

JUNE 30, 2011



FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST

SEMIANNUAL
REPORT



FRANKLIN TEMPLETON
INVESTMENTS

Franklin • Templeton • Mutual Series

FRANKLIN TEMPLETON VARIABLE INSURANCE PRODUCTS TRUST SEMIANNUAL REPORT TABLE OF CONTENTS

Important Notes to Performance Information	i
Fund Summary	
Franklin Small Cap Value Securities Fund	FSV-1
Index Descriptions	I-1
Shareholder Information	SI-1

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.

This semiannual report for Franklin Small Cap Value Securities Fund covers the period ended June 30, 2011.

Franklin Small Cap Value Securities Fund – Class 2

Performance Summary as of 6/30/11

Franklin Small Cap Value Securities Fund – Class 2 delivered a +2.25% total return for the six-month period ended 6/30/11.

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

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

Fund Risks: The Fund's investments in stocks may offer the potential for long-term gains but can be subject to short-term price fluctuations. Smaller company securities can increase the risk of greater price volatility, particularly over the short term. Smaller or relatively new or unseasoned companies can also be particularly sensitive to changing economic conditions, and their prospects for growth are less certain than those of larger, more established companies. The Fund may have significant investments in particular sectors from time to time, such as financial services and energy, and may be at greater risk of adverse developments in a sector than a fund that invests more broadly. Foreign investing involves additional risks, including currency fluctuations, economic instability, market volatility, and political and social instability. The manager applies various techniques and analyses in making investment decisions for the Fund, but there can be no guarantee that these decisions will produce the desired results. The Fund's prospectus also includes a description of the main investment risks.

Fund Goal and Main Investments: Franklin Small Cap Value Securities Fund seeks long-term total return. The Fund normally invests at least 80% of its net assets in investments of small-capitalization companies. For this Fund, small-capitalization companies are those with market capitalizations under \$3.5 billion at the time of purchase. The Fund invests generally in equity securities of companies that the manager believes are undervalued and have the potential for capital appreciation.

Performance Overview

You can find the Fund's six-month total return in the Performance Summary. The Fund underperformed its benchmark, the Russell 2500™ Value Index, which rose 6.10% for the same period.¹ Please note the Fund employs a bottom-up stock selection process, and the managers invest in securities without regard to benchmark comparisons.

Economic and Market Overview

The U.S. economy expanded despite geopolitical and inflationary pressures from around the globe during the six-month period ended June 30, 2011. Business activity increased and consumer spending stayed above pre-recession levels. The U.S. has been a key engine in a sustained global manufacturing expansion as international trade volume continued to increase, albeit at a moderate pace. Worldwide demand for capital goods aided U.S. manufacturing profits and increased employment in the industry.

The unemployment rate improved in the first quarter when job creation began to gain some traction. However, government payrolls continued to trend down and job creation slowed in the second quarter, causing the unemployment rate to end the period at 9.2% in June.² Consumer spending rose for 11 consecutive months through May but declined in June as concerns about job growth and rising gasoline and food prices dampened consumer confidence. To offset the disruption of global oil supply caused by the conflicts in Libya, the International Energy Agency announced in June the release of 60 million barrels of oil in July from strategic reserves of the U.S. and 27 other nations. The U.S. financial system appeared closer to a full recovery, although the country still faced challenges dealing with housing market weakness and massive debt at period-end.

1. Source: © 2011 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.

Inflation at the consumer, producer and trade levels rose across much of the world, but in the U.S. it remained relatively contained. As a result, the Federal Reserve Board (Fed) maintained its accommodative monetary policy while ending its second round of quantitative easing on June 30. The Fed said, however, it would continue to purchase Treasuries with proceeds from maturing debt in an effort to support economic growth.

Investors' attitudes shifted with each release of economic, regulatory and geopolitical news, causing equity market volatility to increase globally. U.S. investors weathered international events that included revolutions and civil unrest across the Middle East and North Africa, the multiple crises triggered by Japan's earthquake and tsunami, and sovereign debt worries and credit downgrades in Europe. Ultimately, stock indexes produced solid gains during the six months under review as domestic and global equity markets rose amid generally improving economic signs and record-high corporate earnings growth.

Investment Strategy

We are a research-driven, fundamental investment adviser, pursuing a disciplined, value-oriented strategy for the Fund. As a bottom-up adviser concentrating primarily on individual securities, we focus on the market price of a company's securities relative to our evaluation of the company's potential long-term earnings, asset value or cash flow. We seek bargains among the "unloved," out-of-favor companies that offer, in our opinion, attractive long-term potential. These might include current growth companies that are being ignored by the market, former growth companies that have stumbled recently, dropping sharply in price but that still have significant growth potential, in our opinion, or companies that may be potential turnaround candidates or takeover targets.

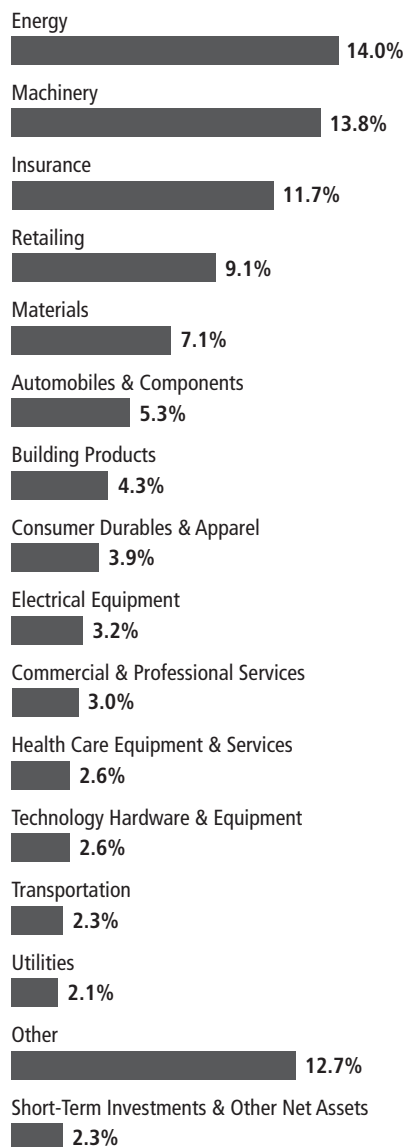
Manager's Discussion

During the six months under review, significant contributors to Fund performance came from the industrials and energy sectors.³ In the industrials sector, railcar and wind tower manufacturer Trinity Industries, fluid handling products manufacturer Graco, air compressor and blower manufacturer Gardner Denver, industrial goods manufacturer Nordson and construction materials manufacturer Carlisle boosted

3. The industrials sector comprises aerospace and defense, building products, commercial and professional services, construction and engineering, electrical equipment, industrial conglomerates, machinery, trading companies and distributors, and transportation in the SOI.

Portfolio Breakdown

Franklin Small Cap Value Securities Fund
Based on Total Net Assets as of 6/30/11



Top 10 Holdings

Franklin Small Cap Value Securities Fund
6/30/11

Company Sector/Industry	% of Total Net Assets
Trinity Industries Inc. <i>Machinery</i>	1.9%
Bristow Group Inc. <i>Energy</i>	1.8%
Autoliv Inc. (Sweden) <i>Automobiles & Components</i>	1.8%
Rowan Cos. Inc. <i>Energy</i>	1.8%
Tidewater Inc. <i>Energy</i>	1.7%
Protective Life Corp. <i>Insurance</i>	1.7%
Thor Industries Inc. <i>Automobiles & Components</i>	1.6%
Mueller Industries Inc. <i>Machinery</i>	1.5%
Gardner Denver Inc. <i>Machinery</i>	1.5%
Benchmark Electronics Inc. <i>Technology Hardware & Equipment</i>	1.5%

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).

results. Diversified energy company Unit Corp., oil and gas equipment and services company Oil States International, and offshore energy company Helix Energy Solutions Group were among energy sector holdings that benefited performance. In the consumer discretionary sector, men's apparel retailer The Men's Wearhouse and new holding GameStop, a video game retailer, also helped results.⁴

Detractors from performance included some financials sector holdings such as regional bank TrustCo Bank Corp. NY and insurers Protective Life and Old Republic International.⁵ Several consumer discretionary holdings also hindered results, including home furnishing provider Hooker Furniture, shoe wholesaler and retailer Brown Shoe, and recreational vehicle manufacturers Thor Industries and Winnebago Industries. Lumber and building products provider Universal Forest Products and cabinet manufacturer American Woodmark in the industrials sector also detracted from performance, as did semiconductor equipment manufacturer Cohu in the information technology sector.⁶

In addition to purchasing shares of GameStop during the reporting period, the Fund initiated five positions in what we considered attractively valued securities: aircraft-related aftermarket services provider AAR Corp., specialty industrial components manufacturer Enpro Industries, flexible circuit material provider Multi Fineline Electronix, regional financial services company Oriental Financial Group and graphics services company Schawk. We also added to existing positions in Cato, A. Schulman and Transatlantic Holdings, among others. We liquidated three positions during the period: Bassett Furniture Industries, Erie Indemnity and Westlake Chemical. We made significant reductions to holdings in Graco, Mettler-Toledo International, Nordson and Warnaco Group and made smaller reductions to several other positions.

4. The consumer discretionary sector comprises automobiles and components, consumer durables and apparel, consumer services, and retailing in the SOI.

5. The financials sector comprises banks and insurance in the SOI.

6. The information technology sector comprises semiconductors and semiconductor equipment, and technology hardware and equipment in the SOI.

Thank you for your participation in Franklin Small Cap Value Securities Fund. We look forward to serving your future investment needs.

The foregoing information reflects our analysis, opinions and portfolio holdings as of June 30, 2011, 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.

Franklin Small Cap Value Securities Fund – 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.

- Transaction expenses can include sales charges (loads) on purchases, surrender fees, transfer fees and premium taxes.
- 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 expenses shown in the table are meant to highlight ongoing expenses at the Fund level only and do not include ongoing expenses at the Contract level, or transaction expenses at either the Fund or Contract levels. 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.

The table shows Fund-level ongoing expenses and can help you understand these expenses 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 first line (Actual) of the table provides actual account values and expenses. The “Ending Account Value” is derived from the Fund’s actual return, which includes the effect of ongoing Fund expenses, but does not include the effect of ongoing Contract expenses.

You can estimate the Fund-level expenses you incurred during the period by following these steps. *Of course, your account value and expenses will differ from those in this illustration:*

1. Divide your account value by \$1,000.
If an account had an \$8,600 value, then $\$8,600 \div \$1,000 = 8.6$.
2. Multiply the result by the number under the heading “Fund-Level Expenses Incurred During Period.”
If Fund-Level Expenses Incurred During Period were \$7.50, then $8.6 \times \$7.50 = \64.50 .

In this illustration, the estimated expenses incurred this period at the Fund level are \$64.50.

Hypothetical Example for Comparison with Other Mutual Funds

Information in the second line (Hypothetical) of the table can help you compare ongoing expenses of the Fund with those of other mutual funds offered through the Contract. This information may not be used to estimate the actual ending account balance or expenses you incurred during the period. The hypothetical “Ending Account Value” is based on the Fund’s actual expense ratio and an assumed 5% annual rate of return before expenses, which does not represent the Fund’s actual return. The figure under the heading “Fund-Level Expenses Incurred During Period” shows the hypothetical expenses your account would have incurred under this scenario. You can compare this figure with the 5% hypothetical examples that appear in shareholder reports of other funds offered through a Contract.

Class 2	Beginning Account Value 1/1/11	Ending Account Value 6/30/11	Fund-Level Expenses Incurred During Period* 1/1/11–6/30/11
Actual	\$1,000	\$1,022.50	\$4.51
Hypothetical (5% return before expenses)	\$1,000	\$1,020.33	\$4.51

*Expenses are calculated using the most recent six-month annualized expense ratio for the Fund’s Class 2 shares (0.90%), which does not include any ongoing expenses of the Contract for which the Fund is an investment option, multiplied by the average account value over the period, multiplied by 181/365 to reflect the one-half year period.

Franklin Templeton Variable Insurance Products Trust

Financial Highlights

Franklin Small Cap Value Securities Fund

Class 1	Six Months Ended June 30, 2011 (unaudited)	Year Ended December 31,				
		2010	2009	2008	2007	2006
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 16.55	\$ 13.00	\$ 10.73	\$ 17.38	\$ 19.07	\$ 17.02
Income from investment operations ^a :						
Net investment income ^b	0.07	0.14	0.15	0.24	0.22	0.18
Net realized and unrealized gains (losses)	0.33	3.54	2.86	(5.44)	(0.44)	2.69
Total from investment operations	0.40	3.68	3.01	(5.20)	(0.22)	2.87
Less distributions from:						
Net investment income	(0.15)	(0.13)	(0.22)	(0.23)	(0.17)	(0.16)
Net realized gains	—	—	(0.52)	(1.22)	(1.30)	(0.66)
Total distributions	(0.15)	(0.13)	(0.74)	(1.45)	(1.47)	(0.82)
Net asset value, end of period	\$ 16.80	\$ 16.55	\$ 13.00	\$ 10.73	\$ 17.38	\$ 19.07
Total return ^c	2.45%	28.49%	29.54%	(32.87)%	(2.14)%	17.30%
Ratios to average net assets^d						
Expenses	0.65%	0.67%	0.68% ^e	0.67% ^e	0.64% ^e	0.65% ^e
Net investment income	0.84%	0.98%	1.29%	1.62%	1.13%	0.97%
Supplemental data						
Net assets, end of period (000's)	\$45,007	\$ 47,300	\$ 42,428	\$ 34,901	\$ 57,045	\$ 73,154
Portfolio turnover rate	7.11%	15.92%	6.68%	16.98%	16.27%	16.43% ^f

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

^bBased on average daily shares outstanding.

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

^dRatios are annualized for periods less than one year.

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

^fExcludes the value of portfolio securities delivered as a result of a redemption in-kind.

Franklin Templeton Variable Insurance Products Trust

Financial Highlights *(continued)*

Franklin Small Cap Value Securities Fund

Class 2	Six Months Ended June 30, 2011 (unaudited)	Year Ended December 31,				
	2010	2009	2008	2007	2006	
Per share operating performance (for a share outstanding throughout the period)						
Net asset value, beginning of period	\$ 16.25	\$ 12.77	\$ 10.55	\$ 17.10	\$ 18.79	\$ 16.79
Income from investment operations ^a :						
Net investment income ^b	0.05	0.10	0.12	0.20	0.17	0.13
Net realized and unrealized gains (losses)	0.31	3.48	2.81	(5.35)	(0.43)	2.65
Total from investment operations	0.36	3.58	2.93	(5.15)	(0.26)	2.78
Less distributions from:						
Net investment income	(0.11)	(0.10)	(0.19)	(0.18)	(0.13)	(0.12)
Net realized gains	—	—	(0.52)	(1.22)	(1.30)	(0.66)
Total distributions	(0.11)	(0.10)	(0.71)	(1.40)	(1.43)	(0.78)
Net asset value, end of period	\$ 16.50	\$ 16.25	\$ 12.77	\$ 10.55	\$ 17.10	\$ 18.79
Total return ^c	2.25%	28.22%	29.16%	(33.02)%	(2.38)%	16.98%
Ratios to average net assets^d						
Expenses	0.90%	0.92%	0.93% ^e	0.92% ^e	0.89% ^e	0.90% ^e
Net investment income	0.59%	0.73%	1.04%	1.37%	0.88%	0.72%
Supplemental data						
Net assets, end of period (000's)	\$1,317,643	\$1,362,292	\$1,109,855	\$ 784,773	\$1,177,367	\$1,240,892
Portfolio turnover rate	7.11%	15.92%	6.68%	16.98%	16.27%	16.43% ^f

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

^bBased on average daily shares outstanding.

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

^dRatios are annualized for periods less than one year.

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

^fExcludes the value of portfolio securities delivered as a result of a redemption in-kind.

Franklin Templeton Variable Insurance Products Trust

Financial Highlights *(continued)*

Franklin Small Cap Value Securities Fund

Class 4	Six Months Ended June 30, 2011 (unaudited)	Year Ended December 31,		
		2010	2009	2008 ^a
Per share operating performance (for a share outstanding throughout the period)				
Net asset value, beginning of period	\$ 16.44	\$ 12.92	\$ 10.70	\$ 16.42
Income from investment operations ^b :				
Net investment income ^c	0.04	0.09	0.11	0.15
Net realized and unrealized gains (losses)	0.32	3.53	2.84	(4.42)
Total from investment operations	0.36	3.62	2.95	(4.27)
Less distributions from:				
Net investment income	(0.09)	(0.10)	(0.21)	(0.23)
Net realized gains	—	—	(0.52)	(1.22)
Total distributions	(0.09)	(0.10)	(0.73)	(1.45)
Net asset value, end of period	\$ 16.71	\$ 16.44	\$ 12.92	\$ 10.70
Total return ^d	2.25%	28.14%	29.04%	(29.14)%
Ratios to average net assets^e				
Expenses	1.00%	1.02%	1.03% ^f	1.02% ^f
Net investment income	0.49%	0.63%	0.94%	1.27%
Supplemental data				
Net assets, end of period (000's)	\$35,284	\$ 39,075	\$ 28,599	\$ 14,850
Portfolio turnover rate	7.11%	15.92%	6.68%	16.98%

^aFor the period February 29, 2008 (effective date) to December 31, 2008.

^bThe 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 shares in relation to income earned and/or fluctuating market value of the investments of the Fund.

^cBased on average daily shares outstanding.

^dTotal return does not include fees, charges or expenses imposed by the variable annuity and life insurance contracts for which the Franklin Templeton Variable Insurance Products Trust serves as an underlying investment vehicle. Total return is not annualized for periods less than one year.

^eRatios are annualized for periods less than one year.

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

Franklin Templeton Variable Insurance Products Trust

Statement of Investments, June 30, 2011 (unaudited)

Franklin Small Cap Value Securities Fund	Shares	Value
Common Stocks 97.6%		
Aerospace & Defense 1.5%		
AAR Corp.	318,900	\$ 8,639,001
^a Ceradyne Inc.	310,000	12,086,900
		<u>20,725,901</u>
Automobiles & Components 5.3%		
Autoliv Inc. (Sweden)	326,800	25,637,460
Drew Industries Inc.	90,700	2,242,104
Gentex Corp.	662,500	20,027,375
Thor Industries Inc.	755,000	21,774,200
^a Winnebago Industries Inc.	485,000	4,685,100
		<u>74,366,239</u>
Banks 1.9%		
Chemical Financial Corp.	405,554	7,608,193
Oriental Financial Group Inc.	602,000	7,759,780
Peoples Bancorp Inc.	158,000	1,780,660
^b TrustCo Bank Corp. NY	1,889,400	9,258,060
		<u>26,406,693</u>
Building Products 4.3%		
A.O. Smith Corp.	126,700	5,359,410
American Woodmark Corp.	423,303	7,331,608
Apogee Enterprises Inc.	778,100	9,967,461
^a Gibraltar Industries Inc.	900,100	10,189,132
Simpson Manufacturing Co. Inc.	462,800	13,823,836
Universal Forest Products Inc.	528,720	12,668,131
		<u>59,339,578</u>
Commercial & Professional Services 3.0%		
ABM Industries Inc.	636,100	14,846,574
Insperty Inc.	296,100	8,767,521
Mine Safety Appliances Co.	328,300	12,258,722
Schawk Inc.	379,300	6,281,208
		<u>42,154,025</u>
Construction & Engineering 1.8%		
^a EMCOR Group Inc.	273,270	8,009,544
Granite Construction Inc.	703,000	17,244,590
		<u>25,254,134</u>
Consumer Durables & Apparel 3.9%		
Brunswick Corp.	500,000	10,200,000
D.R. Horton Inc.	448,900	5,171,328
Ethan Allen Interiors Inc.	159,000	3,385,110
Hooker Furniture Corp.	510,700	4,524,802
^a La-Z-Boy Inc.	1,089,000	10,748,430
M.D.C. Holdings Inc.	240,700	5,930,848
^a M/I Homes Inc.	500,000	6,130,000
^a The Warnaco Group Inc.	162,600	8,495,850
		<u>54,586,368</u>
Consumer Services 1.8%		
Hillenbrand Inc.	401,000	9,483,650
Regis Corp.	992,000	15,197,440
		<u>24,681,090</u>

Franklin Templeton Variable Insurance Products Trust

Statement of Investments, June 30, 2011 (unaudited) (continued)

Franklin Small Cap Value Securities Fund	Shares	Value
Common Stocks (continued)		
Electrical Equipment 3.2%		
Brady Corp., A	453,000	\$ 14,523,180
Franklin Electric Co. Inc.	199,232	9,353,942
^a Powell Industries Inc.	168,400	6,146,600
Roper Industries Inc.	170,000	14,161,000
		<u>44,184,722</u>
Energy 14.0%		
Arch Coal Inc.	111,500	2,972,590
^a Atwood Oceanics Inc.	405,400	17,890,302
Bristow Group Inc.	503,800	25,703,876
CONSOL Energy Inc.	68,500	3,320,880
Energen Corp.	219,000	12,373,500
^a Global Industries Ltd.	1,575,600	8,634,288
^a Helix Energy Solutions Group Inc.	768,900	12,732,984
^a Oil States International Inc.	255,200	20,393,032
^b Overseas Shipholding Group Inc.	371,000	9,994,740
Peabody Energy Corp.	103,200	6,079,512
^a Rowan Cos. Inc.	638,100	24,764,661
Teekay Corp. (Canada)	245,431	7,578,909
Tidewater Inc.	443,700	23,875,497
^a Unit Corp.	323,400	19,704,762
		<u>196,019,533</u>
Food & Staples Retailing 0.7%		
Casey's General Stores Inc.	215,600	9,486,400
Food, Beverage & Tobacco 1.0%		
Lancaster Colony Corp.	238,900	14,529,898
Health Care Equipment & Services 2.6%		
STERIS Corp.	412,500	14,429,250
Teleflex Inc.	241,300	14,733,778
West Pharmaceutical Services Inc.	172,700	7,557,352
		<u>36,720,380</u>
Industrial Conglomerates 1.2%		
Carlisle Cos. Inc.	353,400	17,397,882
Insurance 11.7%		
American National Insurance Co.	79,000	6,122,500
Arthur J. Gallagher & Co.	168,200	4,800,428
Aspen Insurance Holdings Ltd.	550,100	14,154,073
The Hanover Insurance Group Inc.	278,000	10,483,380
HCC Insurance Holdings Inc.	188,200	5,928,300
Montpelier Re Holdings Ltd. (Bermuda)	649,000	11,682,000
Old Republic International Corp.	1,513,000	17,777,750
Protective Life Corp.	1,015,000	23,476,950
RLI Corp.	138,700	8,588,304
StanCorp Financial Group Inc.	373,000	15,736,870
Tower Group Inc.	659,900	15,718,818
Transatlantic Holdings Inc.	335,000	16,418,350
Validus Holdings Ltd. (Bermuda)	422,700	13,082,565
		<u>163,970,288</u>

Franklin Templeton Variable Insurance Products Trust

Statement of Investments, June 30, 2011 (unaudited) (continued)

Franklin Small Cap Value Securities Fund	Shares	Value
Common Stocks (continued)		
Machinery 13.7%		
^a Astec Industries Inc.	330,200	\$ 12,210,796
Briggs & Stratton Corp.	448,200	8,901,252
CIRCOR International Inc.	131,502	5,632,231
^a CNH Global NV (Netherlands)	72,700	2,809,855
^a EnPro Industries Inc.	221,400	10,642,698
Gardner Denver Inc.	256,900	21,592,445
Graco Inc.	343,800	17,416,908
Kennametal Inc.	397,300	16,770,033
Lincoln Electric Holdings Inc.	419,000	15,021,150
Mueller Industries Inc.	531,200	20,137,792
Nordson Corp.	209,800	11,507,530
Timken Co.	90,000	4,536,000
Trinity Industries Inc.	764,400	26,662,272
^a Wabash National Corp.	923,300	8,651,321
Watts Water Technologies Inc., A	257,200	9,107,452
		191,599,735
Materials 7.1%		
A. Schulman Inc.	425,100	10,708,269
AptarGroup Inc.	198,600	10,394,724
Cabot Corp.	324,100	12,921,867
Glatfelter	311,200	4,786,256
Reliance Steel & Aluminum Co.	377,500	18,742,875
RPM International Inc.	753,600	17,347,872
Sensient Technologies Corp.	195,300	7,239,771
Steel Dynamics Inc.	937,100	15,227,875
United States Steel Corp.	43,600	2,007,344
		99,376,853
Pharmaceuticals, Biotechnology & Life Sciences 1.5%		
^a Mettler-Toledo International Inc.	47,500	8,011,825
Pharmaceutical Product Development Inc.	495,800	13,307,272
		21,319,097
Retailing 9.1%		
Brown Shoe Co. Inc.	982,000	10,458,300
The Cato Corp., A	433,800	12,493,440
Christopher & Banks Corp.	1,260,000	7,245,000
Fred's Inc.	818,300	11,808,069
^a GameStop Corp., A	569,000	15,175,230
Group 1 Automotive Inc.	502,000	20,672,360
J.C. Penney Co. Inc.	273,000	9,429,420
The Men's Wearhouse Inc.	526,317	17,736,883
^a Pier 1 Imports Inc.	624,500	7,225,465
^{a,b} Saks Inc.	532,548	5,948,561
^a Tuesday Morning Corp.	507,900	2,361,735
^a West Marine Inc.	678,900	7,040,193
		127,594,656
Semiconductors & Semiconductor Equipment 0.8%		
Cohu Inc.	826,500	10,835,415
Technology Hardware & Equipment 2.6%		
^a Benchmark Electronics Inc.	1,271,000	20,971,500
^a Multi-Fineline Electronix Inc.	82,900	1,791,469
^a Rofin-Sinar Technologies Inc.	395,800	13,516,570
		36,279,539

Franklin Templeton Variable Insurance Products Trust

Statement of Investments, June 30, 2011 (unaudited) (continued)

Franklin Small Cap Value Securities Fund	Shares	Value
Common Stocks (continued)		
Trading Companies & Distributors 0.5%		
Applied Industrial Technologies Inc.	178,700	\$ 6,363,507
Transportation 2.3%		
^a Genesee & Wyoming Inc.	292,500	17,152,200
SkyWest Inc.	953,500	14,359,710
		<u>31,511,910</u>
Utilities 2.1%		
NV Energy Inc.	1,171,400	17,980,990
PNM Resources Inc.	708,000	11,851,920
		<u>29,832,910</u>
Total Common Stocks (Cost \$1,034,965,499)		<u>1,364,536,753</u>
	Principal Amount	
Corporate Bonds (Cost \$1,484,925) 0.1%		
Machinery 0.1%		
Mueller Industries Inc., 6.00%, 11/01/14	\$ 1,494,000	1,494,000
Total Investments before Short Term Investments (Cost \$1,036,450,424)		<u>1,366,030,753</u>
	Shares	
Short Term Investments 3.5%		
Money Market Funds (Cost \$33,128,039) 2.4%		
^{a,c} Institutional Fiduciary Trust Money Market Portfolio	33,128,039	33,128,039
^dInvestments from Cash Collateral Received for Loaned Securities 1.1%		
Money Market Funds (Cost \$2,536,889) 0.2%		
^a BNY Institutional Cash Reserve Fund, Series B	2,536,889	2,029,511
		<u>Principal Amount</u>
^eRepurchase Agreements 0.9%		
Barclays Capital Inc., 0.01%, 7/01/11 (Maturity Value \$2,500,001) Collateralized by U.S. Treasury Notes, 1.50%, 6/30/16 (valued at \$2,550,000)	\$ 2,500,000	2,500,000
BNP Paribas Securities Corp., 0.04%, 7/01/11 (Maturity Value \$3,049,665) Collateralized by U.S. Government Agency Securities, 0.36% - 5.375%, 9/09/11 - 12/11/20; U.S. Treasury Notes, 1.875% - 2.375%, 10/31/17 - 6/30/18 (valued at \$3,110,669)	3,049,662	3,049,662
Credit Suisse Securities (USA) LLC, 0.01%, 7/01/11 (Maturity Value \$2,500,001) Collateralized by U.S. Treasury Notes, 1.375% - 3.125%, 10/15/12 - 11/30/13 (valued at \$2,550,007)	2,500,000	2,500,000
Deutsche Bank Securities Inc., 0.02%, 7/01/11 (Maturity Value \$2,500,001) Collateralized by U.S. Government Agency Securities, 1.00% - 5.375%, 8/15/12 - 11/17/17 (valued at \$2,550,078)	2,500,000	2,500,000
HSBC Securities (USA) Inc., 0.01%, 7/01/11 (Maturity Value \$2,000,001) Collateralized by U.S. Government Agency Securities, 0.00% - 5.00%, 7/01/11 - 10/03/22 (valued at \$2,040,014)	2,000,000	2,000,000

Franklin Templeton Variable Insurance Products Trust

Statement of Investments, June 30, 2011 (unaudited) (continued)

Franklin Small Cap Value Securities Fund	Principal Amount	Value
Repurchase Agreements (continued)		
RBS Securities Inc., 0.01%, 7/01/11 (Maturity Value \$291,020) Collateralized by U.S. Treasury Notes, 0.75% - 4.875%, 7/15/13 - 5/31/18 (valued at \$296,844)	\$291,020	\$ 291,020
Total Repurchase Agreements (Cost \$12,840,682)		<u>12,840,682</u>
Total Investments from Cash Collateral Received for Loaned Securities (Cost \$15,377,571)		<u>14,870,193</u>
Total Investments (Cost \$1,084,956,034) 101.2%		1,414,028,985
Other Assets, less Liabilities (1.2)%		<u>(16,094,715)</u>
Net Assets 100.0%		<u>\$1,397,934,270</u>

^aNon-income producing.

^bA portion or all of the security is on loan at June 30, 2011. See Note 1(c).

^cSee Note 7 regarding investments in the Institutional Fiduciary Trust Money Market Portfolio.

^dSee Note 1(c) regarding securities on loan.

^eSee Note 1(b) regarding repurchase agreements.

Franklin Templeton Variable Insurance Products Trust

Financial Statements

Statement of Assets and Liabilities

June 30, 2011 (unaudited)

	<u>Franklin Small Cap Value Securities Fund</u>
Assets:	
Investments in securities:	
Cost - Unaffiliated issuers	\$1,038,987,313
Cost - Sweep Money Fund (Note 7)	33,128,039
Cost - Repurchase agreements	12,840,682
Total cost of investments	<u>\$1,084,956,034</u>
Value - Unaffiliated issuers	\$1,368,060,264
Value - Sweep Money Fund (Note 7)	33,128,039
Value - Repurchase agreements	12,840,682
Total value of investments (includes securities loaned in the amount of \$14,669,319)	<u>1,414,028,985</u>
Receivables:	
Investment securities sold	543,312
Capital shares sold	795,399
Dividends and interest	770,071
Other assets	371
Total assets	<u>1,416,138,138</u>
Liabilities:	
Payables:	
Investment securities purchased	135,696
Capital shares redeemed	1,091,343
Affiliates	1,271,897
Payable upon return of securities loaned	15,377,571
Accrued expenses and other liabilities	327,361
Total liabilities	<u>18,203,868</u>
Net assets, at value	<u>\$1,397,934,270</u>
Net assets consist of:	
Paid-in capital	\$1,111,717,857
Undistributed net investment income	4,279,415
Net unrealized appreciation (depreciation)	329,072,951
Accumulated net realized gain (loss)	(47,135,953)
Net assets, at value	<u>\$1,397,934,270</u>
Class 1:	
Net assets, at value	<u>\$ 45,007,122</u>
Shares outstanding	<u>2,679,569</u>
Net asset value and maximum offering price per share	<u>\$ 16.80</u>
Class 2:	
Net assets, at value	<u>\$1,317,643,109</u>
Shares outstanding	<u>79,843,565</u>
Net asset value and maximum offering price per share	<u>\$ 16.50</u>
Class 4:	
Net assets, at value	<u>\$ 35,284,039</u>
Shares outstanding	<u>2,111,984</u>
Net asset value and maximum offering price per share	<u>\$ 16.71</u>

Franklin Templeton Variable Insurance Products Trust

Financial Statements *(continued)*

Statement of Operations

for the six months ended June 30, 2011 (unaudited)

	Franklin Small Cap Value Securities Fund
Investment income:	
Dividends	\$ 10,647,429
Interest	46,011
Income from securities loaned	40,613
Total investment income	<u>10,734,053</u>
Expenses:	
Management fees (Note 3a)	3,584,146
Administrative fees (Note 3b)	824,260
Distribution fees: (Note 3c)	
Class 2	1,710,993
Class 4	65,709
Unaffiliated transfer agent fees	2,236
Custodian fees (Note 4)	10,462
Reports to shareholders	218,015
Professional fees	23,307
Trustees' fees and expenses	2,650
Other	18,021
Total expenses	<u>6,459,799</u>
Net investment income	<u>4,274,254</u>
Realized and unrealized gains (losses):	
Net realized gain (loss) from investments	51,416,487
Net change in unrealized appreciation (depreciation) on investments	<u>(22,757,763)</u>
Net realized and unrealized gain (loss)	<u>28,658,724</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ 32,932,978</u>

Franklin Templeton Variable Insurance Products Trust

Financial Statements *(continued)*

Statements of Changes in Net Assets

	Franklin Small Cap Value Securities Fund	
	Six Months Ended June 30, 2011 (unaudited)	Year Ended December 31, 2010
Increase (decrease) in net assets:		
Operations:		
Net investment income	\$ 4,274,254	\$ 9,370,933
Net realized gain (loss) from investments	51,416,487	(9,121,196)
Net change in unrealized appreciation (depreciation) on investments	(22,757,763)	315,120,022
Net increase (decrease) in net assets resulting from operations	32,932,978	315,369,759
Distributions to shareholders from:		
Net investment income:		
Class 1	(392,860)	(391,013)
Class 2	(8,773,166)	(9,354,014)
Class 4	(201,936)	(225,374)
Total distributions to shareholders	(9,367,962)	(9,970,401)
Capital share transactions: (Note 2)		
Class 1	(2,979,969)	(5,400,815)
Class 2	(66,894,808)	(34,566,603)
Class 4	(4,422,602)	2,352,541
Total capital share transactions	(74,297,379)	(37,614,877)
Net increase (decrease) in net assets	(50,732,363)	267,784,481
Net assets:		
Beginning of period	1,448,666,633	1,180,882,152
End of period	\$1,397,934,270	\$1,448,666,633
Undistributed net investment income included in net assets:		
End of period	\$ 4,279,415	\$ 9,373,123

Franklin Templeton Variable Insurance Products Trust

Notes to Financial Statements (unaudited)

Franklin Small Cap Value Securities Fund

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Franklin Templeton Variable Insurance Products Trust (Trust) is registered under the Investment Company Act of 1940, as amended, (1940 Act) as an open-end investment company, consisting of twenty separate funds. The Franklin Small Cap Value Securities 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 securities and other 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. Under procedures approved by the Trust's Board of Trustees, the Fund may utilize independent pricing services, quotations from securities and financial instrument dealers, and other market sources to determine fair value.

Equity securities listed on an exchange or on the NASDAQ National Market System are valued at the last quoted sale price or the official closing price of the day, respectively. Over-the-counter 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. Investments in open-end mutual funds are valued at the closing net asset value.

Debt securities generally trade in the over-the-counter 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, option-adjusted spreads, credit spreads, estimated default rates, 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. Repurchase agreements are valued at cost, which approximates market value.

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

b. Repurchase Agreements

The Fund enters into repurchase agreements, which are accounted for as a loan by the fund to the seller, collateralized by securities which are delivered to the fund's custodian. The market value, including accrued interest, of the initial collateralization is required to be at least 102% of the dollar amount invested by the fund, with the value of the underlying securities marked to market daily to maintain coverage of at least 100%. All repurchase agreements held by the Fund at period end had been entered into on June 30, 2011.

Franklin Templeton Variable Insurance Products Trust

Notes to Financial Statements (unaudited) *(continued)*

Franklin Small Cap Value Securities Fund

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

c. Securities Lending

The Fund participates in a principal based security lending program. The Fund receives cash collateral against the loaned securities in an amount equal to at least 102% of the market value of the loaned securities. Collateral is maintained over the life of the loan in an amount not less than 100% of the market 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 invested in repurchase agreements and in a non-registered money fund managed by the Fund's custodian on the Fund's behalf. The Fund receives income from the investment of cash collateral, in addition to lending fees and rebates paid by the borrower. The Fund bears the market risk with respect to the collateral investment, securities loaned, and the risk that the principal may default on its obligations to the Fund.

d. Income 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 excise taxes. As a result, no provision for U.S. federal income taxes is required. The Fund files U.S. income tax returns as well as tax returns in certain other jurisdictions. The Fund records a provision for taxes in its financial statements including penalties and interest, if any, for a tax position taken on a tax return (or expected to be taken) when it fails to meet the more likely than not (a greater than 50% probability) threshold and based on the technical merits, the tax position may not be sustained upon examination by the tax authorities. As of June 30, 2011, and for all open tax years, the Fund has determined that no provision for income tax is required in the Fund's financial statements. Open tax years are those that remain subject to examination and are based on each tax jurisdiction statute of limitation.

e. 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. Dividend income is 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 accounting principles generally accepted in the United States of America. 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.

f. Accounting Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America 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.

Franklin Templeton Variable Insurance Products Trust

Notes to Financial Statements (unaudited) *(continued)*

Franklin Small Cap Value Securities Fund

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(continued)*

g. 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.

2. SHARES OF BENEFICIAL INTEREST

At June 30, 2011, there were an unlimited number of shares authorized (without par value). Transactions in the Fund's shares were as follows:

	Six Months Ended June 30, 2011		Year Ended December 31, 2010	
	Shares	Amount	Shares	Amount
Class 1 Shares:				
Shares sold	307,753	\$ 5,309,769	487,990	\$ 7,004,812
Shares issued in reinvestment of distributions	24,646	392,860	28,110	391,013
Shares redeemed	(510,015)	(8,682,598)	(923,527)	(12,796,640)
Net increase (decrease)	(177,616)	\$ (2,979,969)	(407,427)	\$ (5,400,815)
Class 2 Shares:				
Shares sold	5,828,924	\$ 97,013,525	16,505,195	\$ 234,092,954
Shares issued in reinvestment of distributions	559,870	8,773,166	684,273	9,354,014
Shares redeemed	(10,379,199)	(172,681,499)	(20,285,779)	(278,013,571)
Net increase (decrease)	(3,990,405)	\$ (66,894,808)	(3,096,311)	\$ (34,566,603)
Class 4 Shares:				
Shares sold	136,220	\$ 2,302,328	706,330	\$ 9,842,641
Shares issued on reinvestment of distributions	12,732	201,936	16,284	225,374
Shares redeemed	(413,556)	(6,926,866)	(558,980)	(7,715,474)
Net increase (decrease)	(264,604)	\$ (4,422,602)	163,634	\$ 2,352,541

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

Franklin Templeton Variable Insurance Products Trust

Notes to Financial Statements (unaudited) *(continued)*

Franklin Small Cap Value Securities Fund

3. TRANSACTIONS WITH AFFILIATES (continued)

a. Management Fees

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

<u>Annualized Fee Rate</u>	<u>Net Assets</u>
0.600%	Up to and including \$200 million
0.500%	over \$200 million, up to and including \$1.3 billion
0.400%	In excess of \$1.3 billion

b. Administrative Fees

The Fund pays an administrative fee to FT Services based on the Fund's average daily net assets as follows:

<u>Annualized Fee Rate</u>	<u>Net Assets</u>
0.150%	Up to and including \$200 million
0.135%	over \$200 million, up to and including \$700 million
0.100%	over \$700 million, up to and including \$1.2 billion
0.075%	In excess of \$1.2 billion

c. Distribution Fees

The Trust's Board of Trustees 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 of Trustees has agreed to limit the current rate to 0.25% per year for Class 2.

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.

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 period ended June 30, 2011, there were no credits earned.

5. INCOME TAXES

For tax purposes, capital losses may be carried over to offset future capital gains, if any. At December 31, 2010, the capital loss carryforwards were as follows:

Capital loss carryforwards expiring in:	
2017	\$76,440,230
2018	22,008,308
	<u>\$98,448,538</u>

Franklin Templeton Variable Insurance Products Trust

Notes to Financial Statements (unaudited) *(continued)*

Franklin Small Cap Value Securities Fund

5. INCOME TAXES (continued)

Under the Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward capital losses incurred in taxable years beginning after December 22, 2010 for an unlimited period. Post-enactment capital loss carryforwards will retain their character as either short-term or long-term capital losses rather than being considered short-term as under previous law. Any post-enactment capital losses generated will be required to be utilized prior to the losses incurred in pre-enactment tax years.

At June 30, 2011, the cost of investments and net unrealized appreciation (depreciation) for income tax purposes were as follows:

Cost of investments	<u>\$1,085,032,749</u>
Unrealized appreciation	\$ 441,658,245
Unrealized depreciation	(112,662,009)
Net unrealized appreciation (depreciation)	<u>\$ 328,996,236</u>

Net investment income differs for financial statement and tax purposes primarily due to differing treatments of bond discounts and premiums.

Net realized gains (losses) differ for financial statement and tax purposes primarily due to differing treatment of wash sales.

6. INVESTMENT TRANSACTIONS

Purchases and sales of investments (excluding short term securities) for the period ended June 30, 2011, aggregated \$100,709,550 and \$145,326,666, respectively.

7. INVESTMENTS IN INSTITUTIONAL FIDUCIARY TRUST MONEY MARKET PORTFOLIO

The Fund invests in the Institutional Fiduciary Trust Money Market Portfolio (Sweep Money Fund), an open-end investment company managed by Franklin Advisers, Inc. (an affiliate of the investment manager). Management fees paid by the Fund are reduced on assets invested in the Sweep Money Fund, in an amount not to exceed the management and administrative fees paid by the Sweep Money Fund.

8. 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 \$750 million (Global Credit Facility) which matures on January 20, 2012. This Global Credit Facility provides a source of funds to the Borrowers for temporary and emergency purposes, including the ability to meet future unanticipated or unusually large redemption requests.

Under the terms of the Global Credit Facility, the Fund shall, in addition to interest charged on any borrowings made by the Fund and other costs incurred by the Fund, pay its share of fees and expenses incurred in connection with the implementation and maintenance of the Global Credit Facility, based upon its relative share of the aggregate net assets of all of the Borrowers, including an annual commitment fee of 0.08% based upon the unused portion of the Global Credit Facility, which is reflected in other expenses on the Statement of Operations. During the period ended June 30, 2011, the Fund did not use the Global Credit Facility.

Franklin Templeton Variable Insurance Products Trust

Notes to Financial Statements (unaudited) *(continued)*

Franklin Small Cap Value Securities Fund

9. 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 investments and are summarized in the following fair value hierarchy:

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

The inputs or methodology used for valuing securities are not an indication of the risk associated with investing in those securities.

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.

The following is a summary of the inputs used as of June 30, 2011, in valuing the Fund's assets and liabilities carried at fair value:

	Level 1	Level 2	Level 3	Total
Assets:				
Investments in Securities				
Equity Investments ^a	\$1,364,536,753	\$ —	\$ —	\$1,364,536,753
Corporate Bonds	—	1,494,000	—	1,494,000
Short Term Investments	33,128,039	14,870,193	—	47,998,232
Total Investments in Securities	<u>\$1,397,664,792</u>	<u>\$16,364,193</u>	<u>\$ —</u>	<u>\$1,414,028,985</u>

^aFor detailed industry descriptions, see the accompanying Statement of Investments.

10. NEW ACCOUNTING PRONOUNCEMENTS

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments in the ASU will improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS and include new guidance for certain fair value measurement principles and disclosure requirements. The ASU is effective for interim and annual periods beginning after December 15, 2011. The Fund is currently evaluating the impact, if any, of applying this provision.

11. SUBSEQUENT EVENTS

The Fund has evaluated subsequent events through the issuance of the financial statements and determined that no events have occurred that require disclosure.

The indexes are unmanaged and include reinvested distributions.

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Barclays Capital (BC) U.S. Aggregate 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. STANDARD & POOR'S®, S&P® and S&P 500® are registered trademarks of Standard & Poor's Financial Services LLC. Standard & Poor's does not sponsor, endorse, sell or promote any S&P index-based product.

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

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

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. FTSE® is a trademark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under license. All rights in and to the FTSE MPF Index series (including currency adjusted indices) are vested in FTSE. All information is provided for information purposes only. Every effort is made to ensure that all information given in this publication is accurate, but no responsibility or liability can be accepted by FTSE for any errors or for any loss arising from use of this publication.

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 allocating assets among different fixed income securities sectors (not primarily in one sector except for defensive purposes), including U.S. and foreign governments, with a significant portion rated below investment grade. For the six-month period ended 6/30/11, there were 189 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP Equity Income Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper Equity Income Funds classification in the Lipper VIP underlying funds universe. Lipper Equity Income Funds seek relatively high current income and growth of income through investing 60% or more of their portfolios in equities. For the six-month period ended 6/30/11, there were 65 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP General U.S. Government Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper General U.S. Government Funds classification in the Lipper VIP underlying funds universe. Lipper General U.S. Government Funds invest primarily in U.S. government and agency issues. For the six-month period ended 6/30/11, there were 75 funds in this category. Lipper calculations do not include contract fees, expenses or sales charges, and may have been different if such charges had been considered.

Lipper VIP High Current Yield Funds Classification Average is an equally weighted average calculation of performance figures for all funds within the Lipper High Current Yield Funds Classification in the Lipper VIP underlying funds universe. Lipper High Current 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 six-month period ended 6/30/11, there were 122 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 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 Europe, Australasia, Far East (EAFE) Index Net Return (Local Currency) is a free float-adjusted, market capitalization-weighted index designed to measure equity market performance of global developed markets excluding the U.S. and Canada. The index is calculated in local currency and includes reinvested daily net dividends.

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

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

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

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

Russell 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 3000 Index is market capitalization weighted and measures performance of the largest U.S. companies based on total market capitalization and represents the majority of the investable U.S. equity market.

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 represent 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 Global REIT Index is designed to measure performance of the investable universe of publicly traded real estate investment trusts. Index constituents generally derive the majority of their revenue from real estate development, management, rental, and/or direct investment in physical property and with local REIT or property trust tax status.

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.

Franklin Templeton Variable Insurance Products Trust

Shareholder Information

Board Review of Investment Management Agreement

At a meeting held April 19, 2011, the Board of Trustees (Board), including a majority of non-interested or independent Trustees, approved renewal of the investment management agreement for each of the separate funds within the Trust (Fund(s)). In reaching this decision, the Board took into account information furnished throughout the year at regular Board meetings, as well as information prepared specifically in connection with the annual renewal review process. Information furnished and discussed throughout the year included investment performance reports and related financial information for each Fund, as well as periodic reports on expenses, shareholder services, legal, compliance, pricing, brokerage commissions and execution and other services provided by the Investment Manager (Manager) and its affiliates. Information furnished specifically in connection with the renewal process included reports prepared by Lipper, Inc. (Lipper), an independent organization, as well as additional material, including a Fund profitability analysis prepared by management. The Lipper reports compared a Fund's investment performance and expenses with those of other mutual funds deemed comparable to the Fund as selected by Lipper. The Fund profitability analysis discussed the profitability to Franklin Templeton Investments from its overall U.S. fund operations, as well as on an individual fund-by-fund basis. Additional material accompanying such profitability analysis included information on a fund-by-fund basis listing portfolio managers and other accounts they manage, as well as information on management fees charged by the Manager and its affiliates to U.S. mutual funds and other accounts, including management's explanation of differences where relevant. Such material also included a memorandum prepared by management describing project initiatives and capital investments relating to the services provided to the Funds by the Franklin Templeton Investments organization, as well as a memorandum relating to economies of scale.

In considering such materials, the independent Trustees received assistance and advice from and met separately with independent counsel. While the investment management agreements for all Funds were considered at the same Board meeting, the Board dealt with each Fund separately. In approving continuance of the investment management agreement for each Fund, the Board, including a majority of independent Trustees, determined that the existing management fee structure was fair and reasonable and that continuance of the investment management agreement was in the best interests of each Fund and its shareholders. While attention was given to all information furnished, the following discusses some primary factors relevant to the Board's decision.

NATURE, EXTENT AND QUALITY OF SERVICE. The Board was satisfied with the nature and quality of the overall services provided by the Manager and its affiliates to the Funds and their shareholders. In addition to investment performance and expenses discussed later, the Board's opinion was based, in part, upon periodic reports furnished it showing that the investment policies and restrictions for each Fund were consistently complied with as well as other reports periodically furnished the Board covering matters such as the compliance of portfolio managers and other management personnel with the code of ethics adopted throughout the Franklin Templeton fund complex, the adherence to fair value pricing procedures established by the Board, and the accuracy of net asset value calculations. Favorable consideration was given to management's continuous efforts and expenditures in establishing back-up systems and recovery procedures to function in the event of a natural disaster, it being noted that such systems and procedures had functioned smoothly during the Florida hurricanes and blackouts experienced in previous years. Among other factors taken into account by the Board were the Manager's best execution trading policies, including a favorable report by an independent portfolio trading analytical firm. Consideration was also given to the experience of each Fund's portfolio management team, the number of accounts managed and general method of compensation. In this latter respect, the Board noted that a primary factor in management's determination of a portfolio manager's bonus compensation was the relative investment performance of the funds he or she managed and that a portion of such bonus was required to be invested in a predesignated list of funds within such person's fund management area so as to be aligned with the interests of shareholders. Particular attention was given to management's conservative approach and diligent risk management procedures, including continuous monitoring of counterparty credit risk and attention given to derivatives and other complex instruments. The Board also took into account, among other things, management's efforts in establishing a global credit facility for the benefit of the Funds and other accounts managed by Franklin Templeton Investments to provide a source of cash for temporary and emergency purposes or to meet unusual redemption requests as well as the strong financial position of the Manager's parent company and its commitment to the mutual fund business as evidenced by its subsidization of money market funds.

INVESTMENT PERFORMANCE. The Board placed significant emphasis on the investment performance of each of the Funds in view of its importance to shareholders. While consideration was given to performance reports and discussions with portfolio

Franklin Templeton Variable Insurance Products Trust

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

managers at Board meetings throughout the year, particular attention in assessing performance was given to the Lipper reports furnished for the agreement renewals of all Funds. The Lipper reports prepared for each of the individual Funds showed the investment performance of Class 1 shares for those having such class of shares and Class 2 shares for those Funds that did not have Class 1 shares, in comparison to a performance universe selected by Lipper. Comparative performance for each Fund was shown for the one-year period ended January 31, 2011, and previous periods ended that date of up to 10 years unless otherwise noted. Performance was shown on a total return basis for each Fund and in certain cases, as indicated, on an income return basis as well. The following summarizes the performance results for each of the Funds and the Board's view of such performance.

Franklin Flex Cap Growth Securities Fund – The performance universe for this Fund, which has been in operation for only five full years, consisted of the Fund and all multi-cap growth funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return for the one-year period to be in the second-lowest quintile of its performance universe, and on an annualized basis to be in the middle quintile of such universe for its previous three- and five-year periods. In discussing the one-year performance, management pointed out that it largely reflected portfolio stock selections within the health care, consumer discretionary, materials and financials sectors and discussed steps being taken to improve performance. The Board found the Fund's performance as set forth in the Lipper report to be acceptable and did not warrant any change in portfolio management, noting that the Fund's actual total return for the one-year period as shown in the Lipper report exceeded 23%.

Franklin Global Real Estate Securities Fund – The performance universe for this Fund consisted of the Fund and all real estate funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return to be in the second-lowest quintile of such universe for the one-year period, and on an annualized basis to also be in the lowest quintile of such universe for the previous three-, five- and 10-year periods. The Board noted that on May 1, 2007, the Fund had changed portfolio managers and also had adopted a global investment mandate and that management had taken steps to improve the Fund's performance, including the appointment of an additional portfolio manager in 2010. The Board intends to continue monitoring the Fund's results, but was satisfied with the efforts being made by management to improve performance.

Franklin Growth and Income Securities Fund – The performance universe for this Fund consisted of the Fund and all equity income funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return during the one-year period to be in the highest or best performing quintile of its performance universe, and on an annualized basis in each of the previous three-, five- and 10-year periods to also be in the highest quintile of such universe. The Lipper report showed the Fund's total return for the one-year period to also be in the highest quintile of its performance universe, and on an annualized basis for the previous three-year period to be in the second-highest quintile of such universe, and for each of the previous five- and 10-year periods to be in the middle quintile of such performance universe. The Board was satisfied with the Fund's performance as shown in the Lipper report.

Franklin High Income Securities Fund – The performance universe for this Fund consisted of the Fund and all high current yield funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return for the one-year period to be in the second-lowest quintile of such universe, and on an annualized basis to also be in the second-lowest quintile for the previous three- and five-year periods, but to be in the highest quintile of such universe for the previous 10-year period. The Lipper report showed the Fund's total return to be in the middle quintile of its performance universe for the one-year period, and, on an annualized basis to be in the second-highest quintile of such universe for the previous three-year period, and to be in the middle quintile of such universe for each of the previous five- and 10-year periods. In discussing the Fund's performance with the Board, management pointed out, among other things, the Fund's somewhat higher quality, lower risk bias, including its underweighted positioning at the start of 2010 in the financials industry, which was a top performer during the first quarter of 2010. The Board believed the Fund's performance was acceptable and did not warrant any change in portfolio management, noting the Fund's actual income and total returns for the one-year period as shown in the Lipper report were 7.36% and 15%, respectively, and that its income return for each of the one-year and annualized three- and five-year periods was in each case within 68 basis points or less of the performance universe median.

Franklin Templeton Variable Insurance Products Trust

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

Franklin Income Securities Fund – The performance universe for this Fund consisted of the Fund and all mixed-asset target allocation moderate funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return to be in the highest or best performing quintile of such universe for the one-year period and to also be in the highest quintile of such universe for each of the previous three-, five- and 10-year periods on an annualized basis. The Lipper report showed the Fund's total return to be in the second-highest quintile of its performance universe for the one-year period and on an annualized basis to be in the highest quintile of such universe for each of the previous three-, five- and 10-year periods. The Board was satisfied with the Fund's performance as shown in the Lipper report.

Franklin Large Cap Growth Securities Fund – The performance universe for this Fund consisted of the Fund and all large-cap core funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return to be in the second-lowest quintile of such universe for the one-year period, but on an annualized basis to be in the highest or best performing quintile of such universe for the previous three-year period, the second-highest quintile of such universe for the previous five-year period, and the second-lowest quintile of such universe for the previous 10-year period. In reviewing the Fund's one-year performance, management pointed out, among other things, that it reflected the Fund's overweighted position in the health care industry and discussed with the Board steps being taken to position the Fund to benefit from a continuing recovery of the U.S. economy. The Board believed the Fund's overall performance as set forth in the Lipper report to be acceptable, noting that its one-year return exceeded 18%.

Franklin Large Cap Value Securities Fund – The performance universe for this Fund, which has been in operation for only five full years, consisted of the Fund and all large-cap value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return to be in the upper half of such universe for the one-year period and to be in the second-highest quintile of such universe on an annualized basis for its previous three- and five-year periods. The Board was satisfied with the Fund's performance as set forth in the Lipper report.

Franklin Rising Dividends Securities Fund – The performance universe for this Fund consisted of the Fund and all multi-cap core funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return to be in the upper half of the performance universe for the one-year period, and on an annualized basis to be in the highest or second-highest quintile of such universe for each of the three-, five- and 10-year periods. The Board was satisfied with the Fund's performance as set forth in the Lipper report.

Franklin Small Cap Value Securities Fund – The performance universe for this Fund consisted of the Fund and all small-cap value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return for the one-year period to be in the highest or best performing quintile of such performance universe, and on an annualized basis to be in the middle quintile of such universe for each of the previous three- and 10-year periods, and the second-highest quintile for the previous five-year period. The Board found the Fund's performance as set forth in the Lipper report to be satisfactory.

Franklin Small-Mid Cap Growth Securities Fund – The performance universe for this Fund consisted of the Fund and all mid-cap growth funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return for the one-year period to be in the upper half of such universe, and on an annualized basis to be in the second-highest performing quintile of such universe for the previous three-year period, and to be in the middle quintile of such universe for each of the previous five- and 10-year periods. The Board found the Fund's investment performance as set forth in the Lipper report to be satisfactory.

Franklin Strategic Income Securities Fund – The performance universe for this Fund consisted of the Fund and all general bond funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return to be in the second-highest quintile of such performance universe for the one-year period, and on an annualized basis to also be in the second-highest quintiles of such universe during the previous three- and five-year periods, and in the lowest quintile of such universe for the previous 10-year period. The Lipper report showed the Fund's total return to be in the second-highest quintile of such universe during the one-year period, and on an annualized basis to be in either the highest or second-highest quintile of such universe for each of the previous three-, five- and 10-year periods. The Board was satisfied with the Fund's performance as shown in the Lipper report.

Franklin Templeton Variable Insurance Products Trust

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

Franklin Templeton VIP Founding Funds Allocation Fund – The performance universe for this Fund consisted of the Fund and all mixed-asset target allocation growth funds underlying variable insurance products as selected by Lipper. The Fund has been in existence for only three full years and the Lipper report showed its income return to be in the highest quintile of such performance universe for the one-year period, and to be in the second-highest quintile of such universe for each of the previous two years. The Lipper report showed the Fund's total return for the one-year period to be in the second-lowest quintile of such universe and to be in the highest quintile of such universe for the previous year and lowest quintile of such universe for the year before that. The Fund's performance, which reflects those of the three underlying funds in which it invests, was discussed with management and the Board believed that no change in investment strategy or portfolio management was warranted, noting the Fund's short period of operations, as well as the fact that the Fund's total return for the one-year period was nearly 16% as shown in the Lipper report.

Franklin U.S. Government Fund – The performance universe for this Fund consisted of the Fund and all general U.S. government funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return for the one-year period to be in the second-highest quintile of such universe and on an annualized basis to be in the highest or second-highest quintile of such universe for each of the previous three-, five- and 10-year periods. The Lipper report showed the Fund's total return to also be in the second-highest quintile of such universe for the one-year period, as well as for each of the previous three-, five- and 10-year periods on an annualized basis. The Board was satisfied with the Fund's performance as shown in the Lipper report.

Mutual Global Discovery Securities Fund – The performance universe for this Fund consisted of the Fund and all global core funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return to be in the lowest quintile of such universe for the one-year period, but on an annualized basis to be in the highest or best performing quintile of such universe for each of the previous three-, five- and 10-year periods. In discussing the Fund's performance during the one-year period, management explained that it reflected the Fund's relatively high cash position, which hurt performance in a rising market, as well as other factors such as the Fund's portfolio being underweighted in the materials and energy sectors. The Board found the Fund's overall performance as set forth in the Lipper report to be satisfactory, noting the Fund's total return for the one-year period exceeded 15%.

Mutual International Securities Fund – The performance universe for this Fund consisted of the Fund and all other international core funds underlying variable insurance products as selected by Lipper. The Fund has been in existence for one full year at the date of the Lipper report, which showed its total return during such year to be in the highest or best performing quintile of such universe. The Board was pleased with such performance, but did not believe it to be particularly meaningful in view of the Fund's short period of operations.

Mutual Shares Securities Fund – The performance universe for this Fund consisted of the Fund and all large-cap value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return for the one-year period to be in the highest or best performing quintile of such universe, and on an annualized basis to be in the second-highest quintile for each of the previous three-, five- and 10-year periods. The Lipper report showed the Fund's total return for the one-year period to be in the lowest quintile of the performance universe, but on an annualized basis to be in the upper half of such universe for the previous three-year period, the second-highest quintile of such universe for the previous five-year period, and the highest quintile of such universe for the previous 10-year period. In discussing the Fund's total return for the one-year period, management explained that it reflected the Fund's relatively high cash position, which hurt performance in a rising market, as well as other factors, such as the Fund's portfolio being underweighted in certain sectors such as industrials, energy, and high-multiple technology stocks. The Board was satisfied with the Fund's overall performance as shown in the Lipper report, noting that its total return for the one-year period exceeded 15%.

Templeton Developing Markets Securities Fund – The performance universe for this Fund consisted of the Fund and all emerging markets funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return for the one-year period to be in the second-lowest quintile of such performance universe and on an annualized basis to be in the highest quintile of such universe during the previous three-year period, and the second-lowest

Franklin Templeton Variable Insurance Products Trust

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

quintile of such universe during each of the previous five- and 10-year periods. The Board had discussed with management steps being taken to improve the Fund's investment portfolio process and noted that investment flexibility had been limited by significant net redemptions during the one-year period. The Board also noted that the Fund's total return as shown in the Lipper report for the one-year period exceeded 20% and was within 90 basis points of the performance universe median during such period. While intending to continuously monitor future performance, the Board believed the Fund's performance as set forth in the Lipper report did not warrant any change in portfolio management or overall investment approach.

Templeton Foreign Securities Fund – The performance universe for this Fund consisted of the Fund and all international core funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's comparative total return for the one-year period to be in the second-highest quintile of such performance universe and on an annualized basis to be in the highest or best performing quintile of such universe in each of the previous three- and five-year periods, and the second-highest quintile of such universe for the previous 10-year period. The Board was satisfied with the Fund's investment performance as set forth in the Lipper report.

Templeton Global Bond Securities Fund – The performance universe for this Fund consisted of the Fund and all global income funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's income return for the one-year period to be in the second-lowest quintile of such performance universe, but on an annualized basis to be in the highest or best performing quintile of such universe for each of the previous three-, five- and 10-year periods. The Lipper report showed the Fund's total return for the one-year period to be in the highest or best performing quintile of its performance universe and on an annualized basis to also be in the highest quintile of such universe during each of the previous three-, five- and 10-year periods. Management discussed the Fund's income return for the one-year period, pointing out that underperformance was primarily due to mark to market losses on currency forwards held in the Fund's portfolio during the prior year that offset regular income such as bond coupons. The Board was satisfied with the Fund's performance as set forth in the Lipper report, noting such explanation of one-year income return performance.

Templeton Growth Securities Fund – The performance universe for this Fund consisted of the Fund and all global value funds underlying variable insurance products as selected by Lipper. The Lipper report showed the Fund's total return for the one-year period to be in the middle quintile of such performance universe and on an annualized basis to be in the middle quintiles of such universe for each of the previous three- and five-year periods, and to be in the second-highest quintile of such universe for the previous 10-year period. The Board noted steps taken by management to improve performance, including changes in the Fund's portfolio managers that had taken place in recent years and found the Fund's performance as shown in the Lipper report to be acceptable.

COMPARATIVE EXPENSES. Consideration was given to expense comparison information contained in the Lipper reports furnished for each Fund that compared its management fees and total expense ratio with those of a group of other funds selected by Lipper as its appropriate Lipper expense group. Lipper expense data is based upon information taken from each fund's most recent annual report, which reflects historical asset levels that may be quite different from those currently existing, particularly in a period of market volatility. While recognizing such inherent limitation and the fact that expense ratios generally increase as assets decline and decrease as assets grow, the Board believed the independent analysis conducted by Lipper to be an appropriate measure of comparative expenses. In reviewing comparative costs, Lipper provides information on each Fund's contractual investment management fee rate in comparison with the contractual investment management fee rate that would have been charged by other funds within its Lipper expense group assuming they were similar in size to the Fund, as well as the actual total expense ratio of the Fund in comparison with those of its Lipper expense group. The Lipper contractual investment management fee analysis includes administrative charges at the fund level as being part of a management fee, and actual total expenses, for comparative consistency, are shown by Lipper for the same class of shares for all funds within a particular Lipper expense group. The results of such comparisons showed that both the contractual investment management fee rates and actual total expense ratios of the following Funds were in the least expensive quintile of their respective Lipper expense group: Franklin Income Securities Fund, Franklin Small Cap Value Securities Fund, Franklin Growth and Income Securities Fund, Franklin High Income Securities Fund, Franklin Strategic Income Securities Fund, Templeton Global Bond Securities Fund and Franklin U.S. Government Fund. The Board was satisfied with the comparative contractual investment management fees and expenses of these

Franklin Templeton Variable Insurance Products Trust

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

Funds as shown in their Lipper reports. The contractual investment management fee rates and actual total expense ratio of each of Franklin Rising Dividends Securities Fund, Franklin Small-Mid Cap Growth Securities Fund and Franklin Templeton VIP Founding Funds Allocation Fund were below the medians of their Lipper expense groups. The contractual investment management fee rate of Templeton Foreign Securities Fund was at the median of its Lipper expense group, but its actual total expense ratio was below the median of such group. The Board was satisfied with the comparative contractual investment management fees and expenses of these Funds as shown in their Lipper reports. The contractual investment management fee rates for Mutual International Securities Fund, Templeton Growth Securities Fund, Franklin Global Real Estate Securities Fund and Franklin Large Cap Value Securities Fund were in the most expensive quintiles of their Lipper expense groups, but in each case their actual total expense ratios were at or below the medians of such groups. The Board was satisfied with the comparative expenses of these Funds as shown in their Lipper reports, noting that, with the exception of Templeton Growth Securities Fund, the expenses of these Funds were subsidized through fee waivers. The contractual investment management fee rate and actual total expense ratio of Franklin Flex Cap Growth Securities Fund were both within 20 basis points above the median of its Lipper expense group, while its actual total expense ratio, excluding 12b-1 fees, was below the median of such expenses for the expense group. The Board found the comparative expenses of this Fund as shown in its Lipper report to be acceptable, noting its expenses were subsidized through fee waivers. The contractual investment management fee rate and actual expense ratio for Franklin Large Cap Growth Securities Fund were in each case above, but within 10 basis points of the medians of its Lipper expense group. The Board found the comparative expenses of this Fund as shown in its Lipper reports to be acceptable. The contractual investment management fee rate and actual total expense ratio of Templeton Developing Markets Securities Fund were each in the most expensive quintile of its Lipper expense group. While acknowledging cost factors relating to the Fund's operations, such as the quality and experience of its portfolio managers and research staff and the depth of its physical presence and coverage in developing markets geographical areas, the Board believed it appropriate to reduce the Fund's investment management fee and negotiated with the Manager downward revisions in such fee as discussed under "Economies of Scale." The contractual investment management fee rates and total expense ratios of both Mutual Global Discovery Securities Fund and Mutual Shares Securities Fund were in the most expensive quintiles of their Lipper expense groups, but the actual total expense ratio of Mutual Global Discovery Securities Fund was within 11 basis points of its expense group median, and the actual total expense ratio of Mutual Shares Securities Fund was within nine basis points of its expense group median. In discussing these comparative expenses, management stated its view that the expenses of these Funds were at an appropriate level in view of their superior investment performance, the quality and experience of their portfolio managers and the research-driven, fundamental value strategy employed in their portfolio selections. The Board found the comparative expenses of these Funds to be acceptable noting the points raised by management.

MANAGEMENT PROFITABILITY. The Board also considered the level of profits realized by the Manager and its affiliates in connection with the operation of each Fund. In this respect, the Board reviewed the Fund profitability analysis that addresses the overall profitability of Franklin Templeton's U.S. fund business, as well as its profits in providing management and other services to each of the individual funds during the 12-month period ended September 30, 2010, being the most recent fiscal year-end for Franklin Resources, Inc., the Manager's parent. In reviewing the analysis, specific attention was given to the methodology followed in allocating costs to each Fund, it being recognized that allocation methodologies are inherently subjective and various allocation methodologies may each be reasonable while producing different results. In this respect, the Board noted that, while being continuously refined and reflecting changes in the Manager's own cost accounting, the allocation methodology was consistent with that followed in profitability report presentations for the Funds made in prior years and that the Funds' independent registered public accounting firm had been engaged by the Manager to review the reasonableness of the allocation methodologies solely for use by the Funds' Board in reference to the profitability analysis. In reviewing and discussing such analysis, management discussed with the Board its belief that costs incurred in establishing the infrastructure necessary for the type of mutual fund operations conducted by the Manager and its affiliates may not be fully reflected in the expenses allocated to each Fund in determining its profitability, as well as the fact that the level of profits, to a certain extent, reflected operational cost savings and efficiencies initiated by management. The Board also took into account management's expenditures in improving shareholder services provided the Funds, as well as the need to meet additional regulatory and compliance requirements resulting from the Sarbanes-Oxley Act and recent SEC and other regulatory requirements. In addition, the Board considered a third-party study comparing the profitability of the Manager's parent on an overall basis to other publicly held managers broken

Franklin Templeton Variable Insurance Products Trust

Shareholder Information *(continued)*

Board Review of Investment Management Agreement *(continued)*

down to show profitability from management operations exclusive of distribution expenses, as well as profitability including distribution expenses. The Board also considered the extent to which the Manager and its affiliates might derive ancillary benefits from Fund operations, including potential benefits resulting from allocation of fund brokerage and the use of commission dollars to pay for research. Based upon its consideration of all these factors, the Board determined that the level of profits realized by the Manager and its affiliates from providing services to each Fund was not excessive in view of the nature, quality and extent of services provided.

ECONOMIES OF SCALE. The Board also considered whether economies of scale are realized by the Manager as the Funds grow larger and the extent to which this is reflected in the level of management fees charged. While recognizing that any precise determination is inherently subjective, the Board noted that based upon the Fund profitability analysis, it appears that as some funds get larger, at some point economies of scale do result in the Manager realizing a larger profit margin on management services provided such a fund. The Board also noted that economies of scale are shared with a fund and its shareholders through management fee breakpoints so that as a fund grows in size, its effective management fee rate declines. In the case of Franklin Templeton VIP Founding Funds Allocation Fund, the management fees of the underlying funds in which it invests have management fee breakpoints that extend beyond their existing asset sizes, and in the case of each of the other Funds, their management fees contain breakpoints that extend beyond their existing asset sizes. To the extent economies of scale may be realized by the Manager and its affiliates, the Board believed the schedule of investment management fees provides a sharing of benefits for each Fund and its shareholders. The current management advisory fee schedule for Templeton Developing Markets Securities Fund, reflecting reductions implemented effective May 1, 2010, provides a rate of 1.25% on the first \$500 million of Fund net assets; 1.20% on the next \$2.5 billion of Fund net assets; 1.15% on the next \$1 billion of Fund net assets; 1.10% on the next \$11 billion of Fund net assets; 1.05% on the next \$5 billion of Fund net assets; and 1.00% on net assets in excess of \$20 billion. The Board negotiated with management downward revisions in such fee effective May 1, 2011, so as to be at a rate of 1.10% on the first \$1 billion of Fund net assets; 1.05% on the next \$4 billion of Fund net assets; 1.00% on the next \$5 billion of Fund net assets; 0.95% on the next \$5 billion of Fund net assets; 0.90% on the next \$5 billion of Fund net assets; and 0.85% on Fund net assets in excess of \$20 billion. The Fund is also charged a separate fee for administrative services that starts at 0.15% on the first \$200 million of Fund net assets, and declines through breakpoints to a fixed rate of 0.075% after net assets reach the \$1.2 billion level. At the end of 2010, the Fund's net assets were approximately \$843 million, and to the extent economies of scale may be realized by the Manager and its affiliates, the Board believes the schedules of management advisory and administrative fees provide a sharing of benefits with this Fund and its shareholders.

Proxy Voting Policies and Procedures

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

Quarterly Statement of Investments

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

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VALUE BLEND GROWTH SECTOR GLOBAL INTERNATIONAL HYBRID ASSET ALLOCATION FIXED INCOME



FRANKLIN TEMPLETON
INVESTMENTS

< GAIN FROM OUR PERSPECTIVE® >

Semiannual Report

**FRANKLIN TEMPLETON
VARIABLE INSURANCE PRODUCTS TRUST**

Investment Managers

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

Fund Administrator

Franklin Templeton Services, LLC

Distributor

Franklin Templeton Distributors, Inc.

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

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

To ensure the highest quality of service, telephone calls to or from our service departments may be monitored, recorded and accessed. These calls can be identified by the presence of a regular beeping tone.