,623
			225,020,938
Household Products 0.2%			
Energizer Holdings Inc.	United States	196,162	9,419,699
Independent Power & Renewable Electricity Producers 0.8%			
Vistra Energy Corp.	United States	2,184,095	36,670,955
Industrial Conglomerates 1.5%			
General Electric Co.	United States	2,362,600	63,813,826
Insurance 9.2%			
[a] Alleghany Corp.	United States	102,188	60,781,422
American International Group Inc.	United States	1,369,996	85,652,150
Chubb Ltd.	United States	319,645	46,469,990
The Hartford Financial Services Group Inc.	United States	441,878	23,229,527
MetLife Inc.	United States	977,203	53,687,533
White Mountains Insurance Group Ltd.	United States	65,521	56,913,506
XL Group Ltd.	Bermuda	1,639,580	71,813,604
			398,547,732
IT Services 1.6%			
Cognizant Technology Solutions Corp., A	United States	822,270	54,598,728
DXC Technology Co.	United States	177,792	13,640,202
			68,238,930
Machinery 2.1%			
Caterpillar Inc.	United States	445,006	47,820,345
CNH Industrial NV	United Kingdom	888,427	10,061,799
CNH Industrial NV, special voting	United Kingdom	1,844,814	20,893,272
Federal Signal Corp.	United States	657,993	11,422,758
			90,198,174

Franklin Mutual Shares VIP Fund (continued)

	Country	Shares/ Units	Value
Common Stocks and Other Equity Interests (continued)			
Media 6.1%			
[a] Charter Communications Inc., A	United States	237,513	$ 80,006,254
[a] DISH Network Corp., A	United States	778,183	48,838,765
Sky PLC	United Kingdom	3,381,508	43,781,560
Time Warner Inc.	United States	918,888	92,265,544
			264,892,123
Metals & Mining 0.9%			
thyssenkrupp AG	Germany	1,147,037	32,591,299
[b,c] Warrior Met Coal Inc.	United States	361,612	5,915,616
			38,506,915
Oil, Gas & Consumable Fuels 7.4%			
Anadarko Petroleum Corp.	United States	512,870	23,253,526
Apache Corp.	United States	653,346	31,314,874
BP PLC	United Kingdom	4,322,322	24,929,821
[a] CONSOL Energy Inc.	United States	1,236,955	18,480,108
Kinder Morgan Inc.	United States	3,158,940	60,525,290
Marathon Oil Corp.	United States	2,991,878	35,453,754
Royal Dutch Shell PLC, A (EUR Traded)	United Kingdom	1,916,196	50,856,184
Royal Dutch Shell PLC, A (GBP Traded)	United Kingdom	927,720	24,590,976
The Williams Cos. Inc.	United States	1,751,598	53,038,387
			322,442,920
Pharmaceuticals 8.3%			
Eli Lilly & Co.	United States	1,274,136	104,861,393
Merck & Co. Inc.	United States	1,898,948	121,703,577
Novartis AG, ADR	Switzerland	1,026,481	85,680,369
Teva Pharmaceutical Industries Ltd., ADR	Israel	1,427,173	47,410,687
			359,656,026
Professional Services 0.8%			
RELX PLC	United Kingdom	1,702,110	36,803,586
Software 5.7%			
CA Inc.	United States	1,442,532	49,724,078
[a] Dell Technologies Inc., V	United States	198,331	12,120,007
Microsoft Corp.	United States	1,379,947	95,119,747
Symantec Corp.	United States	3,140,461	88,718,023
			245,681,855
Technology Hardware, Storage & Peripherals 2.3%			
Hewlett Packard Enterprise Co.	United States	2,069,667	34,335,775
Samsung Electronics Co. Ltd.	South Korea	30,959	64,274,273
			98,610,048
Tobacco 4.7%			
Altria Group Inc.	United States	638,788	47,570,542
British American Tobacco PLC	United Kingdom	1,188,947	81,057,022
Imperial Brands PLC	United Kingdom	487,268	21,887,318
Reynolds American Inc.	United States	849,494	55,251,090
			205,765,972

Franklin Mutual Shares VIP Fund (continued)

	Country	Shares/ Units	Value
Common Stocks and Other Equity Interests (continued)			
Wireless Telecommunication Services 0.5%			
Vodafone Group PLC	United Kingdom	8,229,954	$ 23,342,642
Total Common Stocks and Other Equity Interests (Cost $2,751,631,200)			3,777,685,315

	Country	Principal Amount	Value
Corporate Bonds, Notes and Senior Floating Rate Interests 3.3%			
[f,g] Avaya Inc., DIP Facility, 8.617% - 8.716%, 1/23/18	United States	$ 5,756,000	5,944,872
[f,g] Belk Inc., Closing Date Term Loan, 5.905%, 12/12/22	United States	5,741,131	4,917,278
CHS/Community Health Systems Inc., senior note, 6.875%, 2/01/22	United States	7,784,000	6,830,460
[f,g] Cumulus Media Holdings Inc., Term Loans, 4.48%, 12/23/20	United States	16,442,442	13,297,825
Frontier Communications Corp.,			
senior note, 10.50%, 9/15/22	United States	2,804,000	2,681,325
senior note, 11.00%, 9/15/25	United States	25,535,000	23,651,794
iHeartCommunications Inc.,			
senior secured note, first lien, 9.00%, 12/15/19	United States	26,449,000	20,861,649
[f,g] Tranche D Term Loan, 7.976%, 1/30/19	United States	34,746,619	28,492,227
[f,g] Tranche E Term Loan, 8.726%, 7/30/19	United States	11,168,253	9,157,968
[f,g] Toys R Us-Delaware Inc.,			
FILO Loans, 8.422%, 10/24/19	United States	2,560,000	2,563,200
Term B-4 Loan, 9.952%, 4/24/20	United States	21,133,461	17,620,023
[h] Valeant Pharmaceuticals International,			
senior bond, 144A, 6.75%, 8/15/21	United States	2,207,000	2,107,685
senior bond, 144A, 7.25%, 7/15/22	United States	1,460,000	1,377,875
[h] Valeant Pharmaceuticals International Inc., senior note, 144A, 7.50%, 7/15/21	United States	1,314,000	1,277,865
[h] Veritas U.S. Inc./Veritas Bermuda Ltd., senior note, 144A, 7.50%, 2/01/23	United States	2,386,000	2,570,915
Total Corporate Bonds, Notes and Senior Floating Rate Interests (Cost $155,448,003)			143,352,961
Corporate Notes and Senior Floating Rate Interests in Reorganization 1.6%			
[i] Avaya Inc.,			
[h] senior note, 144A, 10.50%, 3/01/21	United States	22,449,000	2,301,023
[h] senior secured note, 144A, 7.00%, 4/01/19	United States	8,441,000	6,816,107
[f,g] Term B-3 Loan, 7.63%, 10/26/17	United States	15,539,927	12,418,997
[f,g,j] Term B-6 Loan, 4.13%, 3/30/18	United States	3,248,721	2,593,561
[f,g] Term B-7 Loan, 4.13%, 5/29/20	United States	15,158,619	12,227,958
[b,i] Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	United States	1,754	—
[f,g,i] Caesars Entertainment Operating Co. Inc.,			
Term B-5-B Loans, 1.50%, 3/01/17	United States	3,069,560	3,572,201
Term B-6-B Loans, 1.50%, 3/01/17	United States	14,634,842	17,433,755
Term B-7 Loans, 1.50%, 3/01/17	United States	9,298,589	11,588,366
Total Corporate Notes and Senior Floating Rate Interests in Reorganization (Cost $82,557,205)			68,951,968

Franklin Mutual Shares VIP Fund (continued)

	Country	Shares	Value
Companies in Liquidation 0.2%			
[a] Adelphia Recovery Trust	United States	29,283,354	$ 19,034
[a,d] Adelphia Recovery Trust, Arahova Contingent Value Vehicle, Contingent Distribution	United States	1,955,453	196
[a,b,c,k] CB FIM Coinvestors LLC	United States	6,400,507	—
[a,d,e] Century Communications Corp., Contingent Distribution	United States	5,487,000	—
[a,b] FIM Coinvestor Holdings I, LLC	United States	8,006,950	—
[a,l] Lehman Brothers Holdings Inc., Bankruptcy Claim	United States	144,058,799	3,198,105
[a,d,e] Tribune Media, Litigation Trust, Contingent Distribution	United States	394,551	—
[a,d,e] Tropicana, Litigation Trust, Contingent Distribution	United States	18,305,000	—
[a,e] Vistra Energy Corp., Litigation Trust	United States	129,926,405	1,507,146
[a] Vistra Energy Corp., Litigation Trust, TRA	United States	2,184,095	2,347,902
Total Companies in Liquidation (Cost $23,439,539)			7,072,383

	Country	Principal Amount	Value
Municipal Bonds in Reorganization (Cost $17,936,642) 0.3%			
[i] Puerto Rico Commonwealth GO, Refunding, Series A, 8.00%, 7/01/35	United States	$ 20,409,000	12,449,490
Total Investments before Short Term Investments (Cost $3,031,012,589)			4,009,512,117
Short Term Investments 7.0%			
U.S. Government and Agency Securities 7.0%			
[m] FHLB,			
7/03/17	United States	79,400,000	79,400,000
7/05/17	United States	25,000,000	24,998,625
[m] U.S. Treasury Bill,			
[n] 9/07/17	United States	20,000,000	19,965,340
7/20/17 - 12/21/17	United States	182,000,000	181,519,880
Total U.S. Government and Agency Securities (Cost $305,891,749)			305,883,845
Total Investments (Cost $3,336,904,338) 99.4%			4,315,395,962
Other Assets, less Liabilities 0.6%			23,945,524
Net Assets 100.0%			$4,339,341,486

Franklin Mutual Shares VIP Fund (continued)

[a]Non-income producing.

[b]See Note 8 regarding restricted securities.

[c]At June 30, 2017, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund is restricted from trading these securities at period end.

[d]Contingent distributions represent the right to receive additional distributions, if any, during the reorganization of the underlying company. Shares represent total underlying principal of debt securities.

[e]Security has been deemed illiquid because it may not be able to be sold within seven days. At June 30, 2017, the aggregate value of these securities was $1,507,146, representing less than 0.1% of net assets.

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

[g]See Note 1(h) regarding senior floating rate interests.

[h]Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At June 30, 2017, the aggregate value of these securities was $16,451,470, representing 0.4% of net assets.

[i]See Note 7 regarding credit risk and defaulted securities.

[j]A portion or all of the security purchased on a delayed delivery basis. See Note 1(c).

[k]See Note 10 regarding holdings of 5% voting securities.

[l]Bankruptcy claims represent the right to receive distributions, if any, during the liquidation of the underlying pool of assets. Shares represent amount of allowed unsecured claims.

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

[n]A portion or all of the security has been segregated as collateral for open forward contracts. At June 30, 2017, the aggregate value of this security and/or cash pledged amounted to $4,636,950, representing 0.1% of net assets.

Franklin Mutual Shares VIP Fund (continued)

At June 30, 2017, the Fund had the following futures contracts outstanding. See Note 1(d).

Futures Contracts

Description	Type	Number of Contracts	Notional Value	Expiration Date	Unrealized Appreciation	Unrealized Depreciation
Currency Contracts						
EUR/USD	Short	478	$ 68,515,325	9/18/17	$ —	$(1,204,813)
GBP/USD	Short	1,341	109,333,406	9/18/17	—	(2,226,903)
Total Futures Contracts					$ —	$(3,431,716)
Net unrealized appreciation (depreciation)						$(3,431,716)

At June 30, 2017, the Fund had the following forward exchange contracts outstanding. See Note 1(d).

Forward Exchange Contracts

Currency	Counterparty[a]	Type	Quantity	Contract Amount	Settlement Date	Unrealized Appreciation	Unrealized Depreciation
OTC Forward Exchange Contracts							
South Korean Won	HSBK	Buy	15,250,943,768	$ 13,569,615	7/14/17	$ —	$ (249,579)
South Korean Won	HSBK	Sell	60,952,959,545	53,915,112	7/14/17	679,349	—
South Korean Won	UBSW	Buy	4,358,008,432	3,860,543	7/14/17	—	(54,297)
South Korean Won	UBSW	Sell	30,193,573,135	26,576,768	7/14/17	205,975	—
British Pound	BOFA	Buy	3,152,268	4,051,573	8/14/17	60,393	—
British Pound	HSBK	Buy	1,233,497	1,572,528	8/14/17	36,503	—
British Pound	SSBT	Buy	1,373,006	1,756,049	8/14/17	34,964	—
British Pound	SSBT	Sell	100,115,134	126,950,995	8/14/17	—	(3,643,870)
British Pound	UBSW	Buy	1,878,264	2,421,931	8/14/17	28,165	—
Euro	BOFA	Buy	352,190	402,582	8/18/17	767	—
Euro	BOFA	Sell	214,707	241,405	8/18/17	—	(4,490)
Euro	BONY	Buy	360,418	412,172	8/18/17	600	—
Euro	HSBK	Buy	352,191	402,343	8/18/17	1,007	—
Euro	HSBK	Sell	49,200,330	55,051,332	8/18/17	—	(1,295,817)
Euro	SSBT	Buy	352,190	402,761	8/18/17	588	—
Euro	SSBT	Sell	49,200,356	55,036,748	8/18/17	—	(1,310,431)
Euro	UBSW	Buy	568,560	649,804	8/18/17	1,345	—
Total Forward Exchange Contracts						$ 1,049,656	$ (6,558,484)
Net unrealized appreciation (depreciation)							$ (5,508,828)

[a]May be comprised of multiple contracts with the same counterparty, currency and settlement date.

See Abbreviations on page MS-33.

Financial Statements

Statement of Assets and Liabilities

June 30, 2017 (unaudited)

	Franklin Mutual Shares VIP Fund
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	$3,336,904,338
Value - Unaffiliated issuers	$4,315,395,962
Cash	463,226
Restricted Cash (Note 1e)	10,000
Foreign currency, at value (cost $1,784,392)	1,789,328
Receivables:	
Investment securities sold	22,174,094
Capital shares sold	180,283
Dividends and interest	6,858,260
European Union tax reclaims	1,170,006
Due from brokers	4,002,180
Unrealized appreciation on OTC forward exchange contracts	1,049,656
Other assets	2,844
Total assets	4,353,095,839
Liabilities:	
Payables:	
Investment securities purchased	1,200,821
Capital shares redeemed	1,475,011
Management fees	2,464,268
Distribution fees	1,571,337
Variation margin	109,700
Due to brokers	10,000
Unrealized depreciation on OTC forward exchange contracts	6,558,484
Accrued expenses and other liabilities	364,732
Total liabilities	13,754,353
Net assets, at value	$4,339,341,486
Net assets consist of:	
Paid-in capital	$2,959,304,020
Undistributed net investment income	126,117,767
Net unrealized appreciation (depreciation)	969,557,699
Accumulated net realized gain (loss)	284,362,000
Net assets, at value	$4,339,341,486
Class 1:	
Net assets, at value	$ 644,174,599
Shares outstanding	29,921,358
Net asset value and maximum offering price per share	$21.53
Class 2:	
Net assets, at value	$3,574,863,273
Shares outstanding	168,887,196
Net asset value and maximum offering price per share	$21.17
Class 4:	
Net assets, at value	$ 120,303,614
Shares outstanding	5,643,694
Net asset value and maximum offering price per share	$21.32

Statement of Operations

for the six months ended June 30, 2017 (unaudited)

	Franklin Mutual Shares VIP Fund
Investment income:	
Dividends	$ 47,545,108
Interest	10,303,786
Income from securities loaned (net of fees and rebates)	230,510
Total investment income	58,079,404
Expenses:	
Management fees (Note 3a)	14,953,814
Distribution fees: (Note 3c)	
Class 2	4,493,370
Class 4	209,827
Custodian fees (Note 4)	53,022
Reports to shareholders	234,143
Professional fees	170,286
Trustees' fees and expenses	10,340
Other	66,092
Total expenses	20,190,894
Expense reductions (Note 4)	(2,566)
Expenses waived/paid by affiliates (Note 3e)	(5,064)
Net expenses	20,183,264
Net investment income	37,896,140
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments	147,157,592
Foreign currency transactions	(6,944,681)
Futures contracts	(3,891,018)
Securities sold short	(391,267)
Net realized gain (loss)	135,930,626
Net change in unrealized appreciation (depreciation) on:	
Investments	73,010,433
Translation of other assets and liabilities denominated in foreign currencies	(8,774,420)
Futures contracts	(6,056,813)
Net change in unrealized appreciation (depreciation)	58,179,200
Net realized and unrealized gain (loss)	194,109,826
Net increase (decrease) in net assets resulting from operations	$232,005,966

Statements of Changes in Net Assets

	Franklin Mutual Shares VIP Fund	
	Six Months Ended June 30, 2017 (unaudited)	Year Ended December 31, 2016
Increase (decrease) in net assets:		
Operations:		
Net investment income	$ 37,896,140	$ 96,857,347
Net realized gain (loss)	135,930,626	177,041,416
Net change in unrealized appreciation (depreciation)	58,179,200	340,244,965
Net increase (decrease) in net assets resulting from operations	232,005,966	614,143,728
Distributions to shareholders from:		
Net investment income:		
Class 1	—	(12,783,421)
Class 2	—	(69,990,186)
Class 4	—	(2,230,613)
Net realized gains:		
Class 1	—	(46,218,042)
Class 2	—	(288,327,268)
Class 4	—	(9,935,345)
Total distributions to shareholders	—	(429,484,875)
Capital share transactions: (Note 2)		
Class 1	(151,228)	(54,403,896)
Class 2	(238,211,624)	110,574,611
Class 4	(8,529,725)	(14,522,761)
Total capital share transactions	(246,892,577)	41,647,954
Net increase (decrease) in net assets	(14,886,611)	226,306,807
Net assets:		
Beginning of period	4,354,228,097	4,127,921,290
End of period	$4,339,341,486	$4,354,228,097
Undistributed net investment income included in net assets:		
End of period	$ 126,117,767	$ 88,221,627

Notes to Financial Statements (unaudited)

Franklin Mutual Shares 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 Mutual Shares 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 as of 4 p.m. Eastern time each day the New York Stock Exchange (NYSE) is open for trading. 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 VC provides administration and oversight of the Fund's valuation policies and procedures, which are approved annually by the Board. Among other things, these procedures allow the Fund to utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities and derivative financial instruments 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.

Certain derivative financial instruments trade in the OTC market. The Fund's pricing services use various techniques including industry standard option pricing models and proprietary discounted cash flow models to determine the fair value of those instruments. The Fund's net benefit or obligation under the derivative contract, as measured by the fair value of the contract, is included in net assets.

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 VC convenes on a regular basis to review such financial instruments and considers a number of factors, including significant unobservable valuation inputs, when arriving at fair value. The VC 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

Franklin Mutual Shares VIP Fund (continued)

such investments, the fair values may differ significantly from the values that would have been used had an active market existed. The VC employs various methods for calibrating these valuation approaches including a regular review of key inputs and assumptions, transactional back-testing or disposition analysis, and reviews of any related market activity.

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 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. Securities Purchased on a Delayed Delivery Basis

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

d. Derivative Financial Instruments

The Fund invested in derivative financial instruments in order to manage risk or gain exposure to various other investments or markets. Derivatives are financial contracts based on an underlying or notional amount, require no initial investment or an initial net investment that is smaller than would normally be required to have a similar response to changes in market factors, and require or permit net settlement. Derivatives contain various risks including the potential inability of the counterparty to fulfill their obligations under the terms of the contract, the potential for an illiquid secondary market, and/or the potential

Franklin Mutual Shares VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

d. Derivative Financial Instruments *(continued)*

for market movements which expose the Fund to gains or losses in excess of the amounts shown in the Statement of Assets and Liabilities. Realized gain and loss and unrealized appreciation and depreciation on these contracts for the period are included in the Statement of Operations.

Derivative counterparty credit risk is managed through a formal evaluation of the creditworthiness of all potential counter-parties. The Fund attempts to reduce its exposure to counterparty credit risk on OTC derivatives, whenever possible, by entering into International Swaps and Derivatives Association (ISDA) master agreements with certain counterparties. These agreements contain various provisions, including but not limited to collateral requirements, events of default, or early termination. Termination events applicable to the counterparty include certain deteriorations in the credit quality of the counterparty. Termination events applicable to the Fund include failure of the Fund to maintain certain net asset levels and/or limit the decline in net assets over various periods of time. In the event of default or early termination, the ISDA master agreement gives the non-defaulting party the right to net and close-out all transactions traded, whether or not arising under the ISDA agreement, to one net amount payable by one counterparty to the other. However, absent an event of default or early termination, OTC derivative assets and liabilities are presented gross and not offset in the Statement of Assets and Liabilities. Early termination by the counterparty may result in an immediate payment by the Fund of any net liability owed to that counterparty under the ISDA agreement. At June 30, 2017, the Fund had OTC derivatives in a net liability position of $5,747,286 and the aggregate value of collateral pledged for such contracts was $4,636,950.

Collateral requirements differ by type of derivative. Collateral or initial margin requirements are set by the broker or exchange clearing house for exchange traded and centrally cleared derivatives. Initial margin deposited is held at the exchange and can be in the form of cash and/or securities. For OTC derivatives traded under an ISDA master agreement, posting of collateral is required by either the Fund or the applicable counterparty if the total net exposure of all OTC derivatives with the applicable counterparty exceeds the minimum transfer amount, which typically ranges from $100,000 to $250,000, and can vary depending on the counterparty and the type of the agreement. Generally, collateral is determined at the close of Fund business each day and any additional collateral required due to changes in derivative values may be delivered by the Fund or the counterparty the next business day, or within a few business days. Collateral pledged and/or received by the Fund, if any, is held in segregated accounts with the Fund's custodian/counterparty broker and can be in the form of cash and/or securities. Unrestricted cash may be invested according to the Fund's investment objectives. To the extent that the amounts due to the Fund from its counterparties are not subject to collateralization or are not fully collateralized, the Fund bears the risk of loss from counterparty non-performance.

The Fund entered into exchange traded futures contracts primarily to manage exposure to certain foreign currencies. A futures contract is an agreement between the Fund and a counterparty to buy or sell an asset at a specified price on a future date. Required initial margins are pledged by the Fund, and the daily change in fair value is accounted for as a variation margin payable or receivable in the Statement of Assets and Liabilities.

The Fund entered into OTC forward exchange contracts primarily to manage exposure to certain foreign currencies. A forward exchange contract is an agreement between the Fund and a counterparty to buy or sell a foreign currency at a specific exchange rate on a future date.

See Note 9 regarding other derivative information.

e. Restricted Cash

At June 30, 2017, the Fund held restricted cash in connection with investments in certain derivative securities. Restricted cash is held in a segregated account with the Fund's custodian and is reflected in the Statement of Assets and Liabilities.

f. Securities Sold Short

The Fund is engaged in selling securities short, which obligates the Fund to replace a borrowed security with the same security at current fair value. The Fund incurs a loss if the price of the security increases between the date of the short sale and the date on which the Fund replaces the borrowed security. The Fund realizes a gain if the price of the security declines between those dates. Gains are limited to the price at which the Fund sold the security short, while losses are potentially unlimited in size.

Franklin Mutual Shares VIP Fund (continued)

The Fund is required to establish a margin account with the broker lending the security sold short. While the short sale is outstanding, the broker retains the proceeds of the short sale to the extent necessary to meet margin requirements until the short position is closed out. A deposit must also be maintained with the Fund's custodian/counterparty broker consisting of cash and/or securities having a value equal to a specified percentage of the value of the securities sold short. The Fund is obligated to pay fees for borrowing the securities sold short and is required to pay the counterparty any dividends and/or interest due on securities sold short. Such dividends and/or interest and any security borrowing fees are recorded as an expense to the Fund. At June 30, 2017, the Fund had no securities sold short.

g. Securities Lending

The Fund participates in an agency based securities lending program to earn additional income. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the fair value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the fair value of loaned securities, as determined at the close of Fund business each day; any additional collateral required due to changes in security values is delivered to the Fund on the next business day. The collateral is deposited into a joint cash account with other funds and is used to invest in a money market fund managed by Franklin Advisers, Inc., an affiliate of the Fund, and/or a joint repurchase agreement. The Fund may receive income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. Income from securities loaned, net of fees paid to the securities lending agent and/or third-party vendor, is reported separately in the Statement of Operations. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the agent may default on its obligations to the Fund. If the borrower defaults on its obligation to return the securities loaned, the Fund has the right to repurchase the securities in the open market using the collateral received. The securities lending agent has agreed to indemnify the Fund in the event of default by a third party borrower. At June 30, 2017, the Fund had no securities on loan.

h. Senior Floating Rate Interests

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

i. Income and Deferred Taxes

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

The Fund may be subject to foreign taxation related to income received, capital gains on the sale of securities and certain foreign currency transactions in the foreign jurisdictions in which it invests. Foreign taxes, if any, are recorded based on the tax regulations and rates that exist in the foreign markets in which the Fund invests. When a capital gain tax is determined to apply, the Fund records an estimated deferred tax liability in an amount that would be payable if the securities were disposed of on the valuation date. As a result of several court cases, in certain countries across the European Union, the Fund filed additional tax reclaims for previously withheld taxes on dividends earned in those countries (EU reclaims). These additional filings are subject to various administrative proceedings by the local jurisdictions' tax authorities within the European Union, as well as a number of related judicial proceedings. Income recognized, if any, for EU reclaims is reflected as other income in the Statement of Operations and any related receivable, if any, is reflected as European Union tax reclaims in the Statement of Assets and Liabilities. When uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these EU reclaims, and the potential timing of payment, no amounts are reflected in the financial statements. For U.S. income tax purposes, when EU reclaims are received by the Fund and the Fund previously passed foreign tax credit on to its shareholders, the Fund must either amend historic tax reporting to shareholders or enter into a closing agreement with the Internal Revenue Service (IRS) in order to pay the associated tax liability on behalf of the Fund's shareholders.

Franklin Mutual Shares VIP Fund (continued)

1. Organization and Significant Accounting Policies (continued)

i. Income and Deferred Taxes *(continued)*

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 June 30, 2017, 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 each tax jurisdiction's statute of limitation.

j. Security Transactions, Investment Income, Expenses and Distributions

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

Realized and unrealized gains and losses and net investment income, not including 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.

k. 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.

l. 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 Mutual Shares VIP Fund (continued)

2. Shares of Beneficial Interest

At June 30, 2017, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	Shares	Amount	Shares	Amount
Class 1 Shares:				
Shares sold	1,296,286	$ 27,319,254	2,468,008	$ 48,112,430
Shares issued in reinvestment of distributions	—	—	3,058,655	59,001,463
Shares redeemed	(1,297,867)	(27,470,482)	(8,638,060)	(161,517,789)
Net increase (decrease)	(1,581)	$ (151,228)	(3,111,397)	$ (54,403,896)
Class 2 Shares:				
Shares sold	1,601,314	$ 33,376,951	19,363,703	$ 382,884,835
Shares issued in reinvestment of distributions	—	—	18,848,893	358,317,454
Shares redeemed	(13,052,336)	(271,588,575)	(32,549,983)	(630,627,678)
Net increase (decrease)	(11,451,022)	$(238,211,624)	5,662,613	$ 110,574,611
Class 4 Shares:				
Shares sold	295,511	$ 6,220,300	203,267	$ 3,894,989
Shares issued in reinvestment of distributions	—	—	634,967	12,165,958
Shares redeemed	(705,187)	(14,750,025)	(1,564,342)	(30,583,708)
Net increase (decrease)	(409,676)	$ (8,529,725)	(726,108)	$ (14,522,761)

3. Transactions with Affiliates

Franklin Resources, Inc. is the holding company for various subsidiaries that together are referred to as Franklin Templeton Investments. Certain officers 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 Templeton Services, LLC (FT Services)	Administrative manager
Franklin Templeton Distributors, Inc. (Distributors)	Principal underwriter
Franklin Templeton Investor Services, LLC (Investor Services)	Transfer agent

a. Management Fees

The Fund pays an investment management fee to 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
0.735%	Over $200 million, up to and including $700 million
0.700%	Over $700 million, up to and including $1.2 billion
0.675%	Over $1.2 billion, up to and including $5 billion
0.645%	Over $5 billion, up to and including $10 billion
0.625%	Over $10 billion, up to and including $15 billion
0.605%	Over $15 billion, up to and including $20 billion
0.585%	In excess of $20 billion

Franklin Mutual Shares VIP Fund (continued)

3. Transactions with Affiliates (continued)

a. Management Fees *(continued)*

For the period ended June 30, 2017, the annualized effective investment management fee rate was 0.688% 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 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 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 period ended June 30, 2017, the Fund held investments in affiliated management investment companies as follows:

	Number of Shares Held at Beginning of Period	Gross Additions	Gross Reductions	Number of Shares Held at End of Period	Value at End of Period	Investment Income	Realized Gain (Loss)	% of Affiliated Fund Shares Outstanding Held at End of Period
Non-Controlled Affiliates								
Institutional Fiduciary Trust Money Market Portfolio, 0.58%	–	86,287,000	(86,287,000)	–	$–	$–	$–	–%

f. Other Affiliated Transactions

At June 30, 2017, Franklin Templeton Variable Insurance Products Trust – Franklin Founding Funds Allocation VIP Fund owned 7.7% of the Fund's outstanding shares.

4. Expense Offset Arrangement

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Funds' custodian expenses. During the period ended June 30, 2017, the custodian fees were reduced as noted in the Statements of Operations.

Franklin Mutual Shares VIP Fund (continued)

5. Income Taxes

At June 30, 2017, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	$3,360,338,989
Unrealized appreciation	$1,233,181,771
Unrealized depreciation	(278,124,798)
Net unrealized appreciation (depreciation)	$ 955,056,973

Differences between income and/or capital gains as determined on a book basis and a tax basis are primarily due to differing treatments of foreign currency transactions.

6. Investment Transactions

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2017, aggregated $350,876,789 and $513,592,020, respectively.

7. Credit Risk and Defaulted Securities

The Fund may purchase the pre-default or defaulted debt of distressed companies. Distressed companies are financially troubled and could be or are already involved in financial restructuring or bankruptcy. Risks associated with purchasing these securities include the possibility that the bankruptcy or other restructuring process takes longer than expected, or that distributions in restructuring are less than anticipated, either or both of which may result in unfavorable consequences to the Fund. If it becomes probable that the income on debt securities, including those of distressed companies, will not be collected, the Fund discontinues accruing income and recognizes an adjustment for uncollectible interest.

At June 30, 2017, the aggregate long value of distressed company securities for which interest recognition has been discontinued was $81,401,458, representing 1.9% of the Fund's net assets. For information as to specific securities, see the accompanying Statement of Investments.

8. Restricted Securities

The Fund invests in securities that are restricted under the Securities Act of 1933 (1933 Act) or which are subject to legal, contractual, or other agreed upon restrictions on resale. Restricted securities are often purchased in private placement transactions, and cannot be sold without prior registration unless the sale is pursuant to an exemption under the 1933 Act. Disposal of these securities may require greater effort and expense, and prompt sale at an acceptable price may be difficult. The Fund may have registration rights for restricted securities. The issuer generally incurs all registration costs.

At June 30, 2017, investments in restricted securities, excluding certain securities exempt from registration under the 1933 Act deemed to be liquid, were as follows:

Principal Amount/ Shares	Issuer	Acquisition Date	Cost	Value
1,754	Broadband Ventures III LLC, secured promissory note, 5.00%, 2/01/12	7/01/10 - 11/30/12	$ 1,754	$ —
6,400,507	CB FIM Coinvestors LLC	1/15/09 - 6/02/09	—	—
8,006,950	FIM Coinvestor Holdings I, LLC	11/20/06 - 6/02/09	—	—
48,169	Gulfmark Offshore Inc.	1/06/17	86,699	10,067
1,730,515	International Automotive Components Group Brazil LLC	4/13/06 - 12/26/08	1,149,241	42,327

Franklin Mutual Shares VIP Fund (continued)

8. Restricted Securities (continued)

Principal Amount/ Shares	Issuer	Acquisition Date	Cost	Value
15,382,424	International Automotive Components Group North America LLC	1/12/06 - 3/18/13	$12,591,586	$ 9,468,128
361,612	Warrior Met Coal Inc.	3/31/16	2,074,365	5,915,616
	Total Restricted Securities (Value is 0.4% of Net Assets)		$15,903,645	$15,436,138

9. Other Derivative Information

At June 30, 2017, the Fund's investments in derivative contracts are reflected in the Statement of Assets and Liabilities as follows:

	Asset Derivatives		Liability Derivatives	
Derivative Contracts Not Accounted for as Hedging Instruments	**Statement of Assets and Liabilities Location**	**Fair Value**	**Statement of Assets and Liabilities Location**	**Fair Value**
Foreign exchange contracts			Variation margin	$3,431,716[a]
	Unrealized appreciation on OTC forward exchange contracts	$1,049,656	Unrealized depreciation on OTC forward exchange contracts	6,558,484
Totals		$1,049,656		$9,990,200

[a]This amount reflects the cumulative appreciation (depreciation) of futures contracts as reported in the Statement of Investments. Only the variation margin receivable/payable at year end is separately reported within the Statement of Assets and Liabilities. Prior variation margin movements were recorded to cash upon receipt or payment.

For the period ended June 30, 2017, the effect of derivative contracts in the Fund's Statement of Operations was as follows:

Derivative Contracts Not Accounted for as Hedging Instruments	Statement of Operations Location	Net Realized Gain (Loss) for the Period	Statement of Operations Location	Net Change in Unrealized Appreciation (Depreciation) for the Period
	Net realized gain (loss) from:		Net change in unrealized appreciation (depreciation) on:	
Foreign exchange contracts .	Foreign currency transactions	$ (7,525,031)[a]	Translation of other assets and liabilities denominated in foreign currencies	$ (8,921,806)[a]
	Futures contracts	(3,891,018)	Futures contracts	(6,056,813)
Totals.		$(11,416,049)		$(14,978,619)

[a]Forward exchange contracts are included in net realized gain (loss) from foreign currency transactions and net change in unrealized appreciation (depreciation) on translation of other assets and liabilities denominated in foreign currencies in the Statement of Operations.

For the period ended June 30, 2017, the average month end notional amount of futures contracts represented $171,522,326. The average month end contract value of forward exchange contracts was $285,137,395.

See Notes 1(d) regarding derivative financial instruments.

Franklin Mutual Shares VIP Fund (continued)

10. Holdings of 5% Voting Securities of Portfolio Companies

The 1940 Act defines "affiliated companies" to include investments in portfolio companies in which a fund owns 5% or more of the outstanding voting securities. During the period ended June 30, 2017, investments in "affiliated companies" were as follows:

Name of Issuer	Number of Shares Held at Beginning of Period	Gross Additions	Gross Reductions	Number of Shares Held at End of Period	Value at End of Period	Investment Income	Realized Gain (Loss)
CB FIM Coinvestors LLC (Value is 0.0% of Net Assets)	6,400,507	—	—	6,400,507	$—	$—	$—

11. Credit Facility

The Fund, together with other U.S. registered and foreign investment funds (collectively, Borrowers), managed by Franklin Templeton Investments, are borrowers in a joint syndicated senior unsecured credit facility totaling $2 billion (Global Credit Facility) which matures on February 9, 2018. 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.

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 period ended June 30, 2017, the Fund did not use the Global Credit Facility.

12. 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. For movements between the levels within the fair value hierarchy, the Fund has adopted a policy of recognizing the transfers as of the date of the underlying event which caused the movement.

Franklin Mutual Shares VIP Fund (continued)

12. Fair Value Measurements (continued)

A summary of inputs used as of June 30, 2017, in valuing the Fund's assets and liabilities carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities:				
Equity Investments:[a]				
Auto Components	$ 22,117,024	$ —	$ 9,510,455	$ 31,627,479
Energy Equipment & Services	54,710,870	—	10,067	54,720,937
Machinery	69,304,902	20,893,272	—	90,198,174
Metals & Mining	32,591,299	—	5,915,616	38,506,915
All Other Equity Investments[b]	3,562,631,810	—	—[c]	3,562,631,810
Corporate Bonds, Notes and Senior Floating Rate Interests	—	143,352,961	—	143,352,961
Corporate Notes and Senior Floating Rate Interests in Reorganization	—	68,951,968	—[c]	68,951,968
Companies in Liquidation	—	5,565,237	1,507,146[c]	7,072,383
Municipal Bonds in Reorganization	—	12,449,490	—	12,449,490
Short Term Investments	201,485,220	104,398,625	—	305,883,845
Total Investments in Securities	$ 3,942,841,125	$ 355,611,553	$ 16,943,284	$ 4,315,395,962
Other Financial Instruments:				
Forward Exchange Contracts	$ —	$ 1,049,656	$ —	$ 1,049,656
Liabilities:				
Other Financial Instruments:				
Futures Contracts	$ 3,431,716	$ —	$ —	$ 3,431,716
Forward Exchange Contracts	—	6,558,484	—	6,558,484
Total Other Financial Instruments	$ 3,431,716	$ 6,558,484	$ —	$ 9,990,200

[a]Includes common stocks and other equity investments.
[b]For detailed categories, see the accompanying Statement of Investments.
[c]Includes securities determined to have no value at June 30, 2017.

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

13. New Accounting Pronouncements

In March 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments in the ASU shorten the amortization period for certain callable debt securities, held at a premium, to be amortized to the earliest call date. The ASU does not require an accounting change for securities held at a discount; which continues to be amortized to maturity. The ASU is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2018. Management is currently evaluating the impact, if any, of applying this provision.

14. Investment Company Reporting Modernization

In October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended existing rules (together, final rules) intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosures about derivatives in investment company financial statements, as

Franklin Mutual Shares VIP Fund (continued)

well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017. Management has reviewed the requirements and believes the adoption of the amendments to Regulation S-X will not have a material impact on the Fund's financial statements and related disclosures.

15. 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.

Abbreviations

Counterparty		Currency		Selected Portfolio	
BOFA	Bank of America Corp.	**EUR**	Euro	**ADR**	American Depositary Receipt
BONY	The Bank of New York Mellon Corp.	**GBP**	British Pound	**DIP**	Debtor-In-Possession
HSBK	HSBC Bank PLC	**USD**	United States Dollar	**FHLB**	Federal Home Loan Bank
SSBT	State Street Bank			**GO**	General Obligation
UBSW	UBS AG			**TRA**	Tax Receivable Agreement

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Index Descriptions

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

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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.

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

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.

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 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 six-month period ended 6/30/17, there were 344 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 six-month period ended 6/30/17, there were 75 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 six-month period ended 6/30/17, there were 55 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 1000™ Value Index is market capitalization weighted and measures performance of those Russell 1000™ Index companies with lower price-to-book ratios and lower forecasted growth values.

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 2500™ Value Index is market capitalization weighted and measures performance of those Russell 2500™ Index companies with lower price-to-book ratios and lower forecasted growth values.

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.

Shareholder Information

Board Approval of Investment Management Agreements

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

Franklin Flex Cap Growth 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 Fund)

At an in-person meeting held on April 18, 2017 (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 the continuance of the (i) investment management agreement between Franklin Advisers, Inc. (FAI) and each of Franklin Flex Cap Growth VIP Fund, Franklin Growth and Income VIP Fund, Franklin Income VIP Fund, Franklin Large Cap Growth 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, and Templeton Global Bond VIP Fund; (ii) the investment sub-advisory agreements between FAI and each of Franklin Advisory Services, LLC and K2/D&S Management Co., L.L.C. (each a Sub-Adviser), affiliates of FAI, on behalf of the Franklin VolSmart Allocation VIP Fund; (iii) the investment management agreement between Franklin Templeton Institutional, LLC (FTIL) and Franklin Global Real Estate VIP Fund; (iv) the investment management agreement between Franklin Mutual Advisers, LLC (FMA) and each of Franklin Mutual Global Discovery VIP Fund and Franklin Mutual Shares VIP Fund; (v) the investment management agreement between Franklin Advisory Services, LLC (FAS) and each of Franklin Rising Dividends VIP Fund and Franklin Small Cap Value VIP Fund; (vi) the investment management agreement between Templeton Asset Management Ltd. (TAML) and Templeton Developing Markets VIP Fund; (vii) the investment management agreement between Templeton Investment Counsel, LLC (TICL) and Templeton Foreign VIP Fund; and (viii) the investment management agreement between Templeton Global Advisors Limited (TGAL) and Templeton Growth VIP Fund (each a Management Agreement) for an additional one-year period. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve the continuation of each Management Agreement. Although the Management Agreements for the Funds were considered at the same Board meeting, the Board considered the information provided to it about the Funds together and with respect to each Fund separately as the Board deemed appropriate. FAI, FTIL, FMA, FAS, TAML, TICL, TGAL and the Sub-Advisers are each referred to herein as a Manager.

In considering the continuation of each Management Agreement, the Board reviewed and considered information provided by each Manager at the Meeting and throughout the year at meetings of the Board and its committees. The Board also reviewed and considered information provided in response to a detailed set of requests for information submitted to each Manager by Independent Trustee counsel on behalf of the Independent Trustees in connection with the annual contract renewal process. In addition, prior to the Meeting, the Independent Trustees held a telephonic contract renewal meeting at which the Independent Trustees conferred amongst themselves and Independent Trustee counsel about contract renewal matters. The Board reviewed and considered all of the factors it deemed relevant in approving the continuance of each Management Agreement, including, but not limited to: (i) the nature, extent, and quality of the services provided by each Manager; (ii) the investment performance of each Fund; (iii) the costs of the services provided and profits realized by each Manager and its affiliates from the relationship with each Fund; (iv) the extent to which economies of scale are realized as each Fund grows; and (v) whether fee levels reflect these economies of scale for the benefit of Fund investors.

In approving the continuance of each Management Agreement, the Board, including a majority of the Independent Trustees, determined that the existing management fees are fair and reasonable and that the continuance of such Management Agreement is in the interests of the applicable Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board's determination.

Nature, Extent and Quality of Services

The Board reviewed and considered information regarding the nature, extent and quality of investment management services provided by each Manager and its affiliates to the Funds and their shareholders. This information included, among other things, the qualifications, background and experience of the senior management and investment personnel of each Manager; the structure of investment personnel compensation; oversight of third-party service providers; investment performance reports and related financial information for each Fund; reports on expenses, shareholder services, marketing support payments made to financial intermediaries and third party servicing arrangements; legal and compliance matters; risk controls; pricing and other services provided by each Manager and its affiliates; and management fees charged by each Manager and its affiliates to U.S. funds and other accounts, including management's explanation of differences among accounts where relevant. The Board noted management's continual efforts and expenditures in establishing effective business continuity plans and developing strategies to address areas of heightened concern in the mutual fund industry, such as cybersecurity, derivatives and liquidity risk management.

The Board also reviewed and considered the benefits provided to Fund shareholders of investing in a fund that is part of the Franklin Templeton family of funds. The Board noted the financial position of Franklin Resources, Inc. (FRI), the Managers' parent, and its commitment to the mutual fund business as evidenced by its continued introduction of new funds, reassessment of the fund offerings in response to the market environment and project initiatives and capital investments relating to the services provided to the Funds by the Franklin Templeton Investments (FTI) organization.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services provided by each Manager and its affiliates to the Funds and their shareholders.

Fund Performance

The Board reviewed and considered the performance results of each Fund over various time periods ended January 31, 2017. The Board considered the performance returns for each 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 a Performance Universe. The Board also reviewed and considered Fund performance reports provided and discussions that occurred with portfolio managers at Board meetings throughout the year. A summary of each Fund's performance results is below.

Franklin Flex Cap Growth VIP Fund - The Performance Universe for this Fund included the Fund and all multi-cap growth funds underlying variable insurance products (VIPs). The Board 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. The Board concluded that the Fund's performance was acceptable. In doing so, the Board noted the actions management has taken in an effort to address the Fund's performance, including changes to the Fund's portfolio management team and enhancements to the team's security selection process. The Board also noted that the Fund's annualized total return for each period, while below the median, was positive.

Franklin Global Real Estate VIP Fund - The Performance Universe for this Fund included the Fund and all global real estate funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-, three- and five-year periods was above the median of its Performance Universe, but for the 10-year period was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory.

Franklin Growth and Income VIP Fund - The Performance Universe for this Fund included the Fund and all equity income funds underlying 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- and five-year periods was below the median of its Performance Universe, but for the 10-year period was equal to the median of its Performance Universe. Given the Fund's income-oriented investment objective, the Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that the Fund's annualized total return for each of the one-, three- and five-year periods, while below the median, exceeded 8.2%.

Franklin Income VIP Fund and Franklin Strategic Income VIP Fund - The Performance Universe for the Franklin Income VIP Fund included the Fund and all mixed-asset target allocation moderate funds underlying VIPs. The Performance Universe for the Franklin Strategic Income VIP Fund included the Fund and all general bond funds underlying VIPs. The Board noted that the Funds' annualized income returns for the one-, three-, five- and 10-year periods were above the medians of their respective Performance Universes. The Board also noted that the Funds' annualized total returns for the one-, five- and 10-year periods were above the medians of their respective Performance Universes, but for the three-year period were below the medians of their respective Performance Universes. Given the Funds' income-oriented investment objective, the Board concluded that the Funds' performance was satisfactory.

Franklin Large Cap Growth VIP Fund - The Performance Universe for this Fund included the Fund and all multi-cap growth funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-, five- and 10-year periods was below the median of its Performance Universe, but for the three-year period was above the median of its Performance Universe. The Board concluded that the Fund's performance was acceptable. In doing so, the Board noted the actions management has taken in an effort to address the Fund's performance, including the addition of a portfolio manager and the repositioning of certain of the Fund's portfolio holdings. The Board also noted that the Fund's annualized total return for the one-, five- and 10-year periods, while below the median, exceeded 13.4%, 11.2%, and 5.8%, respectively.

Franklin Mutual Global Discovery VIP Fund - The Performance Universe for this Fund included the Fund and all global multi-cap value funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-year period was below the median of its Performance Universe, but for the three-, five- and 10-year periods was above the median and in the first quintile of its Performance Universe. The Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that the Fund's annualized total return for the one-year period, while below the median, exceeded 21.1%.

Franklin Mutual Shares VIP Fund and Templeton Developing Markets VIP Fund - The Performance Universe for the Franklin Mutual Shares VIP Fund included the Fund and all large-cap value funds underlying VIPs. The Performance Universe for the Templeton Developing Markets VIP Fund included the Fund and all emerging markets funds underlying VIPs. The Board noted that the Funds' annualized total returns for the one-year period were above the medians of their respective Performance Universes, but for the three-, five- and 10-year periods were below the medians of their respective Performance Universes. The Board concluded that the Funds' performance was acceptable. In doing so, the Board noted that the annualized total returns for the one-year period exceeded 23.8% for the Franklin Mutual Shares VIP Fund and 30.6% for the Templeton Developing Markets VIP Fund. The Board also acknowledged management's explanation that the Franklin Mutual Shares VIP Fund is managed conservatively and has historically held higher cash weightings than its peers, detracting from relative performance in sharply rising markets. The Board further noted recent and expected portfolio management team changes for the Templeton Developing Markets VIP Fund. In light of such changes, the Board determined that additional time will be needed to evaluate the effectiveness of management's actions.

Franklin Rising Dividends VIP Fund **-** The Performance Universe for this Fund included the Fund and all multi-cap core funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-, three- and 10-year periods was above the median of its Performance Universe, but for the five-year period was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that the Fund's annualized total return for the five-year period, while below the median, exceeded 11.9%.

Franklin Small Cap Value VIP Fund **-** The Performance Universe for this Fund included the Fund and all small-cap value funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-, five- and 10-year periods was above the median of its Performance Universe, but for the three-year period was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that effective September 30, 2016, the Fund changed its definition of small-capitalization companies and changed its primary benchmark from the Russell 2500 Value Index to the Russell 2000 Value Index. The Board also noted that the definition of "small-capitalization companies" was changed from those with market capitalizations of under $3.5 billion, at the time of purchase, to those with market capitalizations not exceeding either (1) the highest market capitalization in the Russell 2000 Index or (2) the 12-month average of the highest market capitalization in the Russell 2000 Index, whichever is greater, at the time of purchase. The Board further noted that, in light of the change to the definition of small-capitalization companies, the Russell 2000 Value Index will provide a more appropriate comparison for performance purposes and is more commonly used in the Fund's small cap value peer group.

Franklin Small-Mid Cap Growth VIP Fund - The Performance Universe for this Fund included the Fund and all mid-cap growth funds underlying VIPs. The Board noted that the Fund's annualized total return for the one-year period was equal to the median of its Performance Universe, but for the three-, five- and 10-year periods was below the median of its Performance Universe. The Board concluded that the Fund's performance was acceptable. In doing so, the Board noted management's explanation that the Fund's positioning in the health care sector was a primary detractor from benchmark relative performance over the one-, three-, and five-year periods, particularly as a result of recent pricing pressure and public scrutiny on drug price increases for several holdings within the pharmaceutical industry. Management further explained that avoiding certain benchmark holdings due to high valuations also contributed to underperformance, as those companies ultimately performed better than expected. The Board then noted that the investment team continues to believe its approach to active management will contribute to stronger performance over the long-term. The Board also noted that the Fund's annualized total return for the one-year period exceeded 19.4%.

Franklin U.S. Government Securities VIP Fund **-** The Performance Universe for this Fund included the Fund and all general U.S. government funds underlying 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- and 10-year periods was above the median of its Performance Universe, but for the three- and five-year periods was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory given the Fund's income-oriented investment objective and the nature of the Fund's investments, which are primarily in U.S. mortgage-backed securities.

Franklin VolSmart Allocation VIP Fund - The Performance Universe for this Fund included the Fund and all flexible portfolio funds underlying VIPs. The Fund has been in operation for less than five years. The Board noted that the Fund's annualized total return for the one- and three-year periods was below the median of its Performance Universe. The Board concluded that the Fund's performance was acceptable given its short period of operation. In doing so, the Board noted that the Fund's current portfolio management team began managing the Fund in May 2015. The Board further noted that Fund's annualized total return for the one-year period, while below the median, exceeded 8.1%.

Templeton Foreign VIP Fund - The Performance Universe for this Fund included the Fund and all international multi-cap value funds underlying VIPs. The Board noted that the Fund's annualized total return for one- and 10-year periods was above the median of its Performance Universe, but for the three- and five-year periods was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that the Fund's annualized total return for the one-year period was 20.39%.

Templeton Global Bond VIP Fund - The Performance Universe for this Fund included the Fund and all global income funds underlying VIPs. The Board noted that the Fund's annualized income return for the one-year period was below the median of its Performance Universe, but for the three-, five- and 10-year periods was above the median and in the first quintile 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 above the median of its Performance Universe. Given the Fund's income-oriented investment objective, the Board concluded that the Fund's performance was satisfactory.

Templeton Growth VIP Fund - The Performance Universe for this Fund included the Fund and all global multi-cap value funds underlying VIPs. The Board noted that the Fund's annualized total return for the one- and five-year periods was above the median and in the second quintile of its Performance Universe, for the three-year period was equal to the median of its Performance Universe, and for the 10-year period was below the median of its Performance Universe. The Board concluded that the Fund's performance was satisfactory. In doing so, the Board noted that the Fund's annualized total return for the one-year period exceeded 22.5%. The Board noted that in the second half of 2016, the MSCI All Country World Index replaced the MSCI World Index as the Fund's primary benchmark.

Comparative Fees and Expenses

The Board reviewed and considered information regarding each Fund's actual 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 also noted that at its February meeting each year, it receives an annual report on all marketing support payments made by FTI to financial intermediaries. The Board considered the actual total expense ratio and, separately, the contractual management fee rate, without the effect of fee waivers, if any (Management Rate) of each Fund, in comparison to the median ratio and median Management Rate, respectively, of other mutual funds deemed comparable to and with a similar expense structure as 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. The Board received a description of the methodology used by Broadridge to select the mutual funds included in an Expense Group.

Franklin Flex Cap Growth VIP Fund - The Expense Group for the Fund included the Fund and nine other multi-cap growth funds underlying VIPs. The Board noted that the Management Rate for the Fund was above the median of its Expense Group, but its actual total expense ratio was below the median of its Expense Group. The Board concluded that the Management Rate charged to the Fund is fair and reasonable. In doing so, the Board noted that the Fund's actual total expense ratio reflected a fee waiver from management.

Franklin Growth and Income VIP Fund, Franklin Income VIP Fund, Franklin Rising Dividends VIP Fund, Franklin Small Cap Value VIP Fund, Franklin Strategic Income VIP Fund, Franklin U.S. Government Securities VIP Fund, Templeton Foreign VIP Fund and Templeton Global Bond VIP Fund - The Expense Group for the Franklin Growth and Income VIP Fund included the Fund and six other equity income funds underlying VIPs. The Expense Group for the Franklin Income VIP Fund included the Fund and five other mixed-asset target allocation moderate funds underlying VIPs. The Expense Group for the Franklin Rising Dividends VIP Fund included the Fund and eight other multi-cap core funds underlying VIPs. The Expense Group for the Franklin Small Cap Value VIP Fund included the Fund and seven other small-cap value funds underlying VIPs. The Expense Group for the Franklin Strategic Income VIP Fund included the Fund and eight other general bond funds underlying VIPs. The Expense Group for the Franklin U.S. Government Securities VIP Fund included the Fund and six other general U.S. government funds underlying VIPs. The Expense Group for the Templeton Foreign VIP Fund included the Fund, five other international multi-cap value funds underlying VIPs and four international multi-cap core funds underlying VIPs. The Expense Group for the Templeton Global Bond VIP Fund included the Fund and six other global income funds underlying VIPs. The Board noted that the Management Rates and actual total expense ratios for these Funds were below the medians of their respective Expense Groups. The Board concluded that the Management Rates charged to these Funds are fair and reasonable. In doing so, the Board noted that, effective May 1, 2017, management agreed to add an additional breakpoint level of 0.4900% on assets that exceed $5 billion to the Franklin Rising Dividends VIP Fund's Management Rate. The Board also noted that the Franklin Growth and Income VIP Fund's actual total expense ratio reflected a fee waiver from management.

Franklin Small-Mid Cap Growth VIP Fund - The Expense Group for the Fund included the Fund and ten other mid-cap growth funds underlying VIPs. The Board noted that the Management Rate and actual total expense ratio for the Fund were each equal to the medians of its Expense Group. The Board concluded that the Management Rate charged to the Fund is fair and reasonable.

Franklin VolSmart Allocation VIP Fund – The Expense Group for the Fund included the Fund and four other flexible portfolio funds underlying VIPs. The Board noted the small size of the Expense Group. The Board also noted that the Management Rate for the Fund was below the median of its Expense Group and its actual total expense ratio (including underlying fund expenses) was equal to the median of its Expense Group. The Board concluded that the Management Rate charged to the Fund is fair and reasonable. In doing so, the Board noted that the Fund's actual total expense ratio reflected a fee waiver from management and that the Sub-Advisers were paid by FAI out of the management fee FAI received from the Fund.

Franklin Global Real Estate VIP Fund, Franklin Large Cap Growth VIP Fund, Franklin Mutual Global Discovery VIP Fund, Franklin Mutual Shares VIP Fund, Templeton Developing Markets VIP Fund and Templeton Growth VIP Fund - The Expense Group for the Franklin Global Real Estate VIP Fund included the Fund and five other global real estate funds underlying VIPs. The Expense Group for the Franklin Large Cap Growth VIP Fund included the Fund and 10 other multi-cap growth funds underlying VIPs. The Expense Group for the Franklin Mutual Global Discovery VIP Fund included the Fund, two other global multi-cap value funds underlying

VIPs and four global multi-cap core funds underlying VIPs. The Expense Group for the Franklin Mutual Shares VIP Fund included the Fund and eight other large-cap value funds underlying VIPs. The Expense Group for the Templeton Developing Markets VIP Fund included the Fund and nine other emerging markets funds underlying VIPs. The Expense Group for the Templeton Growth VIP Fund included the Fund, two other global multi-cap value funds underlying VIPs, four global multi-cap core funds underlying VIPs and two global multi-cap growth funds underlying VIPs. The Board noted that the Management Rates and actual total expense ratios for these Funds were above the medians of their respective Expense Groups. The Board concluded that the Management Rates charged to the Funds are fair and reasonable. In doing so, the Board noted that the Management Rate for the Franklin Large Cap Growth VIP Fund was only one basis point above the median of its Expense Group. With respect to the Franklin Mutual Shares VIP Fund and the Franklin Mutual Global Discovery VIP Fund, the Board took into account management's explanation that the portfolio management team makes investments in distressed securities and merger arbitrage that are specialist in nature and therefore merit a higher Management Rate. In the case of each of the Franklin Mutual Shares VIP Fund and the Templeton Growth VIP Fund, the respective Fund's actual total expense ratio was only one basis point above the median ratio of the Fund's Expense Group. Finally, with respect to the Franklin Global Real Estate VIP Fund, the Board accepted management's explanation that the portfolio managers' rigorous fundamental analysis with the inclusion of more active risk controls merits a higher Management Rate.

Profitability

The Board reviewed and considered information regarding the profits realized by each Manager and its affiliates in connection with the operation of each Fund. In this respect, the Board considered the Fund profitability analysis provided by each Manager that addresses the overall profitability of FTI's U.S. fund business, as well as its profits in providing investment management and other services to each of the individual funds during the 12-month period ended September 30, 2016, being the most recent fiscal year-end for FRI. The Board noted that although management continually makes refinements to its methodologies used in calculating profitability in response to organizational and product related changes, the overall methodology has remained consistent with that used in the Funds' profitability report presentations from prior years. Additionally, the Funds' independent registered public accounting firm has been engaged by each Manager to periodically review the reasonableness of the allocation methodologies to be used solely by the Funds' Board with respect to the profitability analysis.

The Board noted management's belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by each Manager and its affiliates may not be fully reflected in the expenses allocated to each Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also noted management's expenditures in improving shareholder services provided to the Funds, as well as the need to implement systems and meet additional regulatory and compliance requirements resulting from recent SEC and other regulatory requirements.

The Board also considered the extent to which each Manager and its affiliates might derive ancillary benefits from fund operations, including revenues generated from transfer agent services, potential benefits resulting from personnel and systems enhancements necessitated by fund growth, as well as increased leverage with service providers and counterparties. Based upon its consideration of all these factors, the Board concluded that the level of profits realized by each Manager and its affiliates from providing services to each Fund was not excessive in view of the nature, quality and extent of services provided to each Fund.

Economies of Scale

The Board reviewed and considered the extent to which each Manager may realize economies of scale, if any, as each Fund grows larger and whether the Fund's management fee structure reflects any economies of scale for the benefit of shareholders. With respect to possible economies of scale, the Board noted the existence of management fee breakpoints for each Fund (except for the Franklin VolSmart Allocation VIP Fund), which operate generally to share any economies of scale with a Fund's shareholders by reducing the Fund's effective management fees as the Fund grows in size. The Board considered each Manager's view that any analyses of potential economies of scale in managing a particular fund are inherently limited in light of the joint and common costs and investments each Manager incurs across the Franklin Templeton family of funds as a whole. The Board concluded that to the extent economies of scale may be realized by each Manager and its affiliates, each Fund's management fee structure (except that of the Franklin VolSmart Allocation VIP Fund) provided a sharing of benefits with the Fund and its shareholders as the Fund grows.

The Board recognized that there would not likely be any economies of scale for each of the Franklin Flex Cap Growth VIP Fund and Franklin VolSmart Allocation VIP Fund until the Fund's assets grow.

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 the continuation of each Management Agreement for an additional one-year period.

Board Approval of Investment Management Agreements

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

Franklin Rising Dividends VIP Fund
(Fund)

At a meeting held on May 23, 2017 (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, and recommended to shareholders the approval of, a new investment management agreement between Franklin Advisers, Inc. (Manager) and the Fund (Management Agreement) for an initial two year period effective on or about December 1, 2017. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve the Management Agreement.

The Board reviewed and considered information provided by the Manager at the Meeting. The Board also considered a form of Management Agreement, which is consistent with the agreements used across the Franklin Templeton Investments (FTI) organization, as well as the Code of Ethics and Insider Trading Compliance Policies and Procedures applied to the employees of the Manager. The Board discussed with FTI the reasons for its request that the Board approve the Management Agreement, including the benefits of the current portfolio management team, who would become employees of the Manager, having access to additional resources. The Board reviewed and considered all of the factors it deemed relevant in approving the Management Agreement, including, but not limited to: (i) the nature, extent, and quality of the services to be provided by the Manager; and (ii) the costs of the services, which are to remain unchanged. The Board also considered that the change in the investment manager for the Fund facilitates a restructuring of the Fund's current investment manager, Franklin Advisory Services, LLC (FASL), and the relocation of substantially all of the Fund's current portfolio management team from FASL to the Manager. In determining that the Management Agreement is fair and reasonable, the Board also noted that the Management Agreement is substantially the same as the Fund's current investment management agreement with FASL and does not reflect a substantially new or different level of services to or fees payable by 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 the Manager and its affiliates to the Fund and its shareholders. In particular, the Board took into account that the Fund will have the same investment goals, principal investment policies, and service provider arrangements (except with respect to the Manager) and other key factors. The Board discussed the fact that the same portfolio management team would serve the Fund but that there would be benefits to having them join the investment professionals at the Manager with a similar investment style. This realignment would promote greater collaboration through the sharing of resources and investment ideas. It also noted the Manager's experience as manager of other funds and accounts, including those within the Franklin Templeton Investments (FTI) organization; the personnel, operations, financial condition, and investment management capabilities, methodologies and resources of the Manager and the Manager's capabilities, as demonstrated by, among other things, its 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 the Manager and its affiliates to the Fund and its shareholders.

Fund Performance
The Board noted that in connection with the restructuring of FASL that substantially all of the Fund's current portfolio management team would be relocated from FASL to the Manager. The Board considered the track record of such portfolio management team in managing the Fund, which was reviewed most recently by the Board in April 2017 as part of the annual contract renewal process. With that, and the additional resources available to the portfolio management

team by joining the Manager, the Board was confident in the abilities of such portfolio management team to continue the investment approach of the Fund and to provide quality services to the Fund and its shareholders.

Comparative Fees and Expenses
The Board reviewed and considered information regarding the investment management fee to be charged by the Manager. The Board noted that the management fee to be paid by the Fund under the Management Agreement is identical to the management fee the Fund currently pays FASL, which fee was found to be acceptable in connection with the April 2017 annual contract renewal process. The Board concluded that the proposed investment management fee is fair and reasonable.

Management Profitability and Economies of Scale
The Board determined that its conclusions regarding profitability and economies of scale reached in connection with the April 2017 annual contract renewal of the existing investment management agreement with FASL that would continue in effect until the date the new Management Agreement becomes effective had not changed as a result of the proposed retention of the Manager in connection with the restructuring of FASL.

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 the new Management Agreement for an initial two year period effective on or about December 1, 2017.

Board Approval of Investment Management Agreements

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

Templeton Developing Markets VIP Fund
(Fund)

At an in-person meeting held on May 23, 2017 (Meeting), the Board of Trustees (Board) of the Franklin Templeton Variable Insurance Products 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, and recommended shareholder approval of, a new investment sub-advisory agreement between Templeton Asset Management Ltd. (Manager), the Fund’s investment manager, and Franklin Templeton Investment Management Limited (Sub-Adviser), an affiliate of the Manager, on behalf of the Fund (Sub-Advisory Agreement) for an initial two year period. The Independent Trustees received advice from and met separately with Independent Trustee counsel in considering whether to approve the Sub-Advisory Agreement.

The Board reviewed and considered information provided by the Manager at the Meeting with respect to the Sub-Advisory Agreement. The Board reviewed and considered the factors it deemed relevant in approving the Sub-Advisory Agreement, including, but not limited to: (i) the nature, extent, and quality of the services to be provided by the Sub-Adviser; and (ii) the costs of the services to be provided by the Sub-Adviser. The Board considered that management proposed that the Board approve the Sub-Advisory Agreement in order to facilitate certain portfolio management team enhancements.

In approving the Sub-Advisory Agreement, the Board, including a majority of the Independent Trustees, determined that the proposed investment sub-advisory fees are fair and reasonable and that the approval of such Sub-Advisory Agreement is in the interests of the Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board’s determination.

Nature, Extent and Quality of Services
The Board reviewed and considered information regarding the nature, extent and quality of investment management services to be provided by the Sub-Adviser and currently being provided by the Manager and its affiliates to the Fund and its shareholders. In particular, with respect to the Sub-Adviser, the Board took into account that the Sub-Advisory Agreement would not affect how the Fund is managed or the Fund’s investment goal, principal investment strategies or principal risks associated with an investment in the Fund. The Board reviewed and considered information regarding the nature, quality and extent of investment sub-advisory services to be provided by the Sub-Adviser to the Fund and its shareholders under the Sub-Advisory Agreement; the Sub-Adviser’s experience as manager of other funds and accounts, including those within the Franklin Templeton Investments (FTI) organization; the personnel, operations, financial condition, and investment management capabilities, methodologies and resources of the Sub-Adviser and the Sub-Adviser’s capabilities, as demonstrated by, among other things, its 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.

The Board also reviewed and considered the benefits provided to Fund shareholders of investing in a fund that is part of the Franklin Templeton family of funds. The Board noted the financial position of Franklin Resources, Inc. (FRI), the Manager's and the Sub-Adviser's parent, and its commitment to the mutual fund business as evidenced by its continued introduction of new funds, reassessment of the fund offerings in response to the market environment and project initiatives and capital investments relating to the services provided to the Fund by the (FTI) organization.

Following consideration of such information, the Board was satisfied with the nature, extent and quality of services to be provided by the Sub-Adviser to the Fund and its shareholders.

Fund Performance
The Board noted its review and consideration of the performance results of the Fund in connection with the April 2017 annual contract renewal. The Board recalled its conclusion at that time that the Fund's performance was acceptable. The Board further recalled recent and expected portfolio management team changes for the Fund and again determined that, in light of these changes, additional time will be needed to evaluate the effectiveness of management's actions.

Comparative Fees and Expenses
The Board reviewed and considered information regarding the investment sub-advisory fee to be charged by the Sub-Adviser. The Board noted that the addition of the Sub-Adviser will have no impact on the amount of management fees that are currently paid by the Fund as the Sub-Adviser will be paid by the Manager out of the management fee that the Manager receives from the Fund. The Board further noted that the allocation of the fee between the Manager and the Sub-Adviser reflected the services to be provided by each. The Board concluded that the proposed investment sub-advisory fee is fair and reasonable.

Management Profitability and Economies of Scale
The Board determined that its conclusions regarding profitability and economies of scale reached in connection with the April 2017 annual contract renewal of the existing investment management agreement with the Manager had not changed as a result of the proposal to approve the Sub-Advisory Agreement.

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 the Sub-Advisory Agreement for an initial two year period.

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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Semiannual 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.

VIP S 08/17