



FRANKLIN TEMPLETON  
INVESTMENTS

**Annual Report**

December 31, 2016

# Franklin Templeton Variable Insurance Products Trust





# Franklin Templeton Variable Insurance Products Trust Annual Report

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

**Not FDIC Insured | May Lose Value | No Bank Guarantee**

# Important Notes to Performance Information

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

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

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

**SUPPLEMENT DATED SEPTEMBER 28, 2016  
TO THE STATEMENT OF ADDITIONAL INFORMATION  
DATED MAY 1, 2016  
OF  
FRANKLIN FLEX CAP GROWTH VIP FUND  
FRANKLIN FOUNDING FUNDS ALLOCATION VIP FUND  
FRANKLIN GLOBAL REAL ESTATE VIP FUND  
FRANKLIN GROWTH AND INCOME VIP FUND  
FRANKLIN HIGH 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 VOLSMART ALLOCATION VIP FUND  
TEMPLETON DEVELOPING MARKETS VIP FUND  
TEMPLETON FOREIGN VIP FUND  
TEMPLETON GLOBAL BOND VIP FUND  
TEMPLETON GROWTH VIP FUND  
(Series of Franklin Variable Insurance Products Trust)**

The Statement of Additional Information is amended as follows:

“The Funds – Goals, Additional Strategies and Risks – Foreign securities” section is revised to add the following after the seventh paragraph:

On June 23, 2016, the United Kingdom voted via referendum to leave the European Union (EU), which immediately led to significant market volatility around the world, as well as political, economic, and legal uncertainty. It is generally expected that the United Kingdom’s exit from the EU will take place within two years after the United Kingdom formally notifies the European Council of its intention to withdraw, but there is still considerable uncertainty relating to the potential consequences and timeframe for the exit. The consequences and timeframe of the exit; how the negotiations for the withdrawal and new trade agreements will be conducted; and whether the United Kingdom’s exit will increase the likelihood of other countries also departing the EU, may increase market volatility across the global economy. During this period of uncertainty, the negative impact on, not only the United Kingdom and European economies, but the broader global economy, could be significant, potentially resulting in increased volatility and illiquidity and lower economic growth for companies that rely significantly on Europe for their business activities and revenues. Any further exits from the EU, or an increase in the belief that such exits are likely or possible, would likely cause additional market disruption globally and introduce new legal and regulatory uncertainties.

*Please keep this supplement with your Statement of Additional Information for future reference.*

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# Franklin Income VIP Fund

We are pleased to bring you Franklin Income VIP Fund’s annual report for the fiscal year ended December 31, 2016.

## Class 2 Performance Summary as of December 31, 2016

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

Periods ended 12/31/16	1-Year	5-Year	10-Year
Average Annual Total Return	+14.02%	+7.31%	+4.97%

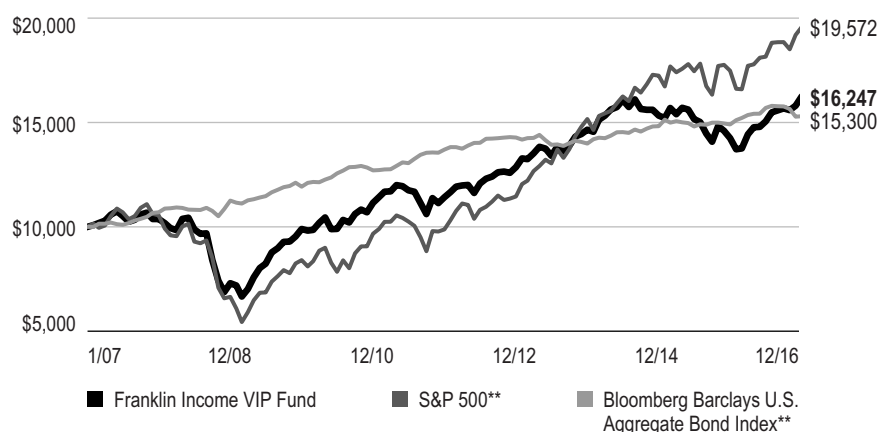
\*The Fund has a fee waiver associated with any investment it makes in a Franklin Templeton money fund and/or other Franklin Templeton fund, contractually guaranteed through its current fiscal year-end. Fund investment results reflect the fee waiver; without this waiver, the results would have been lower.

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

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

## Total Return Index Comparison for a Hypothetical \$10,000 Investment (1/1/07–12/31/16)

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



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

## Fund Goal and Main Investments

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

## Fund Risks

All investments involve risks, including possible loss of principal. Stock prices fluctuate, sometimes rapidly and dramatically, due to factors affecting individual companies, particular industries or sectors, or general market conditions. The Fund's share price and yield will be affected by interest rate movements. Bond prices generally move in the opposite direction of interest rates. Thus, as prices of bonds in the Fund adjust to a rise in interest rates, the Fund's share price may decline. Changes in the financial strength of a bond issuer or in a bond's credit rating may affect its value. The Fund's portfolio includes a substantial portion of higher yielding, lower rated corporate bonds because of the relatively higher yields they offer. Floating rate loans are lower rated, higher yielding instruments, which are subject to increased risk of default and can potentially result in loss of principal. These securities carry a greater degree of credit risk relative to investment-grade securities. The Fund is actively managed but there is no guarantee that the manager's investment decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

## Performance Overview

You can find the Fund's one-year total return in the Performance Summary. For comparison, the Fund's equity benchmark, the S&P 500, posted a +11.96% total return, and its fixed income benchmark, the Bloomberg Barclays U.S. Aggregate Index, produced a +2.65% total return for the same period.<sup>1</sup>

## Economic and Market Overview

The U.S. economy expanded during the 12 months under review. The economy grew at a faster pace in 2016's third quarter than in the second and first quarters, mainly due to personal consumption expenditures, exports, private inventory investment, federal government spending and nonresidential fixed investment. Manufacturing conditions remained volatile but generally expanded, and the services sector also continued

## Portfolio Composition

12/31/16

	% of Total Net Assets
<b>Equity*</b>	<b>59.1%</b>
Energy	9.9%
Information Technology	8.4%
Financials	7.6%
Utilities	7.4%
Health Care	6.2%
Industrials	5.9%
Consumer Discretionary	4.5%
Materials	3.9%
Consumer Staples	3.3%
Telecommunication Services	1.5%
Real Estate	0.5%
<b>Fixed Income</b>	<b>35.2%</b>
Energy	6.7%
Health Care	6.2%
Consumer Discretionary	5.0%
Financials	3.8%
Information Technology	3.4%
Telecommunication Services	3.1%
Utilities	2.6%
Industrials	2.3%
Materials	1.7%
Consumer Staples	0.3%
Real Estate	0.1%
<b>Short-Term Investments &amp; Other Net Assets</b>	<b>5.7%</b>

\* Includes convertible bonds.

to grow for most of the period. The unemployment rate decreased from 5.0% in December 2015 to 4.7% at period-end.<sup>2</sup> Monthly retail sales grew for most of the review period, and rose to its highest level in April in more than a year, due to a broad-based increase across most retail categories. Inflation, as measured by the Consumer Price Index, remained relatively subdued for most of the period, but rose in 2016's fourth quarter.

After maintaining its target interest rate in the 0.25%–0.50% range for nearly a year, the U.S. Federal Reserve (Fed), at its December meeting, increased its target range for the federal funds rate to 0.50%–0.75%, as policymakers noted improvement in U.S. labor market and inflation. The Federal

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

2. Source: Bureau of Labor Statistics.

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



Open Market Committee also hinted at three additional hikes in 2017. Furthermore, the Fed raised its forecast for 2017 U.S. economic growth, and lowered its unemployment projections.

U.S. equity markets rose during the review period, benefiting from mostly upbeat economic data and better corporate earnings in the U.S., signs of improvement in the Chinese and European economies and ongoing expansionary monetary policies from key central banks. Other contributing factors included investors' expectations of higher interest rates and inflation in the U.S. driven by hopes of expansionary fiscal policies under the new president Donald Trump, and an Organization of the Petroleum Exporting Countries deal to curb oil production. The Fed's decision to keep interest rates unchanged at its November meeting further boosted investor confidence. However, the U.K.'s historic vote to leave the European Union (also known as "Brexit") and global growth concerns weighed on market sentiment. The broad U.S. stock market ended the 12-month period higher, as measured by the S&P 500.

The 10-year U.S. Treasury yield, which moves inversely to price, ended the period slightly higher than where it started and shifted significantly during the period. At the beginning of the period, negative global interest rates, continued accommodative central bank policies and a general risk-averse sentiment boosted safe haven buying by investors. These factors drove the 10-year yield to a period low of 1.37% in early July, down from 2.27% on December 31, 2015. Near period-end, rates moved higher based on improved economic data, expectations for the Fed to raise interest rates at its December 2016 meeting and a sentiment shift among investors that held that possible expansionary fiscal policies under the new U.S. president Donald Trump could lead to a stronger economy and higher inflation.

## Investment Strategy

We search for undervalued or out-of-favor securities we believe offer opportunities for income today and growth tomorrow. We generally perform independent analysis of the debt securities being considered for the Fund's portfolio, rather than relying principally on ratings assigned by rating agencies. In analyzing debt and equity securities, we consider a variety of factors, including: a security's relative value based on such factors as anticipated cash flow, interest or dividend coverage, asset coverage, and earnings prospects; the experience and strength of a company's management; a company's sensitivity to changes in interest rates and business conditions; a company's debt maturity schedules and borrowing requirements; and a

company's changing financial condition and market recognition of the change.

## Manager's Discussion

During the fiscal year, we shifted the Fund's asset mix after finding what we considered attractive opportunities in the fixed income sector, while realizing gains in our equity positions. We strategically reduced our equity weighting from 62.7% to 59.1%, and increased our fixed income weighting from 24.2% to 35.2%. Our cash position fell from 13.1% to 5.7% of total net assets.

The equity energy sector was a significant contributor to Fund results. Royal Dutch Shell, Chevron and BP generated attractive gains in the energy sector, supported in large part by the robust recovery in crude oil prices that built momentum in 2016 and culminated in a renewed effort by major oil producers to limit production gains and better balance global supply demand. Importantly, all three companies aggressively pursued self-help measures that emphasized reductions in upstream capital investment and select non-core asset sales. We believe these actions proved critical in enabling these companies to navigate the severe decline in oil prices and sustain attractive dividends for shareholders. At period-end, dividend coverage appeared more sustainable to us as a result.

Information technology was another equity contributor during the period, and our positions in Microsoft and an equity-linked note of Texas Instruments were meaningful contributors. Strong demand for semiconductors and integrated circuits across a range of important end markets, including personal computers, smartphones, automotive applications and a growing list of consumer devices, helped Texas Instruments deliver several quarters of improving revenues, operating profit and earnings. Microsoft benefited from the rollout of Office 365 and strong growth in its cloud computing platform. A mid-year selloff in the company's shares presented what we considered an attractive opportunity to add to holdings to try to take advantage of what we viewed as an improving long-term growth outlook, attractive dividend yield and valuation discount to the broader equity market. In addition to the strong price appreciation, these companies delivered robust dividend growth during the year.

Utility sector equity holdings favorably impacted performance in the first half of the year. With valuations elevated, in our view, relative to many other sectors offering attractive dividend yields, we reduced holdings and had a lower weighting in the sector than we have had historically.

**Top Five Equity Holdings**

12/31/16

<b>Company Sector/Industry</b>	<b>% of Total Net Assets</b>
Royal Dutch Shell PLC <i>Energy</i>	2.7%
General Electric Co. <i>Industrials</i>	2.1%
Chevron Corp. <i>Energy</i>	2.0%
Wells Fargo & Co. <i>Banks</i>	1.8%
Apple Inc. <i>Information Technology</i>	1.8%

In contrast, the equity health care and consumer staples sectors were major detractors during the period. The sectors sold off sharply following the market's significant sector rotation from defensive, stable sectors to more cyclical sectors following the U.S. presidential election outcome.

The primary detractors among equity health care holdings included major and specialty pharmaceutical manufacturers, which continued to experience backlash from select inquiries into industry pricing policies. We believe in general the major drug manufacturers deliver significant value to the overall health care system through improved outcomes and reduced treatment times and hospital stays. Holdings including Eli Lilly & Company, AstraZeneca, Roche Holding and convertible preferred securities of Teva Pharmaceutical Industries and Allergan detracted from performance during the period.

Among fixed income holdings, the communications sector<sup>3</sup> was a major contributor. Telecommunications provider Sprint Capital's bonds advanced as key operating metrics improved and the company took significant steps to raise capital to fund expenditures to improve its wireless networks capability and services. Media and entertainment company iHeartCommunications benefited from stable trends in its core media and radio businesses, while also making progress in dealing with its substantial debt load and upcoming maturities.

Fixed income energy<sup>4</sup> sector investments generally experienced strong returns over the course of the year as oil and gas prices moved higher after bottoming in the first quarter of 2016. Holdings of exploration and production companies including Chesapeake Energy, Bill Barrett and Sanchez Energy delivered

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

12/31/16

<b>Company Sector/Industry</b>	<b>% of Total Net Assets</b>
DISH DBS Corp. <i>Consumer Discretionary</i>	1.6%
CHS/Community Health Systems Inc. <i>Health Care</i>	1.6%
Chesapeake Energy Corp. <i>Energy</i>	1.4%
Weatherford International Ltd. <i>Energy</i>	1.4%
Tenet Healthcare Corp. <i>Health Care</i>	1.3%

\*Does not include convertible bonds.

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).

attractive income and generated strong price gains for the period. In addition to the increase in oil and gas prices, each of the companies took significant steps to improve liquidity and right size their balance sheets to a more uncertain price environment.

The only fixed income sector that hurt performance was consumer non-cyclical.<sup>5</sup> Hospital manager and operator CHS/Community Health Systems was a major detractor.

The fixed income energy sector delivered strong results during the period; however, oil and natural gas companies Linn Energy,<sup>6</sup> California Resources<sup>6</sup> and Energy XXI Gulf Coast<sup>6</sup> notably detracted. Natural gas exploration company Sandridge Energy<sup>6</sup> also hampered returns.

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

3. Communications holdings are in consumer discretionary and telecommunication services in the fixed income section of the SOI.

4. Energy holdings are in energy and utilities in the fixed income section of the SOI.

5. Consumer non-cyclical holdings are in consumer staples and health care in the fixed income section of the SOI.

6. Not held at period-end.

*The foregoing information reflects our analysis, opinions and portfolio holdings as of December 31, 2016, the end of the reporting period. The way we implement our main investment strategies and the resulting portfolio holdings may change depending on factors such as market and economic conditions. These opinions may not be relied upon as investment advice or an offer for a particular security. The information is not a complete analysis of every aspect of any market, country, industry, security or the Fund. Statements of fact are from sources considered reliable, but the investment manager makes no representation or warranty as to their completeness or accuracy. Although historical performance is no guarantee of future results, these insights may help you understand our investment management philosophy.*

## Class 2 Fund Expenses

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

### Actual Fund Expenses

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

### Hypothetical Example for Comparison with Other Mutual Funds

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

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

Share Class	Beginning Account Value 7/1/16	Actual (actual return after expenses)		Hypothetical (5% annual return before expenses)		Net Annualized Expense Ratio <sup>2</sup>
		Ending Account Value 12/31/16	Fund-Level Expenses Paid During Period 7/1/16–12/31/16 <sup>1,2</sup>	Ending Account Value 12/31/16	Fund-Level Expenses Paid During Period 7/1/16–12/31/16 <sup>1,2</sup>	
Class 2	\$1,000	\$1,079.30	\$3.61	\$1,021.67	\$3.51	0.69%

1. Expenses are equal to the annualized expense ratio for the six-month period as indicated above—in the far right column—multiplied by the simple average account value over the period indicated, and then multiplied by 184/366 to reflect the one-half year period.

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

**SUPPLEMENT DATED SEPTEMBER 28, 2016  
TO THE PROSPECTUSES  
DATED MAY 1, 2016  
OF  
FRANKLIN GLOBAL REAL ESTATE VIP FUND  
FRANKLIN INCOME VIP FUND  
FRANKLIN MUTUAL GLOBAL DISCOVERY VIP FUND  
FRANKLIN MUTUAL SHARES VIP FUND  
TEMPLETON FOREIGN VIP FUND  
TEMPLETON GROWTH VIP FUND  
(Series of Franklin Templeton Variable Insurance Products Trust)**

The Prospectus is amended as follows:

I. For the Franklin Mutual Global Discovery VIP Fund, Templeton Foreign VIP Fund and Templeton Growth VIP Fund, the following is added to the “Fund Summary – Principal Risks” section:

**Regional Focus** Because the Fund may invest at least a significant portion of its assets in companies in a specific region, including Europe, the Fund is subject to greater risks of adverse developments in that region and/or the surrounding regions than a fund that is more broadly diversified geographically. Political, social or economic disruptions in the region, even in countries in which the Fund is not invested, may adversely affect the value of securities values held by the Fund. Current political uncertainty surrounding the European Union (EU) and its membership, including the 2016 referendum in which the United Kingdom voted to exit the EU, may increase market volatility. The financial instability of some countries in the EU, including Greece, Italy and Spain, together with the risk of that impacting other more stable countries may increase the economic risk of investing in companies in Europe.

II. For all funds (excluding the Franklin Mutual Global Discovery VIP Fund and Franklin Mutual Shares VIP Fund), the “Fund Details – Principal Risks – Foreign Securities” section is revised to add the following as a second paragraph to the “Regional” sub-section:

The risk of investments in Europe may be heightened due to the 2016 referendum in which the United Kingdom voted to exit the European Union (EU). Political, economic and legal uncertainty may cause increased market volatility. In addition, if one or more countries were to exit the EU or abandon the use of the Euro as a currency, the value of investments associated with those countries or the Euro could decline significantly and unpredictably and it would likely cause additional market disruption globally and introduce new legal and regulatory uncertainties.

III. For the Franklin Mutual Global Discovery VIP Fund and Franklin Mutual Shares VIP Fund, the “Fund Details – Principal Risks – Foreign Securities” section is revised to add the following:

**Regional.** Adverse conditions in a certain region or country can adversely affect securities of issuers in other countries whose economies appear to be unrelated. To the extent that the Fund invests a significant portion of its assets in a specific geographic region or a particular country, the Fund will generally have more exposure to the specific regional or country economic risks. In the event of economic or political turmoil or a deterioration of diplomatic relations in a region or country where a substantial portion of the Fund’s assets are invested, the Fund may experience substantial illiquidity or reduction in the value of the Fund’s investments.

The risk of investments in Europe may be heightened due to the 2016 referendum in which the United Kingdom voted to exit the European Union (EU). Political, economic and legal uncertainty may cause increased market volatility. In addition, if one or more countries were to exit the EU or abandon the use of the Euro as a currency, the value of investments associated with those countries or the Euro could decline significantly and unpredictably and it would likely cause additional market disruption globally and introduce new legal and regulatory uncertainties.

*Please keep this supplement with your prospectus for future reference.*

## Financial Highlights

### Franklin Income VIP Fund

	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Class 1</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$14.64	\$16.48	\$16.53	\$15.47	\$14.68
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.67	0.71	0.72	0.81	0.91
Net realized and unrealized gains (losses) . . . . .	1.34	(1.78)	0.11	1.31	0.90
Total from investment operations . . . . .	2.01	(1.07)	0.83	2.12	1.81
Less distributions from net investment income . . . . .	(0.78)	(0.77)	(0.88)	(1.06)	(1.02)
Net asset value, end of year . . . . .	\$15.87	\$14.64	\$16.48	\$16.53	\$15.47
Total return <sup>c</sup> . . . . .	14.33%	(6.84)%	4.92%	14.18%	12.91%
<b>Ratios to average net assets</b>					
Expenses before waiver and payments by affiliates . . . . .	0.47%	0.46%	0.47%	0.47%	0.47%
Expenses net of waiver and payments by affiliates . . . . .	0.44% <sup>d</sup>	0.46% <sup>d,e</sup>	0.47% <sup>d</sup>	0.47% <sup>d</sup>	0.47%
Net investment income . . . . .	4.47%	4.47%	4.26%	5.07%	6.03%
<b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$696,227	\$604,228	\$714,664	\$695,004	\$584,391
Portfolio turnover rate . . . . .	39.03%	31.53%	24.77%	21.71%	26.66% <sup>f</sup>

<sup>a</sup>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.

<sup>b</sup>Based on average daily shares outstanding.

<sup>c</sup>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.

<sup>d</sup>Benefit of expense reduction rounds to less than 0.01%.

<sup>e</sup>Benefit of waiver and payments by affiliates rounds to less than 0.01%.

<sup>f</sup>Excludes the value of portfolio securities delivered as a result of a redemption in-kind.

**Franklin Income VIP Fund** (continued)

	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Class 2</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$14.20	\$16.00	\$16.07	\$15.07	\$14.32
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.61	0.65	0.66	0.75	0.85
Net realized and unrealized gains (losses) . . . . .	1.31	(1.73)	0.11	1.27	0.88
Total from investment operations . . . . .	1.92	(1.08)	0.77	2.02	1.73
Less distributions from net investment income . . . . .	(0.74)	(0.72)	(0.84)	(1.02)	(0.98)
Net asset value, end of year . . . . .	\$15.38	\$14.20	\$16.00	\$16.07	\$15.07
Total return <sup>c</sup> . . . . .	14.02%	(7.05)%	4.62%	13.94%	12.65%
<b>Ratios to average net assets</b>					
Expenses before waiver and payments by affiliates . . . . .	0.72%	0.71%	0.72%	0.72%	0.72%
Expenses net of waiver and payments by affiliates . . . . .	0.69% <sup>d</sup>	0.71% <sup>d,e</sup>	0.72% <sup>d</sup>	0.72% <sup>d</sup>	0.72%
Net investment income . . . . .	4.22%	4.22%	4.01%	4.82%	5.78%
<b>Supplemental data</b>					
Net assets, end of year (000's) . . . . .	\$5,088,556	\$4,907,599	\$6,022,804	\$6,188,045	\$6,182,997
Portfolio turnover rate . . . . .	39.03%	31.53%	24.77%	21.71%	26.66% <sup>f</sup>

<sup>a</sup>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.

<sup>b</sup>Based on average daily shares outstanding.

<sup>c</sup>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.

<sup>d</sup>Benefit of expense reduction rounds to less than 0.01%.

<sup>e</sup>Benefit of waiver and payments by affiliates rounds to less than 0.01%.

<sup>f</sup>Excludes the value of portfolio securities delivered as a result of a redemption in-kind.

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
FINANCIAL HIGHLIGHTS

**Franklin Income VIP Fund** (continued)

	Year Ended December 31,				
	2016	2015	2014	2013	2012
<b>Class 4</b>					
<b>Per share operating performance</b>					
(for a share outstanding throughout the year)					
Net asset value, beginning of year . . . . .	\$14.49	\$16.31	\$16.36	\$15.32	\$14.54
Income from investment operations <sup>a</sup> :					
Net investment income <sup>b</sup> . . . . .	0.61	0.65	0.66	0.75	0.85
Net realized and unrealized gains (losses) . . . . .	1.33	(1.76)	0.11	1.30	0.90
Total from investment operations . . . . .	1.94	(1.11)	0.77	2.05	1.75
Less distributions from net investment income . . . . .	(0.72)	(0.71)	(0.82)	(1.01)	(0.97)
Net asset value, end of year. . . . .	\$15.71	\$14.49	\$16.31	\$16.36	\$15.32
Total return <sup>c</sup> . . . . .	13.87%	(7.15)%	4.52%	13.85%	12.56%
<b>Ratios to average net assets</b>					
Expenses before waiver and payments by affiliates . . . . .	0.82%	0.81%	0.82%	0.82%	0.82%
Expenses net of waiver and payments by affiliates . . . . .	0.79% <sup>d</sup>	0.81% <sup>d,e</sup>	0.82% <sup>d</sup>	0.82% <sup>d</sup>	0.82%
Net investment income . . . . .	4.12%	4.12%	3.91%	4.72%	5.68%
<b>Supplemental data</b>					
Net assets, end of year (000's). . . . .	\$309,935	\$306,023	\$378,545	\$397,652	\$436,405
Portfolio turnover rate . . . . .	39.03%	31.53%	24.77%	21.71%	26.66% <sup>f</sup>

<sup>a</sup>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.

<sup>b</sup>Based on average daily shares outstanding.

<sup>c</sup>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.

<sup>d</sup>Benefit of expense reduction rounds to less than 0.01%.

<sup>e</sup>Benefit of waiver and payments by affiliates rounds to less than 0.01%.

<sup>f</sup>Excludes the value of portfolio securities delivered as a result of a redemption in-kind.



## Statement of Investments, December 31, 2016

### Franklin Income VIP Fund

	Country	Shares	Value
<b>Common Stocks 50.2%</b>			
<b>Consumer Discretionary 3.2%</b>			
Ford Motor Co. . . . .	United States	4,643,943	\$ 56,331,029
General Motors Co. . . . .	United States	2,000,000	69,680,000
Target Corp. . . . .	United States	939,100	67,831,193
			<u>193,842,222</u>
<b>Consumer Staples 3.3%</b>			
Anheuser-Busch InBev SA/NV, ADR . . . . .	Belgium	505,000	53,247,200
The Coca-Cola Co. . . . .	United States	1,325,000	54,934,500
PepsiCo Inc. . . . .	United States	584,000	61,103,920
Philip Morris International Inc. . . . .	United States	350,000	32,021,500
			<u>201,307,120</u>
<b>Energy 8.9%</b>			
Anadarko Petroleum Corp. . . . .	United States	600,000	41,838,000
BP PLC, ADR . . . . .	United Kingdom	1,800,000	67,284,000
Chevron Corp. . . . .	United States	1,055,000	124,173,500
<sup>a</sup> Energy XXI Gulf Coast Inc. . . . .	United States	510,163	14,053,482
<sup>a,b</sup> Halcon Resources Corp. . . . .	United States	74,398	623,470
Occidental Petroleum Corp. . . . .	United States	436,000	31,056,280
<sup>a</sup> PetroQuest Energy Inc. . . . .	United States	36,128	119,584
<sup>a</sup> Rex Energy Corp. . . . .	United States	75,000	35,340
Royal Dutch Shell PLC, A, ADR. . . . .	United Kingdom	3,021,748	164,322,656
Schlumberger Ltd. . . . .	United States	180,000	15,111,000
Total SA, B, ADR. . . . .	France	1,192,900	60,802,113
<sup>a</sup> W&T Offshore Inc. . . . .	United States	3,829,500	10,607,715
<sup>a</sup> Weatherford International PLC . . . . .	United States	2,500,000	12,475,000
			<u>542,502,140</u>
<b>Financials 5.8%</b>			
Bank of America Corp. . . . .	United States	800,000	17,680,000
HSBC Holdings PLC . . . . .	United Kingdom	5,000,000	40,460,116
JPMorgan Chase & Co. . . . .	United States	690,100	59,548,729
MetLife Inc. . . . .	United States	1,245,108	67,098,870
Morgan Stanley . . . . .	United States	500,000	21,125,000
U.S. Bancorp. . . . .	United States	1,000,000	51,370,000
Wells Fargo & Co. . . . .	United States	1,700,000	93,687,000
			<u>350,969,715</u>
<b>Health Care 4.9%</b>			
AstraZeneca PLC . . . . .	United Kingdom	1,000,000	54,663,347
Eli Lilly & Co. . . . .	United States	764,800	56,251,040
Medtronic PLC . . . . .	United States	335,000	23,862,050
Pfizer Inc. . . . .	United States	2,638,975	85,713,908
Roche Holding AG . . . . .	Switzerland	136,500	31,176,257
Sanofi, ADR . . . . .	France	1,208,292	48,863,328
			<u>300,529,930</u>
<b>Industrials 6.0%</b>			
<sup>a,c</sup> CEVA Holdings LLC . . . . .	United States	13,012	1,301,226
Deere & Co. . . . .	United States	600,000	61,824,000
General Electric Co. . . . .	United States	3,976,200	125,647,920
Republic Services Inc. . . . .	United States	527,300	30,082,465
Union Pacific Corp. . . . .	United States	650,000	67,392,000

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Franklin Income VIP Fund** (continued)

	Country	Shares	Value
<b>Common Stocks</b> (continued)			
<b>Industrials</b> (continued)			
United Technologies Corp. . . . .	United States	700,000	\$ 76,734,000
			<u>362,981,611</u>
<b>Information Technology 5.7%</b>			
Analog Devices Inc. . . . .	United States	400,000	29,048,000
Apple Inc. . . . .	United States	915,317	106,012,015
Intel Corp. . . . .	United States	1,727,000	62,638,290
Microsoft Corp. . . . .	United States	1,683,500	104,612,690
QUALCOMM Inc. . . . .	United States	700,000	45,640,000
			<u>347,950,995</u>
<b>Materials 3.8%</b>			
BASF SE . . . . .	Germany	387,500	36,006,414
The Dow Chemical Co. . . . .	United States	1,700,000	97,274,000
The Mosaic Co. . . . .	United States	1,100,000	32,263,000
Rio Tinto PLC, ADR . . . . .	United Kingdom	1,800,000	69,228,000
			<u>234,771,414</u>
<b>Real Estate 0.5%</b>			
Host Hotels & Resorts Inc. . . . .	United States	1,500,000	28,260,000
<b>Telecommunication Services 1.5%</b>			
BCE Inc. . . . .	Canada	466,000	20,138,502
Telstra Corp. Ltd. . . . .	Australia	3,946,331	14,523,129
Verizon Communications Inc. . . . .	United States	1,075,000	57,383,500
			<u>92,045,131</u>
<b>Utilities 6.6%</b>			
Dominion Resources Inc. . . . .	United States	1,000,000	76,590,000
Duke Energy Corp. . . . .	United States	702,500	54,528,050
Great Plains Energy Inc. . . . .	United States	777,900	21,275,565
NextEra Energy Inc. . . . .	United States	125,000	14,932,500
PG&E Corp. . . . .	United States	935,300	56,838,181
PPL Corp. . . . .	United States	450,000	15,322,500
Public Service Enterprise Group Inc. . . . .	United States	923,500	40,523,180
Sempra Energy . . . . .	United States	368,300	37,065,712
The Southern Co. . . . .	United States	1,062,100	52,244,699
Xcel Energy Inc. . . . .	United States	810,964	33,006,235
			<u>402,326,622</u>
<b>Total Common Stocks (Cost \$2,558,619,952)</b> . . . . .			<u>3,057,486,900</u>
<b><sup>d</sup>Equity-Linked Securities 5.4%</b>			
<b>Consumer Discretionary 1.3%</b>			
<sup>e</sup> Morgan Stanley into Ford Motors, 8.50%, 144A . . . . .	United States	2,485,000	30,572,707
<sup>e</sup> Royal Bank of Canada into Target Corp., 6.00%, 144A . . . . .	United States	700,000	50,936,900
			<u>81,509,607</u>
<b>Energy 0.4%</b>			
<sup>e</sup> Wells Fargo Bank National Assn. into Halliburton Co., 8.00%, 144A . . . . .	United States	435,000	21,603,492
<b>Financials 0.5%</b>			
<sup>e</sup> Citigroup Inc. into Bank of America Corp., 7.50%, 144A . . . . .	United States	2,100,000	33,181,050
<b>Health Care 0.5%</b>			
<sup>e</sup> JPMorgan Chase & Co. into Merck & Co. Inc., 6.25%, 144A . . . . .	United States	500,000	29,042,450

**Franklin Income VIP Fund** (continued)

	Country	Shares	Value
<b><sup>d</sup> Equity-Linked Securities</b> (continued)			
<b>Information Technology 2.7%</b>			
<sup>e</sup> JPMorgan Chase & Co. into Oracle Corp., 6.00%, 144A . . . . .	United States	700,000	\$ 27,313,650
<sup>e</sup> Royal Bank of Canada into Texas Instruments Inc., 6.00%, 144A . . . . .	United States	725,000	48,967,877
<sup>e</sup> Wells Fargo Bank National Assn. into Cisco Systems Inc., 7.25%, 144A . . . . .	United States	1,050,000	30,997,680
<sup>e</sup> Wells Fargo Bank National Assn. into Intel Corp., 7.00%, 144A . . . . .	United States	1,700,000	59,630,050
			<u>166,909,257</u>
<b>Total Equity-Linked Securities (Cost \$324,814,100)</b> . . . . .			<u>332,245,856</u>
<b>Convertible Preferred Stocks 2.4%</b>			
<b>Financials 1.2%</b>			
Bank of America Corp., 7.25%, cvt. pfd., L . . . . .	United States	34,600	40,371,280
<sup>a</sup> FNMA, 5.375%, cvt. pfd. . . . .	United States	475	12,943,750
Wells Fargo & Co., 7.50%, cvt. pfd., A . . . . .	United States	15,000	17,850,000
			<u>71,165,030</u>
<b>Health Care 0.4%</b>			
Allergan PLC, 5.50%, cvt. pfd. . . . .	United States	9,500	7,243,370
Teva Pharmaceutical Industries Ltd., 7.00%, cvt. pfd. . . . .	Israel	25,000	16,125,000
			<u>23,368,370</u>
<b>Industrials 0.0%†</b>			
<sup>a,c</sup> CEVA Holdings LLC, cvt. pfd., A-1 . . . . .	United States	397	129,025
<sup>a,c</sup> CEVA Holdings LLC, cvt. pfd., A-2 . . . . .	United States	14,711	3,309,952
			<u>3,438,977</u>
<b>Real Estate 0.0%†</b>			
FelCor Lodging Trust Inc., 7.80%, cvt. pfd., A . . . . .	United States	135,225	3,368,455
<b>Utilities 0.8%</b>			
Dominion Resources Inc., 6.375%, cvt. pfd., A . . . . .	United States	162,000	8,109,720
Great Plains Energy Inc., 7.00%, cvt. pfd. . . . .	United States	216,000	10,929,600
NextEra Energy Inc., 6.371%, cvt. pfd. . . . .	United States	500,000	28,625,000
			<u>47,664,320</u>
<b>Total Convertible Preferred Stocks (Cost \$174,480,955)</b> . . . . .			<u>149,005,152</u>
<b>Preferred Stocks (Cost \$4,945,000) 0.1%</b>			
<b>Financials 0.1%</b>			
Morgan Stanley, 6.375%, pfd., I . . . . .	United States	197,800	5,089,394
			<u>Principal Amount*</u>
<b>Convertible Bonds 1.0%</b>			
<b>Energy 0.6%</b>			
Cobalt International Energy Inc., cvt., senior bond, 3.125%, 5/15/24 . . . . .	United States	9,500,000	2,755,000
<sup>f</sup> Stone Energy Corp., cvt., senior note, 1.75%, 3/01/17 . . . . .	United States	13,507,000	8,171,735
Weatherford International Ltd., cvt., senior note, 5.875%, 7/01/21 . . . . .	United States	22,000,000	23,925,000
			<u>34,851,735</u>
<b>Health Care 0.4%</b>			
<sup>e</sup> Bayer Capital Corp BV, cvt., junior sub. note, 144A, 5.625%, 11/22/19 . . . . .	Germany	25,000,000	EUR 28,747,418
<b>Total Convertible Bonds (Cost \$69,978,653)</b> . . . . .			<u>63,599,153</u>

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Franklin Income VIP Fund** (continued)

	Country	Principal Amount*	Value
<b>Corporate Bonds 31.9%</b>			
<b>Consumer Discretionary 3.8%</b>			
° 24 Hour Holdings III LLC, senior note, 144A, 8.00%, 6/01/22 . . . . .	United States	500,000	\$ 427,500
CCO Holdings LLC/CCO Holdings Capital Corp., senior bond, 5.125%, 2/15/23 . . . . .	United States	10,000,000	10,300,000
° CSC Holdings LLC, senior bond, 144A, 10.875%, 10/15/25 . . . . .	United States	8,000,000	9,536,000
DISH DBS Corp., senior bond, 5.00%, 3/15/23 . . . . .	United States	35,000,000	34,912,500
senior note, 5.875%, 7/15/22 . . . . .	United States	40,000,000	42,200,000
senior note, 5.875%, 11/15/24 . . . . .	United States	9,400,000	9,707,850
senior note, 7.75%, 7/01/26 . . . . .	United States	10,000,000	11,300,000
Fiat Chrysler Automobiles NV, senior note, 5.25%, 4/15/23 . . . . .	United Kingdom	11,300,000	11,561,200
iHeartCommunications Inc., senior secured bond, first lien, 9.00%, 3/01/21 . . . . .	United States	15,400,000	11,453,750
senior secured note, first lien, 9.00%, 12/15/19 . . . . .	United States	18,000,000	14,782,500
° International Game Technology PLC, senior secured note, 144A, 6.25%, 2/15/22 . . . . .	United States	8,500,000	9,158,750
KB Home, senior bond, 7.50%, 9/15/22 . . . . .	United States	6,500,000	6,890,000
° PetSmart Inc., senior note, 144A, 7.125%, 3/15/23 . . . . .	United States	3,000,000	3,067,500
° Shea Homes LP/Shea Homes Funding Corp., senior bond, 144A, 6.125%, 4/01/25 . . . . .	United States	10,000,000	9,725,000
senior note, 144A, 5.875%, 4/01/23 . . . . .	United States	5,000,000	4,900,000
° Sirius XM Radio Inc., senior bond, 144A, 6.00%, 7/15/24 . . . . .	United States	7,500,000	7,856,250
° Univision Communications Inc., senior secured note, first lien, 144A, 5.125%, 5/15/23 . . . . .	United States	10,000,000	9,887,500
senior secured note, first lien, 144A, 5.125%, 2/15/25 . . . . .	United States	7,140,000	6,854,400
° Virgin Media Secured Finance PLC, senior secured bond, first lien, 144A, 5.50%, 1/15/25 . . . . .	United Kingdom	7,000,000	7,131,250
° Ziggo Secured Finance BV, secured bond, 144A, 5.50%, 1/15/27 . . . . .	Netherlands	7,500,000	7,329,750
			228,981,700
<b>Consumer Staples 0.3%</b>			
Cott Beverages Inc., senior note, 5.375%, 7/01/22 . . . . .	United States	2,500,000	2,553,125
° JBS USA LLC/Finance Inc., senior note, 144A, 7.25%, 6/01/21 . . . . .	United States	12,500,000	13,031,250
			15,584,375
<b>Energy 6.6%</b>			
Bill Barrett Corp., senior note, 7.625%, 10/01/19 . . . . .	United States	30,000,000	29,700,000
senior note, 7.00%, 10/15/22 . . . . .	United States	17,937,000	17,219,520
Calumet Specialty Products Partners LP/Calumet Finance Corp., senior note, 6.50%, 4/15/21 . . . . .	United States	9,500,000	8,098,750
Chesapeake Energy Corp., ° secured note, second lien, 144A, 8.00%, 12/15/22 . . . . .	United States	47,500,000	51,501,875
senior bond, 6.125%, 2/15/21 . . . . .	United States	5,000,000	4,900,000
° senior note, 144A, 8.00%, 1/15/25 . . . . .	United States	15,000,000	15,356,250
° senior note, FRN, 4.13%, 4/15/19 . . . . .	United States	14,000,000	14,140,000
° Denbury Resources Inc., senior secured note, 144A, 9.00%, 5/15/21 . . . . .	United States	7,200,000	7,830,000
Ferrellgas LP/Ferrellgas Finance Corp., senior note, 6.50%, 5/01/21 . . . . .	United States	5,000,000	4,975,000
° Halcon Resources Corp., secured note, second lien, 144A, 8.625%, 2/01/20 . . . . .	United States	9,000,000	9,405,000
Kinder Morgan Inc., senior bond, MTN, 7.75%, 1/15/32 . . . . .	United States	22,000,000	26,992,152
° senior secured bond, first lien, 144A, 5.625%, 11/15/23 . . . . .	United States	7,000,000	7,686,154

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Franklin Income VIP Fund** (continued)

	Country	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Energy</b> (continued)			
<sup>e</sup> McDermott International Inc., second lien, 144A, 8.00%, 5/01/21 . . . . .	United States	17,592,000	\$ 17,855,880
<sup>e</sup> NGPL PipeCo LLC, secured note, 144A, 7.119%, 12/15/17 . . . . .	United States	3,750,000	3,928,125
<sup>e,h</sup> PetroQuest Energy Inc., secured note, second lien, 144A, PIK, 10.00%, 2/15/21 . . . . .	United States	1,653,000	1,146,683
Rex Energy Corp., second lien, 8.00%, 10/01/20 . . . . .	United States	5,000,000	2,550,000
<sup>e</sup> Sabine Pass Liquefaction LLC, senior secured bond, 144A, 5.875%, 6/30/26 . . . . .	United States	15,000,000	16,218,750
senior secured bond, 144A, 5.00%, 3/15/27 . . . . .	United States	12,200,000	12,352,500
<sup>i</sup> Sanchez Energy Corp., senior note, 7.75%, 6/15/21 . . . . .	United States	27,000,000	27,607,500
<sup>f</sup> Stone Energy Corp., senior bond, 7.50%, 11/15/22 . . . . .	United States	26,905,000	16,277,525
<sup>e</sup> Transocean Inc., senior note, 144A, 9.00%, 7/15/23 . . . . .	United States	10,000,000	10,300,000
<sup>e,h</sup> W&T Offshore Inc., second lien, 144A, PIK, 10.75%, 5/15/20 . . . . .	United States	10,330,593	7,849,085
senior secured note, third lien, 144A, PIK, 10.00%, 6/15/21 . . . . .	United States	9,245,000	5,523,983
Weatherford International Ltd., senior note, 5.125%, 9/15/20 . . . . .	United States	17,500,000	16,537,500
<sup>j</sup> senior note, 7.75%, 6/15/21 . . . . .	United States	30,000,000	30,412,500
senior note, 4.50%, 4/15/22 . . . . .	United States	9,900,000	8,637,750
senior note, 8.25%, 6/15/23 . . . . .	United States	27,500,000	28,050,000
			403,052,482
<b>Financials 3.1%</b>			
<sup>k</sup> Bank of America Corp., junior sub. bond, AA, 6.10% to 3/17/25, FRN thereafter, Perpetual . . . . .	United States	8,000,000	8,054,000
junior sub. bond, M, 8.125% to 5/15/18, FRN thereafter, Perpetual . . . . .	United States	5,000,000	5,200,000
<sup>k</sup> Citigroup Inc., junior sub. bond, 5.35% to 5/15/23, FRN thereafter, Perpetual . . . . .	United States	10,000,000	9,437,500
junior sub. bond, 5.90% to 2/15/23, FRN thereafter, Perpetual . . . . .	United States	12,500,000	12,671,875
junior sub. bond, 5.95% to 1/30/23, FRN thereafter, Perpetual . . . . .	United States	4,500,000	4,567,500
junior sub. bond, M, 6.30% to 5/15/24, FRN thereafter, Perpetual . . . . .	United States	16,800,000	16,678,200
junior sub. bond, O, 5.875% to 3/27/20, FRN thereafter, Perpetual . . . . .	United States	25,000,000	25,281,250
junior sub. bond, Q, 5.95% to 8/15/20, FRN thereafter, Perpetual . . . . .	United States	10,000,000	10,168,250
<sup>k</sup> JPMorgan Chase & Co., junior sub. bond, I, 7.90% to 4/30/19, FRN thereafter, Perpetual . . . . .	United States	50,000,000	51,837,500
junior sub. bond, R, 6.00% to 8/01/23, FRN thereafter, Perpetual . . . . .	United States	3,200,000	3,220,000
junior sub. bond, V, 5.00% to 7/30/19, FRN thereafter, Perpetual . . . . .	United States	10,000,000	9,987,500
<sup>k</sup> Morgan Stanley, junior sub. bond, 5.55% to 7/15/20, FRN thereafter, Perpetual . . . . .	United States	7,300,000	7,391,250
Navient Corp., senior note, 6.125%, 3/25/24 . . . . .	United States	5,000,000	4,881,250
<sup>e</sup> OneMain Financial Holdings Inc., senior note, 144A, 6.75%, 12/15/19 . . . . .	United States	6,000,000	6,277,500
senior note, 144A, 7.25%, 12/15/21 . . . . .	United States	5,000,000	5,237,500
<sup>k</sup> Wells Fargo & Co., junior sub. bond, S, 5.90% to 6/15/24, FRN thereafter, Perpetual . . . . .	United States	7,900,000	7,949,375
			188,840,450
<b>Health Care 5.9%</b>			
CHS/Community Health Systems Inc., senior note, 8.00%, 11/15/19 . . . . .	United States	64,195,000	53,602,825
senior note, 7.125%, 7/15/20 . . . . .	United States	25,000,000	19,132,500
senior note, 6.875%, 2/01/22 . . . . .	United States	33,500,000	23,450,000
<sup>e</sup> Concordia International Corp., senior note, 144A, 9.50%, 10/21/22 . . . . .	Canada	5,000,000	1,800,000
senior note, 144A, 7.00%, 4/15/23 . . . . .	Canada	2,500,000	775,000

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Franklin Income VIP Fund** (continued)

	Country	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Health Care</b> (continued)			
DaVita Inc., senior bond, 5.125%, 7/15/24 . . . . .	United States	5,000,000	\$ 4,996,875
°Endo Finance LLC, senior note, 144A, 5.75%, 1/15/22 . . . . .	United States	22,500,000	20,137,500
°Endo Finance LLC/Endo Ltd./Endo Finco Inc., senior bond, 144A, 6.00%, 2/01/25 . . . . .	United States	10,000,000	8,375,000
senior note, 144A, 6.00%, 7/15/23 . . . . .	United States	15,000,000	13,237,500
HCA Inc., senior bond, 5.875%, 5/01/23 . . . . .	United States	7,500,000	7,987,500
senior note, 7.50%, 2/15/22 . . . . .	United States	25,000,000	28,437,500
senior secured note, first lien, 5.00%, 3/15/24 . . . . .	United States	10,400,000	10,725,000
Mallinckrodt International Finance SA, senior bond, 4.75%, 4/15/23 . . . . .	United States	5,000,000	4,375,000
°Mallinckrodt International Finance SA/Mallinckrodt CB LLC, senior note, 144A, 5.75%, 8/01/22 . . . . .	United States	14,200,000	13,738,500
senior note, 144A, 5.625%, 10/15/23 . . . . .	United States	10,000,000	9,375,000
senior note, 144A, 5.50%, 4/15/25 . . . . .	United States	10,000,000	9,000,000
Tenet Healthcare Corp., senior note, 5.00%, 3/01/19 . . . . .	United States	10,000,000	9,800,000
senior note, 8.00%, 8/01/20 . . . . .	United States	5,000,000	4,937,500
senior note, 8.125%, 4/01/22 . . . . .	United States	40,000,000	37,940,000
senior note, 6.75%, 6/15/23 . . . . .	United States	33,200,000	29,299,000
°Valeant Pharmaceuticals International, senior note, 144A, 6.375%, 10/15/20 . . . . .	United States	7,500,000	6,480,450
°Valeant Pharmaceuticals International Inc., senior bond, 144A, 6.125%, 4/15/25 . . . . .	United States	9,400,000	7,097,000
senior note, 144A, 6.75%, 8/15/18 . . . . .	United States	13,325,000	12,692,062
senior note, 144A, 5.375%, 3/15/20 . . . . .	United States	17,000,000	14,450,000
senior note, 144A, 5.875%, 5/15/23 . . . . .	United States	12,500,000	9,500,000
			361,341,712
<b>Industrials 1.6%</b>			
The ADT Corp., senior note, 3.50%, 7/15/22 . . . . .	United States	3,600,000	3,447,000
°Bombardier Inc., senior bond, 144A, 6.125%, 1/15/23 . . . . .	Canada	5,000,000	4,792,000
senior bond, 144A, 7.50%, 3/15/25 . . . . .	Canada	11,000,000	10,923,220
°CEVA Group PLC, senior note, first lien, 144A, 4.00%, 5/01/18 . . . . .	United Kingdom	12,691,882	11,486,153
°Cloud Crane LLC, secured note, second lien, 144A, 10.125%, 8/01/24 . . . . .	United States	4,400,000	4,719,000
°Cortes NP Acquisition Corp., senior note, 144A, 9.25%, 10/15/24 . . . . .	United States	5,800,000	6,177,000
Hertz Corp., senior note, 6.75%, 4/15/19 . . . . .	United States	3,474,000	3,482,685
Navistar International Corp., senior bond, 8.25%, 11/01/21 . . . . .	United States	5,675,000	5,760,125
°Prime Security Services Borrower LLC/Prime Finance Inc., secured note, second lien, 144A, 9.25%, 5/15/23 . . . . .	United States	2,000,000	2,182,500
TransDigm Inc., senior sub. bond, 6.50%, 7/15/24 . . . . .	United States	10,000,000	10,512,500
senior sub. note, 6.00%, 7/15/22 . . . . .	United States	7,700,000	8,046,500
United Rentals North America Inc., senior bond, 6.125%, 6/15/23 . . . . .	United States	11,400,000	12,141,000
°XPO Logistics Inc., senior note, 144A, 6.50%, 6/15/22 . . . . .	United States	13,980,000	14,731,425
			98,401,108
<b>Information Technology 3.2%</b>			
°BMC Software Finance Inc., senior note, 144A, 8.125%, 7/15/21 . . . . .	United States	16,500,000	15,499,687
°CommScope Inc., senior bond, 144A, 5.50%, 6/15/24 . . . . .	United States	10,000,000	10,387,500
senior note, 144A, 5.00%, 6/15/21 . . . . .	United States	8,422,000	8,706,243

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Franklin Income VIP Fund** (continued)

	Country	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Information Technology</b> (continued)			
°Diamond 1 Finance Corp./Diamond 2 Finance Corp.,			
senior note, 144A, 5.875%, 6/15/21 . . . . .	United States	3,100,000	\$ 3,298,338
senior note, 144A, 7.125%, 6/15/24 . . . . .	United States	3,600,000	3,997,246
senior secured bond, first lien, 144A, 6.02%, 6/15/26 . . . . .	United States	16,200,000	17,557,787
senior secured note, first lien, 144A, 4.42%, 6/15/21 . . . . .	United States	12,500,000	12,936,162
senior secured note, first lien, 144A, 5.45%, 6/15/23 . . . . .	United States	21,100,000	22,388,471
°First Data Corp.,			
second lien, 144A, 5.75%, 1/15/24 . . . . .	United States	5,000,000	5,178,150
senior note, 144A, 7.00%, 12/01/23 . . . . .	United States	25,000,000	26,687,500
senior secured note, first lien, 144A, 5.375%, 8/15/23 . . . . .	United States	5,000,000	5,200,000
°Microsemi Corp., senior note, 144A, 9.125%, 4/15/23 . . . . .			
NCR Corp.,			
senior note, 5.00%, 7/15/22 . . . . .	United States	5,500,000	5,637,500
senior note, 6.375%, 12/15/23 . . . . .	United States	7,000,000	7,542,500
°Western Digital Corp.,			
senior note, 144A, 10.50%, 4/01/24 . . . . .	United States	30,000,000	35,550,000
senior secured note, 144A, 7.375%, 4/01/23 . . . . .	United States	10,000,000	11,025,000
			<u>198,027,084</u>
<b>Materials 1.6%</b>			
°Ardagh Packaging Finance PLC/Ardagh MP Holdings USA Inc.,			
senior note, 144A, 6.25%, 1/31/19 . . . . .	Luxembourg	7,500,000	7,650,000
senior note, 144A, 4.625%, 5/15/23 . . . . .	Luxembourg	15,000,000	14,943,750
senior note, 144A, 7.25%, 5/15/24 . . . . .	Luxembourg	10,200,000	10,786,500
°Cemex Finance LLC, senior secured note, first lien, 144A, 6.00%, 4/01/24 . . . . .			
	Mexico	14,700,000	15,197,963
°FMG Resources (August 2006) Pty. Ltd., senior secured note, 144A, 9.75%, 3/01/22 . . . . .			
	Australia	27,000,000	31,456,890
°Platform Specialty Products Corp., senior note, 144A, 6.50%, 2/01/22 . . . . .			
	United States	3,500,000	3,543,750
°Reynolds Group Issuer Inc./Reynolds Group Issuer LLC/Reynolds Group Issuer Luxembourg SA,			
first lien, 144A, 5.125%, 7/15/23 . . . . .	United States	4,300,000	4,375,250
° senior secured note, first lien, 144A, FRN, 4.38%, 7/15/21 . . . . .	United States	7,600,000	7,790,000
			<u>95,744,103</u>
<b>Real Estate 0.1%</b>			
Iron Mountain Inc., senior sub. bond, 5.75%, 8/15/24 . . . . .			
	United States	3,000,000	3,097,500
iStar Inc., senior note, 5.00%, 7/01/19 . . . . .			
	United States	3,500,000	3,526,250
			<u>6,623,750</u>
<b>Telecommunication Services 3.1%</b>			
Frontier Communications Corp.,			
senior note, 9.25%, 7/01/21 . . . . .	United States	7,400,000	7,797,750
senior note, 10.50%, 9/15/22 . . . . .	United States	10,000,000	10,550,500
senior note, 7.125%, 1/15/23 . . . . .	United States	7,800,000	7,098,000
Intelsat Jackson Holdings SA, senior bond, 5.50%, 8/01/23 . . . . .			
	Luxembourg	8,400,000	5,712,000
Sprint Capital Corp., senior note, 6.90%, 5/01/19 . . . . .			
	United States	13,500,000	14,326,875
Sprint Communications Inc.,			
11.50%, 11/15/21 . . . . .	United States	30,000,000	36,975,000
senior note, 7.00%, 8/15/20 . . . . .	United States	7,500,000	7,969,575
° senior note, 144A, 9.00%, 11/15/18 . . . . .	United States	11,900,000	13,149,500

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Franklin Income VIP Fund** (continued)

	Country	Principal Amount*	Value
<b>Corporate Bonds</b> (continued)			
<b>Telecommunication Services</b> (continued)			
Sprint Corp.,			
senior bond, 7.875%, 9/15/23 . . . . .	United States	37,500,000	\$ 40,125,000
senior bond, 7.125%, 6/15/24 . . . . .	United States	8,200,000	8,466,500
senior note, 7.625%, 2/15/25 . . . . .	United States	15,000,000	15,806,250
T-Mobile USA Inc., senior note, 6.633%, 4/28/21 . . . . .	United States	7,500,000	7,846,875
<sup>e</sup> Wind Acquisition Finance SA, secured note, second lien, 144A, 7.375%, 4/23/21 . . . . .	Italy	11,500,000	11,966,900
Zayo Group LLC/Zayo Capital Inc., senior note, 6.375%, 5/15/25 . . . . .	United States	1,700,000	1,782,875
			189,573,600
<b>Utilities 2.6%</b>			
Calpine Corp.,			
senior bond, 5.75%, 1/15/25 . . . . .	United States	15,000,000	14,550,000
senior note, 5.375%, 1/15/23 . . . . .	United States	20,000,000	19,650,000
senior note, 5.50%, 2/01/24 . . . . .	United States	16,375,000	15,883,750
<sup>e</sup> senior secured bond, 144A, 5.25%, 6/01/26 . . . . .	United States	15,000,000	14,850,000
Dynegy Inc.,			
senior note, 6.75%, 11/01/19 . . . . .	United States	43,000,000	43,967,500
senior note, 7.375%, 11/01/22 . . . . .	United States	20,000,000	19,200,000
senior note, 5.875%, 6/01/23 . . . . .	United States	8,000,000	6,980,000
<sup>e</sup> InterGen NV, secured bond, 144A, 7.00%, 6/30/23 . . . . .	Netherlands	25,000,000	22,375,000
			157,456,250
<b>Total Corporate Bonds (Cost \$1,893,077,510)</b> . . . . .			1,943,626,614
<sup>g,l</sup> <b>Senior Floating Rate Interests 3.3%</b>			
<b>Consumer Discretionary 1.3%</b>			
Belk Inc., Closing Date Term Loan, 5.75%, 12/12/22 . . . . .	United States	24,812,500	21,504,175
iHeartCommunications Inc.,			
Tranche D Term Loan, 7.52%, 1/30/19 . . . . .	United States	35,864,664	29,259,576
Tranche E Term Loan, 8.27%, 7/30/19 . . . . .	United States	13,142,768	10,809,927
Petco Animal Supplies Stores Inc., Term Loan B-1, 5.00%, 1/26/23 . . . . .	United States	14,887,500	15,020,863
			76,594,541
<b>Energy 0.1%</b>			
W&T Offshore Inc., Second Lien Term Loan, 9.00%, 5/15/20 . . . . .	United States	11,000,000	8,772,500
<b>Financials 0.7%</b>			
First Eagle Investment Management, Initial Term Loans, 4.998%, 12/01/22 . . . . .	United States	39,600,000	40,045,500
<b>Health Care 0.3%</b>			
Vizient Inc., Term Loan, 5.00%, 2/11/23 . . . . .	United States	17,597,059	17,897,669
<b>Industrials 0.7%</b>			
CEVA Group PLC, Pre-Funded L/C, 6.50%, 3/19/21 . . . . .	United States	5,418,719	4,434,886
CEVA Intercompany BV, Dutch BV Term Loan, 6.50%, 3/19/21 . . . . .	Netherlands	5,557,143	4,548,177
CEVA Logistics Canada ULC, Canadian Term Loan, 6.50%, 3/19/21 . . . . .	Canada	958,128	784,168
CEVA Logistics U.S. Holdings Inc., U.S. Term Loan, 6.50%, 3/19/21 . . . . .	United States	7,665,025	6,273,347
Commercial Barge Line Co., Initial Term Loan, 9.75%, 11/12/20 . . . . .	United States	9,625,000	9,143,750
Cortes NP Acquisition Corp., Initial Term Loan, 6.00%, 11/30/23 . . . . .	United States	11,400,000	11,514,000
Navistar Inc., Tranche B Term Loans, 6.50%, 8/07/20 . . . . .	United States	6,020,211	6,106,752
			42,805,080
<b>Information Technology 0.1%</b>			
Western Digital Corp., Term Loan B-1, 4.52%, 4/29/23 . . . . .	United States	7,960,000	8,080,825



FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Franklin Income VIP Fund** (continued)

	Country	Principal Amount*	Value
<b>g,l Senior Floating Rate Interests</b> (continued)			
<b>Materials 0.1%</b>			
FMG America Finance Inc. (Fortescue Metals Group), Loans, 3.75%, 6/30/19 . . . . .	Australia	4,732,116	\$ 4,747,496
<b>Total Senior Floating Rate Interests (Cost \$206,805,773) . . . . .</b>			<u>198,943,611</u>
		<u>Shares</u>	
<b>Escrows and Litigation Trusts (Cost \$62,602) 0.0%</b>			
<sup>a,c</sup> Motors Liquidation Co., Escrow Account, cvt. pfd., C . . . . .	United States	1,400,000	<u>—</u>
<b>Total Investments before Short Term Investments (Cost \$5,232,784,545) . . . . .</b>			<u>5,749,996,680</u>
<b>Short Term Investments 5.1%</b>			
<b>Money Market Funds (Cost \$307,800,028) 5.1%</b>			
<sup>m,n</sup> Institutional Fiduciary Trust Money Market Portfolio, 0.09% . . . . .	United States	307,800,028	<u>307,800,028</u>
<b>o Investments from Cash Collateral Received for Loaned Securities 0.0%†</b>			
<b>Money Market Funds (Cost \$2,450,000) 0.0%†</b>			
<sup>m,n</sup> Institutional Fiduciary Trust Money Market Portfolio, 0.09% . . . . .	United States	2,450,000	<u>2,450,000</u>
		<u>Principal Amount*</u>	<u>Value</u>
<b>Repurchase Agreement (Cost \$612,840) 0.0%†</b>			
<sup>p</sup> Joint Repurchase Agreement, 0.50%, 1/03/17 (Maturity Value \$612,874) BNP Paribas Securities Corp. Collateralized by <sup>q</sup> U.S. Treasury Bill, 2/02/17; U.S. Treasury Note, 1.00% - 3.50%, 12/31/16–11/15/20; U.S. Treasury Strips, 11/15/20 (valued at \$625,097) . . . . .	United States	612,840	<u>612,840</u>
<b>Total Investments from Cash Collateral Received for Loaned Securities (Cost \$3,062,840) . . . . .</b>			<u>3,062,840</u>
<b>Total Investments (Cost \$5,543,647,413) 99.4% . . . . .</b>			6,060,859,548
<b>Other Assets, less Liabilities 0.6% . . . . .</b>			<u>33,858,039</u>
<b>Net Assets 100.0% . . . . .</b>			<u>\$6,094,717,587</u>

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
STATEMENT OF INVESTMENTS

**Franklin Income VIP Fund** (continued)

See Abbreviations on page FI- 33.

<sup>†</sup>Rounds to less than 0.1% of net assets.

<sup>\*</sup>The principal amount is stated in U.S. dollars unless otherwise indicated.

<sup>a</sup>Non-income producing.

<sup>b</sup>See Note 8 regarding restricted securities.

<sup>c</sup>Security has been deemed illiquid because it may not be able to be sold within seven days. At December 31, 2016, the aggregate value of these securities was \$4,740,203, representing 0.1% of net assets.

<sup>d</sup>See Note 1(d) regarding equity-linked securities.

<sup>e</sup>Security was purchased pursuant to Rule 144A under the Securities Act of 1933 and may be sold in transactions exempt from registration only to qualified institutional buyers or in a public offering registered under the Securities Act of 1933. These securities have been deemed liquid under guidelines approved by the Trust's Board of Trustees. At December 31, 2016, the aggregate value of these securities was \$1,152,969,606, representing 18.9% of net assets.

<sup>f</sup>See Note 7 regarding defaulted securities.

<sup>g</sup>The coupon rate shown represents the rate at period end.

<sup>h</sup>Income may be received in additional securities and/or cash.

<sup>i</sup>At December 31, 2016, pursuant to the Fund's policies and the requirements of applicable securities law, the Fund is restricted from trading this security at year end.

<sup>j</sup>A portion or all of the security is on loan at December 31, 2016. See Note 1(e).

<sup>k</sup>Perpetual security with no stated maturity date.

<sup>l</sup>See Note 1(f) regarding senior floating rate interests.

<sup>m</sup>See Note 3(e) regarding investments in affiliated management investment companies.

<sup>n</sup>The rate shown is the annualized seven-day yield at period end.

<sup>o</sup>See Note 1(e) regarding securities on loan.

<sup>p</sup>See Note 1(c) regarding joint repurchase agreement.

<sup>q</sup>The security was issued on a discount basis with no stated coupon rate.

## Financial Statements

### Statement of Assets and Liabilities

December 31, 2016

	<b>Franklin Income VIP Fund</b>
<b>Assets:</b>	
Investments in securities:	
Cost - Unaffiliated issuers . . . . .	\$5,232,784,545
Cost - Non-controlled affiliates (Note 3e) . . . . .	310,250,028
Cost - Repurchase agreements . . . . .	612,840
Total cost of investments . . . . .	<u>\$5,543,647,413</u>
Value - Unaffiliated issuers . . . . .	\$5,749,996,680
Value - Non-controlled affiliates (Note 3e) . . . . .	310,250,028
Value - Repurchase agreements . . . . .	612,840
Total value of investments (includes securities loaned in the amount of \$2,984,480) . . . . .	6,060,859,548
Cash . . . . .	863,676
Receivables:	
Investment securities sold . . . . .	757,737
Capital shares sold . . . . .	1,364,798
Dividends and interest . . . . .	44,342,772
Other assets . . . . .	634
Total assets . . . . .	<u>6,108,189,165</u>
<b>Liabilities:</b>	
Payables:	
Capital shares redeemed . . . . .	5,440,266
Management fees . . . . .	2,214,311
Distribution fees . . . . .	2,265,545
Payable upon return of securities loaned . . . . .	3,062,840
Accrued expenses and other liabilities . . . . .	488,616
Total liabilities . . . . .	<u>13,471,578</u>
Net assets, at value . . . . .	<u>\$6,094,717,587</u>
Net assets consist of:	
Paid-in capital . . . . .	\$6,215,721,736
Undistributed net investment income . . . . .	258,365,808
Net unrealized appreciation (depreciation) . . . . .	517,184,433
Accumulated net realized gain (loss) . . . . .	(896,554,390)
Net assets, at value . . . . .	<u>\$6,094,717,587</u>
<b>Class 1:</b>	
Net assets, at value . . . . .	<u>\$ 696,226,593</u>
Shares outstanding . . . . .	<u>43,860,523</u>
Net asset value and maximum offering price per share . . . . .	<u>\$15.87</u>
<b>Class 2:</b>	
Net assets, at value . . . . .	<u>\$5,088,555,854</u>
Shares outstanding . . . . .	<u>330,921,115</u>
Net asset value and maximum offering price per share . . . . .	<u>\$15.38</u>
<b>Class 4:</b>	
Net assets, at value . . . . .	<u>\$ 309,935,140</u>
Shares outstanding . . . . .	<u>19,728,974</u>
Net asset value and maximum offering price per share . . . . .	<u>\$15.71</u>

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST  
FINANCIAL STATEMENTS

**Statement of Operations**

for the year ended December 31, 2016

	<b>Franklin Income VIP Fund</b>
Investment income:	
Dividends:	
Unaffiliated issuers . . . . .	\$124,308,584
Non-controlled affiliates (Note 3e) . . . . .	14,868
Interest . . . . .	161,299,288
Income from securities loaned (net of fees and rebates) . . . . .	1,450,116
Total investment income . . . . .	<u>287,072,856</u>
Expenses:	
Management fees (Note 3a) . . . . .	26,559,717
Distribution fees: (Note 3c)	
Class 2 . . . . .	12,227,908
Class 4 . . . . .	1,061,284
Custodian fees (Note 4) . . . . .	64,240
Reports to shareholders . . . . .	361,893
Professional fees . . . . .	342,699
Trustees' fees and expenses . . . . .	27,253
Other . . . . .	<u>168,760</u>
Total expenses . . . . .	40,813,754
Expense reductions (Note 4) . . . . .	(2,113)
Expenses waived/paid by affiliates (Note 3e) . . . . .	<u>(1,607,550)</u>
Net expenses . . . . .	39,204,091
Net investment income . . . . .	<u>247,868,765</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from:	
Investments . . . . .	22,629,406
Foreign currency transactions . . . . .	<u>815,253</u>
Net realized gain (loss) . . . . .	<u>23,444,659</u>
Net change in unrealized appreciation (depreciation) on:	
Investments . . . . .	499,708,357
Translation of other assets and liabilities denominated in foreign currencies . . . . .	<u>(17,754)</u>
Net change in unrealized appreciation (depreciation) . . . . .	<u>499,690,603</u>
Net realized and unrealized gain (loss) . . . . .	<u>523,135,262</u>
Net increase (decrease) in net assets resulting from operations . . . . .	<u>\$771,004,027</u>

**Statements of Changes in Net Assets**

	Franklin Income VIP Fund	
	Year Ended December 31,	
	2016	2015
Increase (decrease) in net assets:		
Operations:		
Net investment income . . . . .	\$ 247,868,765	\$ 280,263,160
Net realized gain (loss) . . . . .	23,444,659	(198,185,492)
Net change in unrealized appreciation (depreciation) . . . . .	499,690,603	(544,397,831)
Net increase (decrease) in net assets resulting from operations . . . . .	771,004,027	(462,320,163)
Distributions to shareholders from:		
Net investment income:		
Class 1 . . . . .	(33,648,017)	(32,196,540)
Class 2 . . . . .	(243,664,392)	(260,631,132)
Class 4 . . . . .	(14,419,491)	(15,803,892)
Total distributions to shareholders . . . . .	(291,731,900)	(308,631,564)
Capital share transactions: (Note 2)		
Class 1 . . . . .	34,616,416	(31,781,112)
Class 2 . . . . .	(215,782,069)	(463,715,750)
Class 4 . . . . .	(21,239,696)	(31,713,868)
Total capital share transactions . . . . .	(202,405,349)	(527,210,730)
Net increase (decrease) in net assets . . . . .	276,866,778	(1,298,162,457)
Net assets:		
Beginning of year . . . . .	5,817,850,809	7,116,013,266
End of year . . . . .	\$6,094,717,587	\$ 5,817,850,809
Undistributed net investment income included in net assets:		
End of year . . . . .	\$ 258,365,808	\$ 284,418,214

## Notes to Financial Statements

### Franklin Income VIP Fund

#### 1. Organization and Significant Accounting Policies

Franklin Templeton Variable Insurance Products Trust (Trust) is registered under the Investment Company Act of 1940 (1940 Act) as an open-end management investment company, consisting of nineteen separate funds and applies the specialized accounting and reporting guidance in U.S. Generally Accepted Accounting Principles (U.S. GAAP). Franklin Income VIP Fund (Fund) is included in this report. The financial statements of the remaining funds in the Trust are presented separately. 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 differs 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 listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Foreign equity securities are valued as of the close of trading on the foreign stock exchange on which the security is primarily traded or as of 4 p.m. Eastern time. The value is then converted into its U.S. dollar equivalent at the foreign exchange rate in effect at 4 p.m. Eastern time on the day that the value of the security is

determined. Over-the-counter (OTC) securities are valued within the range of the most recent quoted bid and ask prices. Securities that trade in multiple markets or on multiple exchanges are valued according to the broadest and most representative market. Certain equity securities are valued based upon fundamental characteristics or relationships to similar securities.

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

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

The Fund has procedures to determine the fair value of financial instruments for which market prices are not reliable or readily available. Under these procedures, the 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 such investments, the fair values may differ significantly from the values that would have been used had an active market

**Franklin Income VIP Fund** (continued)

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. Joint Repurchase Agreement**

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

## Franklin Income VIP Fund (continued)

### 1. Organization and Significant Accounting Policies (continued)

#### c. Joint Repurchase Agreement (continued)

other amounts owed by the seller to the Fund in the event of default by the seller. This could involve costs or delays in addition to a loss on the securities if their value falls below the repurchase price owed by the seller. The joint repurchase agreement held by the Fund at year end, as indicated in the Statement of Investments, had been entered into on December 30, 2016.

#### d. Equity-Linked Securities

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

#### e. 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.

#### f. 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.

#### g. 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



**Franklin Income VIP Fund** (continued)

uncertainty exists as to the ultimate resolution of these proceedings, the likelihood of receipt of these EU reclaims, and the potential timing of payment, no amounts are reflected in the financial statements. For U.S. income tax purposes, when EU reclaims are received by the Fund and the Fund previously passed foreign tax credit on to its shareholders, the Fund must either amend historic tax reporting to shareholders or enter into a closing agreement with the Internal Revenue Service (IRS) in order to pay the associated tax liability on behalf of the Fund's shareholders.

The Fund may recognize an income tax liability related to its uncertain tax positions under U.S. GAAP when the uncertain tax position has a less than 50% probability that it will be sustained upon examination by the tax authorities based on its technical merits. As of December 31, 2016, 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.

**h. Security Transactions, Investment Income, Expenses and Distributions**

Security transactions are accounted for on trade date. Realized gains and losses on security transactions are determined on a specific identification basis. Interest income and estimated expenses are accrued daily. Amortization of premium and accretion of discount on debt securities are included in interest income. Facility fees are recognized as income over the expected term of the loan. Dividend income is recorded on the ex-dividend date except for certain dividends from securities where the dividend rate is not available. In such cases, the dividend is recorded as soon as the information is received by the Fund. Distributions from realized capital gains and other distributions, if any, are recorded on the ex-dividend date. Distributions to shareholders are recorded on the ex-dividend date and are determined according to income tax regulations (tax basis). Distributable earnings determined on a tax basis

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.

**i. 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.

**j. 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 Income VIP Fund** (continued)

**2. Shares of Beneficial Interest**

At December 31, 2016, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Year Ended December 31,			
	2016		2015	
	Shares	Amount	Shares	Amount
<b>Class 1 Shares:</b>				
Shares sold . . . . .	6,134,123	\$ 87,911,597	1,738,174	\$ 27,618,019
Shares issued in reinvestment of distributions. . . . .	2,331,810	33,648,017	2,040,338	32,196,540
Shares redeemed . . . . .	(5,877,695)	(86,943,198)	(5,869,235)	(91,595,671)
Net increase (decrease). . . . .	2,588,238	\$ 34,616,416	(2,090,723)	\$ (31,781,112)
<b>Class 2 Shares:</b>				
Shares sold . . . . .	25,914,952	\$ 378,696,453	21,413,080	\$ 334,630,165
Shares issued in reinvestment of distributions. . . . .	17,417,040	243,664,392	17,001,378	260,631,132
Shares redeemed . . . . .	(58,055,463)	(838,142,914)	(69,202,126)	(1,058,977,047)
Net increase (decrease). . . . .	(14,723,471)	\$(215,782,069)	(30,787,668)	\$ (463,715,750)
<b>Class 4 Shares:</b>				
Shares sold . . . . .	1,804,015	\$ 26,579,870	2,745,531	\$ 43,147,056
Shares issued in reinvestment of distributions. . . . .	1,008,356	14,419,491	1,010,479	15,803,892
Shares redeemed . . . . .	(4,209,003)	(62,239,057)	(5,843,737)	(90,664,816)
Net increase (decrease). . . . .	(1,396,632)	\$ (21,239,696)	(2,087,727)	\$ (31,713,868)

**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 and trustees of the Fund are also officers and/or directors of the following subsidiaries:

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

**a. Management Fees**

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

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

**Franklin Income VIP Fund** (continued)

For the year ended December 31, 2016, the effective investment management fee rate was 0.454% of the Fund's average daily net assets.

**b. Administrative Fees**

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

**c. Distribution Fees**

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

**d. Transfer Agent Fees**

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

**e. Investments in Affiliated Management Investment Companies**

The Fund invests in one or more affiliated management investment companies for purposes other than exercising a controlling influence over the management or policies. Management fees paid by the Fund are waived on assets invested in the affiliated management investment companies, as noted in the Statement of Operations, in an amount not to exceed the management and administrative fees paid directly or indirectly by each affiliate. During the year ended December 31, 2016, the Fund held investments in affiliated management investment companies as follows:

	Number of Shares Held at Beginning of Year	Gross Additions	Gross Reductions	Number of Shares Held at End of Year	Value at End of Year	Investment Income	Realized Gain (Loss)	% of Affiliated Fund Shares Outstanding Held at End of Year
<b>Non-Controlled Affiliates</b>								
Institutional Fiduciary Trust Money Market Portfolio, 0.09%	589,053,827	1,471,178,493	(1,749,982,292)	310,250,028	\$310,250,028	\$14,868	\$ —	1.9%

**f. Other Affiliated Transactions**

At December 31, 2016, Franklin Templeton Variable Insurance Products Trust - Franklin Founding Funds Allocation VIP Fund owned 5.3% of the Fund's outstanding shares.

**4. Expense Offset Arrangement**

The Fund has entered into an arrangement with its custodian whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the Fund's custodian expenses. During the year ended December 31, 2016, the custodian fees were reduced as noted in the Statement of Operations.

**Franklin Income VIP Fund** (continued)

**5. Income Taxes**

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

At December 31, 2016, the capital loss carryforwards were as follows:

Capital loss carryforwards subject to expiration:	
2017 . . . . .	\$521,405,875
2018 . . . . .	157,561,044
Capital loss carryforwards not subject to expiration:	
Short term . . . . .	135,162,624
Long term . . . . .	76,910,085
Total capital loss carryforwards	<u>\$891,039,628</u>

During the year ended December 31, 2016, the Fund utilized \$6,170,076 of capital loss carryforwards.

On December 31, 2016, the Fund had expired capital loss carryforwards of \$51,901,081, which were reclassified to paid-in capital.

The tax character of distributions paid during the years ended December 31, 2016 and 2015, was as follows:

	<u>2016</u>	<u>2015</u>
Distributions paid from ordinary income . . . . .	\$291,731,900	\$308,631,564

At December 31, 2016, the cost of investments, net unrealized appreciation (depreciation), and undistributed ordinary income for income tax purposes were as follows:

Cost of investments . . . . .	<u>\$5,546,860,635</u>
Unrealized appreciation . . . . .	\$ 816,046,074
Unrealized depreciation . . . . .	<u>(302,047,161)</u>
Net unrealized appreciation (depreciation) . . . . .	\$ 513,998,913
Distributable earnings - undistributed ordinary income . . . . .	<u>\$ 255,750,685</u>

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

**6. Investment Transactions**

Purchases and sales of investments (excluding short term securities) for the year ended December 31, 2016, aggregated \$2,202,732,116 and \$2,046,466,359, respectively.

At December 31, 2016, in connection with securities lending transactions, the Fund loaned corporate bonds and received \$3,062,840 of cash collateral. The gross amount of recognized liability for such transactions is included in payable upon return of securities loaned in the Statement of Assets and Liabilities. The agreements can be terminated at any time.

**Franklin Income VIP Fund** (continued)

**7. Credit Risk and Defaulted Securities**

At December 31, 2016, the Fund had 32.4% of its portfolio invested in high yield, senior secured floating rate notes, or other securities rated below investment grade and unrated securities, if any. These securities may be more sensitive to economic conditions causing greater price volatility and are potentially subject to a greater risk of loss due to default than higher rated securities.

The Fund held defaulted securities and/or other securities for which the income has been deemed uncollectible. At December 31, 2016, the aggregate value of these securities was \$24,449,260, representing 0.4% of the Fund's net assets. The Fund discontinues accruing income on securities for which income has been deemed uncollectible and provides an estimate for losses on interest receivable. The securities have been identified in 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 December 31, 2016, the Fund held investments in restricted securities, excluding certain securities exempt from registration under the 1933 Act deemed to be liquid, as follows:

Shares	Issuer	Acquisition Date	Cost	Value
74,398	<sup>a</sup> Halcon Resources Corp. (Value is 0.0% <sup>†</sup> of Net Assets)	10/23/15	\$633,916	\$623,470

<sup>†</sup>Rounds to less than 0.1% of net assets.

<sup>a</sup>The Fund also invests in unrestricted securities of other investments in the issuer, valued at \$9,405,000 as of December 31, 2016.

**9. 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 matured on February 10, 2017. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests. Effective February 10, 2017, the Borrowers renewed the Global Credit Facility for a one year term, maturing February 9, 2018, for a total of \$2 billion.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.15% based upon the unused portion of the Global Credit Facility. These fees are reflected in other expenses in the Statement of Operations. During the year ended December 31, 2016, the Fund did not use the Global Credit Facility.

**Franklin Income VIP Fund** (continued)

**10. Fair Value Measurements**

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

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

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

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.

A summary of inputs used as of December 31, 2016, in valuing the Fund's assets carried at fair value, is as follows:

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investments in Securities:				
Equity Investments: <sup>a</sup>				
Banks . . . . .	\$ 320,967,125	\$ 12,943,750	\$ —	\$ 333,910,875
Energy . . . . .	527,825,188	14,053,482	623,470	542,502,140
Transportation . . . . .	67,392,000	4,740,203	—	72,132,203
All Other Equity Investments <sup>b</sup> . . . . .	2,263,036,228	—	—	2,263,036,228
Equity-Linked Securities . . . . .	—	332,245,856	—	332,245,856
Convertible Bonds . . . . .	—	63,599,153	—	63,599,153
Corporate Bonds . . . . .	—	1,943,626,614	—	1,943,626,614
Senior Floating Rate Interests . . . . .	—	198,943,611	—	198,943,611
Escrows and Litigation Trusts . . . . .	—	—	— <sup>c</sup>	—
Short Term Investments . . . . .	310,250,028	612,840	—	310,862,868
Total Investments in Securities . . . . .	\$ 3,489,470,569	\$ 2,570,765,509	\$ 623,470	\$ 6,060,859,548

<sup>a</sup>Includes common, preferred and convertible preferred stocks .

<sup>b</sup>For detailed categories, see the accompanying Statement of Investments.

<sup>c</sup>Includes securities determined to have no value at December 31, 2016.

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 year.

**11. 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 well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017. Management is currently evaluating the impact that the adoption of the amendments to Regulation S-X will have on the Fund's financial statements and related disclosures.

**Franklin Income VIP Fund** (continued)

**12. Subsequent Events**

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

**Abbreviations**

<b>Currency</b>	<b>Selected Portfolio</b>
<b>EUR</b> Euro	<b>ADR</b> American Depositary Receipt
	<b>FRN</b> Floating Rate Note
	<b>L/C</b> Letter of Credit
	<b>MTN</b> Medium Term Note
	<b>PIK</b> Payment-In-Kind

## Report of Independent Registered Public Accounting Firm

### Franklin Income VIP Fund

#### To the Board Trustees and Shareholders of Franklin Templeton Variable Insurance Products Trust

In our opinion, the accompanying statement of assets and liabilities, including the statement of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Franklin Income VIP Fund (the "Fund") as of December 31, 2016, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities as of December 31, 2016 by correspondence with the custodian, transfer agent and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

San Francisco, California

February 15, 2017



## **Tax Information (unaudited)**

### **Franklin Income VIP Fund**

Under Section 854(b)(1)(A) of the Internal Revenue Code, the Fund hereby reports 27.97% of the ordinary income dividends as income qualifying for the dividends received deduction for the fiscal year ended December 31, 2016.

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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](http://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.

**Bloomberg Commodity Index** comprises exchange-traded futures on physical commodities, which are weighted to account for economic significance and market liquidity.

**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.

**Credit Suisse (CS) High Yield Index** is designed to mirror the investable universe of the U.S. dollar-denominated high yield debt market.

**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 12-month period ended 12/31/16, there were 305 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP Equity Income Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper Equity Income Funds classification in the Lipper VIP underlying funds universe. Lipper Equity Income Funds seek relatively high current income and growth of income through investing 60% or more of their portfolios in equities. For the 12-month period ended 12/31/16, there were 69 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

**Lipper VIP General U.S. Government Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper General U.S. Government Funds classification in the Lipper VIP underlying funds universe. Lipper General U.S. Government Funds invest primarily in U.S. government and agency issues. For the 12-month period ended 12/31/16, 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.

**Lipper VIP High Yield Funds Classification Average** is an equally weighted average calculation of performance figures for all funds within the Lipper High Yield Funds Classification in the Lipper VIP underlying funds universe. Lipper High Yield Funds aim at high (relative) current yield from fixed income securities, have no quality or maturity restrictions, and

tend to invest in lower grade debt issues. For the 12-month period ended 12/31/16, there were 109 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 Europe, Australasia, Far East (EAFE) Index** is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance in global developed markets excluding the U.S. and Canada.

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

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

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

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

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

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

**Russell 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.

## Board Members and Officers

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

### Independent Board Members

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Harris J. Ashton (1932)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 1988	142	Bar-S Foods (meat packing company) (1981-2010).
<b>Principal Occupation During at Least the Past 5 Years:</b> Director of various companies; and <b>formerly</b> , Director, RBC Holdings, Inc. (bank holding company) (until 2002); and President, Chief Executive Officer and Chairman of the Board, General Host Corporation (nursery and craft centers) (until 1998).				
<b>Mary C. Choksi (1950)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2014	136	Avis Budget Group Inc. (car rental) (2007-present), Omnicom Group Inc. (advertising and marketing communications services) (2011-present) and H.J. Heinz Company (processed foods and allied products) (1998-2006).
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Advisor, Strategic Investment Group (investment management group) (2015-present); director of various companies; and <b>formerly</b> , Founding Partner and Senior Managing Director, Strategic Investment Group (1987-2015); Founding Partner and Managing Director, Emerging Markets Management LLC (investment management firm) (1987-2011); and Loan Officer/Senior Loan Officer/Senior Pension Investment Officer, World Bank Group (international financial institution) (1977-1987).				
<b>Edith E. Holiday (1952)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2005	142	Hess Corporation (exploration and refining of oil and gas) (1993-present), Canadian National Railway (railroad) (2001-present), White Mountains Insurance Group, Ltd. (holding company) (2004-present), Santander Consumer USA Holdings, Inc. (consumer finance) (November 2016), RTI International Metals, Inc. (manufacture and distribution of titanium) (1999-2015) and H.J. Heinz Company (processed foods and allied products) (1994-2013).
<b>Principal Occupation During at Least the Past 5 Years:</b> Director or Trustee of various companies and trusts; and <b>formerly</b> , Assistant to the President of the United States and Secretary of the Cabinet (1990-1993); General Counsel to the United States Treasury Department (1989-1990); and Counselor to the Secretary and Assistant Secretary for Public Affairs and Public Liaison – United States Treasury Department (1988-1989).				
<b>J. Michael Luttig (1954)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2009	142	Boeing Capital Corporation (aircraft financing) (2006-2013).
<b>Principal Occupation During at Least the Past 5 Years:</b> Executive Vice President, General Counsel and member of the Executive Council, The Boeing Company (aerospace company) (2006-present); and <b>formerly</b> , Federal Appeals Court Judge, U.S. Court of Appeals for the Fourth Circuit (1991-2006).				

**Independent Board Members** (continued)

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>Larry D. Thompson (1945)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2007	142	The Southern Company (energy company) (2014-present; previously 2010-2012), Graham Holdings Company (education and media organization) (2011-present) and Cbeyond, Inc. (business communications provider) (2010-2012).

**Principal Occupation During at Least the Past 5 Years:**

Director of various companies; John A. Sibley Professor of Corporate and Business Law, University of Georgia School of Law (January 2015; previously 2011-2012); and **formerly**, Executive Vice President – Government Affairs, General Counsel and Corporate Secretary, PepsiCo, Inc. (consumer products) (2012-2014); Senior Vice President – Government Affairs, General Counsel and Secretary, PepsiCo, Inc. (2004-2011); Senior Fellow of The Brookings Institution (2003-2004); Visiting Professor, (2003-2004); Visiting Professor, University of Georgia School of Law (2004); and Deputy Attorney General, U.S. Department of Justice (2001-2003).

<b>John B. Wilson (1959)</b> One Franklin Parkway San Mateo, CA 94403-1906	Lead Independent Trustee	Trustee since 2007 and Lead Independent Trustee since 2008	116	None
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**Principal Occupation During at Least the Past 5 Years:**

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

**Interested Board Members and Officers**

Name, Year of Birth and Address	Position	Length of Time Served	Number of Portfolios in Fund Complex Overseen by Board Member*	Other Directorships Held During at Least the Past 5 Years
<b>**Gregory E. Johnson (1961)</b> One Franklin Parkway San Mateo, CA 94403-1906	Trustee	Since 2013	158	None

**Principal Occupation During at Least the Past 5 Years:**

Chairman of the Board, Member – Office of the Chairman, Director and Chief Executive Officer, Franklin Resources, Inc.; officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 44 of the investment companies in Franklin Templeton Investments; Vice Chairman, Investment Company Institute; and **formerly**, President, Franklin Resources, Inc. (1994-2015).

<b>**Rupert H. Johnson, Jr. (1940)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chairman of the Board, and Trustee	Chairman of the Board since 2013, and Trustee since 1988	142	None
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**Principal Occupation During at Least the Past 5 Years:**

Vice Chairman, Member – Office of the Chairman and Director, Franklin Resources, Inc.; Director, Franklin Advisers, Inc.; Senior Vice President, Franklin Advisory Services, LLC; and officer and/or director or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 42 of the investment companies in Franklin Templeton Investments.

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

Deputy General Counsel, Franklin Templeton Investments; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 45 of the investment companies in Franklin Templeton Investments.

**Interested Board Members and Officers** (continued)

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>Laura F. Ferguson (1962)</b> One Franklin Parkway San Mateo, CA 94403-1906	Chief Executive Officer – Finance and Administration	Since 2009	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Vice President, Franklin Templeton Services, LLC; Vice President, Franklin Advisers, Inc. and Franklin Templeton Institutional, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.				
<b>Gaston Gardey (1967)</b> One Franklin Parkway San Mateo, CA 94403-1906	Treasurer, Chief Financial Officer and Chief Accounting Officer	Since 2009	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Treasurer, U.S. Fund Administration & Reporting, Franklin Templeton Investments; and officer of 27 of the investment companies in Franklin Templeton Investments.				
<b>Aliya S. Gordon (1973)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments.				
<b>Steven J. Gray (1955)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2009	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton Investments; Vice President, Franklin Templeton Distributors, Inc. and Franklin Alternative Strategies Advisers, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.				
<b>Edward B. Jamieson (1948)</b> One Franklin Parkway San Mateo, CA 94403-1906	President and Chief Executive Officer – Investment Management	Since 2010	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> President, Chief Investment Officer and Director, Franklin Advisers, Inc.; Executive Vice President, Franklin Templeton Institutional, LLC; and officer and/or trustee, as the case may be, of some of the other subsidiaries of Franklin Resources, Inc. and of 10 of the investment companies in Franklin Templeton Investments.				
<b>Robert Lim (1948)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President – AML Compliance	Since May 2016	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Vice President, Franklin Templeton Companies, LLC; Chief Compliance Officer, Franklin Templeton Distributors, Inc. and Franklin Templeton Investor Services, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.				
<b>Kimberly H. Novotny (1972)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2013	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Associate General Counsel, Franklin Templeton Investments; Vice President and Corporate Secretary, Fiduciary Trust International of the South; Vice President, Templeton Investment Counsel, LLC; Assistant Secretary, Franklin Resources, Inc.; and officer of 45 of the investment companies in Franklin Templeton Investments.				

**Interested Board Members and Officers** (continued)

<b>Name, Year of Birth and Address</b>	<b>Position</b>	<b>Length of Time Served</b>	<b>Number of Portfolios in Fund Complex Overseen by Board Member*</b>	<b>Other Directorships Held During at Least the Past 5 Years</b>
<b>Robert C. Rosselot (1960)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Chief Compliance Officer	Since 2013	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Director, Global Compliance, Franklin Templeton Investments; Vice President, Franklin Templeton Companies, LLC; officer of 45 of the investment companies in Franklin Templeton Investments; and <b>formerly</b> , Senior Associate General Counsel, Franklin Templeton Investments (2007-2013); and Secretary and Vice President, Templeton Group of Funds (2004-2013).				
<b>Karen L. Skidmore (1952)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President and Secretary	Since 2006	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments				
<b>Navid J. Tofigh (1972)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2015	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Associate General Counsel, Franklin Templeton Investments; and officer of 45 of the investment companies in Franklin Templeton Investments.				
<b>Craig S. Tyle (1960)</b> One Franklin Parkway San Mateo, CA 94403-1906	Vice President	Since 2005	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> General Counsel and Executive Vice President, Franklin Resources, Inc.; and officer of some of the other subsidiaries of Franklin Resources, Inc. and of 45 of the investment companies in Franklin Templeton Investments.				
<b>Lori A. Weber (1964)</b> 300 S.E. 2nd Street Fort Lauderdale, FL 33301-1923	Vice President	Since 2011	Not Applicable	Not Applicable
<b>Principal Occupation During at Least the Past 5 Years:</b> Senior Associate General Counsel, Franklin Templeton Investments; Assistant Secretary, Franklin Resources, Inc.; Vice President and Secretary, Templeton Investment Counsel, LLC; and officer of 45 of the investment companies in Franklin Templeton Investments.				

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

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

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

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

Note 3: Effective May 13, 2016, Frank J. Crothers ceased to be a trustee of the Trust.

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

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



# Shareholder Information

## 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](http://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](http://franklintempleton.com) and posted on the U.S. Securities and Exchange Commission's website at [sec.gov](http://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](http://sec.gov). The filed form may also be viewed and copied at the Commission's Public Reference Room in Washington, DC. Information regarding the operations of the Public Reference Room may be obtained by calling (800) SEC-0330.

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**Annual Report**  
**Franklin Templeton Variable Insurance Products Trust**

**Investment Managers**

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

**Fund Administrator**

Franklin Templeton Services, LLC

**Distributor**

Franklin Templeton Distributors, Inc.

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

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

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