

MasterDex 10[®] Annuity

Statement of Understanding

Thank you for considering the MasterDex 10 Annuity from Allianz. We want to be sure that you are aware of the benefits, features, costs, and risks associated with the purchase of your contract.

Please read the following summary. If you need additional clarification on any of the items listed below, please refer to the MasterDex 10 Annuity contract.

Once you have read this summary, please sign the last page to confirm you understand the contract you are considering.

How does the MasterDex 10 Annuity work?

The MasterDex 10 Annuity is a fixed index insurance product. That means indexed interest is credited to your annuity's value based on one or more nationally recognized indexes that track the ups and downs of the stock market.

You can choose between the S&P 500 and Nasdaq-100[®] index options, or you can designate your premium to earn fixed interest. You can allocate all of your money to any of these three alternatives, or allocate your money (in 25% increments) to any combination of these three options.

Does the MasterDex 10 Annuity have a premium increase?

Yes, the MasterDex 10 Annuity offers a premium increase. This means that each time you make a premium payment during the first five contract years, we will add a premium increase to your annuitization value. This increase will equal 10% of each premium payment. Keep in mind that increase annuities may have a higher contract penalty upon surrender than you would get from similar annuities without the increase feature.

How do I choose – and change – the way my annuity's value is allocated?

Shortly after each contract anniversary you will receive an annual report. It will include a form that allows you to change your current allocations. If that is your intention, you must complete the allocation change form and return it to the Home Office within 21 days of your contract's anniversary. This will lock in your request and determine how your contract values are allocated over that contract year. If the form is not received within 21 days of your contract's anniversary, your changes will not take effect until the next contract anniversary.

Assuming I choose fixed interest, how is the fixed interest calculated and credited to my contract?

If you don't want 100% of your contract value to be based on changes in an index, the MasterDex 10 Annuity allows you to allocate, or designate, some of your annuity's value to a fixed interest option. This fixed interest option credits your contract with predictable interest based on established rates that are independent of the markets. Your initial interest rate is

guaranteed for the first contract year and will be no less than 2% in all contract years. Your interest is calculated and credited daily.

Assuming I allocate my money to one index or both, how is my indexed interest calculated and credited to my contract?

We capture the current value of the market index on the date you purchased your contract, as well as on each contract's "monthiversary." So if your contract is dated the seventh of the month, for example, your monthiversary will be the seventh day of every succeeding month throughout the life of the contract.

Monthly returns are calculated in two steps. First, the change from the previous month's index value to the current month's index value is divided by the previous month's index value. This amount is then multiplied by the participation rate.

The calculation looks like this:

$$\frac{(\text{current month's index value} - \text{previous month's index value})}{\text{previous month's index value}} \times \text{participation rate} = \text{monthly return}$$

Monthly returns may be positive or negative. In any given month, a positive monthly return may exceed your annuity's stated monthly cap, or maximum. In that case, the capped return will be used in the indexed interest calculation. The monthly cap is established on every contract anniversary, and is guaranteed for the next contract year.

At the end of each contract year, the capped monthly returns are added together to calculate your indexed interest for that year. If this sum is negative, the indexed interest for that year will be zero.

Although there is a monthly cap on positive monthly returns, there is no established limit on negative monthly returns.

This means that a large decrease in one month could negate several monthly increases. Actual annual indexed interest may be lower (or zero) if the market index declines from one monthiversary to the next, even if the market index experienced an overall gain for the year.

Although an external index may affect your contract values, the contract does not directly participate in any stock or investments. You are not buying any shares of stock or shares of an index. The market index value does not include the dividends paid on the stocks underlying the market index. These dividends are also not reflected in the interest credited to your contract.

Can the monthly cap be changed?

Yes. Each contract year we have the option to change the monthly cap – either up or down – for the following year and the monthly cap is guaranteed not to change for that contract year. You will be informed of any changes in the monthly cap on your contract’s annual report. We guarantee that your monthly cap will never be lower than 1%.

What is a participation rate?

The participation rate decides how much of the increases in your selected market index(es) will be used to calculate indexed interest. The participation rate on the MasterDex 10[®] Annuity is 100%, and is guaranteed for the life of the contract. Keep in mind the amount of any monthly gains allowed by your contract’s participation rate will still be subject to a monthly cap.

Can you show me how all of this works?

This chart shows monthly positive and negative changes in a hypothetical index, how they are affected by the monthly cap, and how they add up to the annual indexed interest.

Month	1	2	3	4	5	6	7	8	9	10	11	12
Index growth (%)	5.0	-5.0	2.0	-1.0	2.0	2.0	4.0	2.0	0.0	-2.0	5.0	0.0
Monthly cap (%)	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6	2.6
Monthly index rate (%)	+2.6	-5.0	+2.0	-1.0	+2.0	+2.0	+2.6	+2.0	+0.0	-2.0	+2.6	+0.0

At the end of the contract year, the 12 individual monthly index rates are added up to determine that year’s annual indexed interest:
 $+2.6 + (-5.0) + 2.0 + (-1.0) + 2.0 + 2.0 + 2.6 + 2.0 + 0.0 + (-2.0) + 2.6 + 0.0 = 7.8\%$

Please note that if the monthly cap is 1%, your indexed interest would be 0% under the assumptions outlined in the chart above.

Can my annuity’s value go down due to losses in the index(es) I choose?

No. If the index(es) suffer a loss in any given year, your principal (the money you put into the annuity) and premium increase are protected. Any interest credited (either as the result of increases in your selected market index(es), or as the result of earning interest in the fixed interest allocation) that has been locked in previously is also safe from index losses. However, your annuity’s value will be affected by when – and how – you decide to take money out of the contract.

Besides this, what other factors impact the value of my annuity contract?

The first thing you should know is that, throughout the life of your annuity contract, your MasterDex 10 Annuity will actually have **three separate values**. Which one you receive will depend on when – and how – you take money out of the annuity. Those values are the contract’s:

- Annuitization value
- Cash surrender value
- Guaranteed minimum value

Annuitization value. The annuitization value equals the premium you pay into the contract, plus a 10% premium increase and any annual indexed increases (which we call indexed interest) and/or fixed interest earned. This will usually be your contract’s highest value. Withdrawals will decrease your contract’s annuitization value.

Cash surrender value. The cash surrender value is equal to 87.5% of premium paid (minus any withdrawals) accumulated at 1.5% interest compounded annually. The cash surrender value does not receive premium increases or indexed interest. **The cash surrender value will never be less than the guaranteed minimum value (which we define below).**

Guaranteed minimum value. The guaranteed minimum value will generally be your lowest contract value. The guaranteed minimum value equals 87.5% of premium submitted, minus any withdrawals. The guaranteed minimum value grows at an annual interest rate that will be no less than 1% and no greater than 3%.

How do I avoid contract penalties and get my contract’s full annuitization value?

To receive your contract’s annuitization value, let your money accumulate for a minimum of five contract years, then take (A) 10 years of interest-only payments or (B) equal payments of both principal and interest over a 10-year period (or longer). **This is what is meant by “annuitization.” Once you begin taking your annuitization value as annuity payments, it will no longer receive interest based on any potential index growth.** The various annuitization options available on the MasterDex 10 Annuity are described directly below.

Please note, regardless of which value you receive from your MasterDex 10 Annuity, there may still be tax consequences when money is withdrawn from your annuity. See “Are there any tax consequences if I withdraw money?” later in this document.

What are my options for receiving annuity payments?

After you keep your contract in deferral for at least five contract years, you can choose to receive annuity payments in any of the following ways:

- **Interest only** – You have the option to receive interest-only annuity payments for 10 years. Interest will be paid as earned based on your then-current annuitization value. After 10 years of taking interest-only payments, you may then take your annuitization value as a lump-sum payment.
- **Installments for a guaranteed period** – You can choose to receive annuity payments in equal installments for a period from 10 to 30 years. Each installment would consist of part principal and part interest.
- **Installments for life** – You have the option to receive annuity payments in equal installments for the rest of your life. Payments end upon your death.
- **Installments for life with a guaranteed period** – You can choose to receive annuity payments in equal installments for the rest of your life. Upon your death, the balance of the guaranteed period, if any, will be paid the same way as previously selected for your beneficiary.

- **Installments for a selected amount** – You may select to receive annuity payments in equal installments of an amount that you choose, as long as the payments last for at least 10 years. Payments continue until your annuitization value and interest are gone.
- **Joint and survivor** – You can select to have equal installments paid until your death with additional payments to your named survivor. In this case, payments to your named survivor would continue until his or her death as 100%, 2/3, or 1/2 of your original installments, based on your selection.

Can I take money out of my annuity without incurring a penalty while the contract is in deferral?

It's quite possible you will want money from your annuity contract somewhere down the road. But you may not need it all. We have a variety of ways you can get money out of your annuity without contract penalties, including:

- Free withdrawals
- Systematic Withdrawal of Credits
- Contract loans
- Required minimum distributions
- Our Nursing Home Benefit
- Our Systematic Withdrawal Benefit

How can I take a free withdrawal from my contract?

Our free withdrawal option lets you access a portion of your contract's value without incurring a contract penalty. Under this option, as long as 12 months have passed since your last premium contribution, you can withdraw up to 10% of your premium each year—until you have withdrawn a maximum of 50% of the premium you've paid into the contract.

Free withdrawals will avoid contract penalties provided that:

- No more than one withdrawal is taken within a 12-month period.
- You don't add any additional premium to the contract within 12 months after taking a free withdrawal.
- You don't request a full (or partial) surrender or begin to receive annuity payments within 12 months after taking a free withdrawal.

A free withdrawal is eligible to receive partial indexed interest at the end of the contract year. Partial indexed interest is based on the annual indexed interest and the amount of time during that year before the free withdrawal was taken.

If, within 12 months of a free withdrawal, the contract is surrendered or annuitized, another withdrawal is taken, or additional premium is added, we will retroactively apply contract penalties to that free withdrawal. Withdrawals will decrease the annuitization value, cash surrender value, and guaranteed minimum value of the contract and its death benefit.

What is Systematic Withdrawal of Credits?

Systematic Withdrawal of Credits allows you to keep your contract in deferral and receive payments of indexed interest. You can select to receive payments after your fifth contract year. Payments will be based on indexed interest applied to your

contract after the request is received. You may take this Systematic Withdrawal of Credits without contract penalties, and your contract continues to benefit from potential indexed interest. To qualify for this option, your contract must be held at least five contract years and still be in deferral. Taking Systematic Withdrawal of Credits will lower the annuitization value and value of death benefits.

What if I need to take a contract loan?

Loans are available on nonqualified annuities and some tax-qualified annuities (TSAs). You can borrow up to 50% of your contract's cash surrender value (up to a \$50,000 maximum). Like any loan, contract loans are subject to an annual interest charge, but they are contract-penalty-free as long as they are repaid with interest. Please note: Loans on nonqualified annuities may be taxable as ordinary income at distribution.

I understand I may have to take required minimum distributions someday. Does my annuity allow these?

Based on your age (usually 70½ or older) and the tax designation of your contract (IRA, SEP, etc.) you may have to take required minimum distribution payments. If they are taken annually in December or monthly throughout the year, required minimum distributions (RMDs) are contract-penalty-free, although they will reduce the amount available for free withdrawals. You may not exceed the annual RMD amount specified by the IRS, which will be based on your age and the value of your contract. Allianz will only send a required minimum distribution for the contracts you have with us.

How can your Nursing Home Benefit help me access my money without contract penalties?

After the first contract anniversary, if you are the contract owner and become confined to a nursing home for 30 out of 35 consecutive days, your full annuitization value can be paid to you in annuitization payments over as little as five years.

What is the Systematic Withdrawal Benefit?

Beginning on your sixth contract anniversary, you can take a portion of your annuitization value each year, while the balance continues to earn indexed interest (or fixed interest).

Based on how long the contract has been in deferral, these systematic withdrawals can range from 5% of your annuitization value (taken over 20 years) to 10% of your annuitization value (taken over 10 years). While you are receiving your payments, your contract's indexed interest (or fixed interest) is distributed as it is earned. This means your contract's complete annuitization value will be liquidated to zero over the life of your scheduled payments.

You can stop your Systematic Withdrawal Benefit payments at any time. If you wish, you can then resume Systematic Withdrawal Benefit payments once two years have passed since your last payment. The allowed percentage will then be based on the contract year and annuitization value at that point.

Are there any other ways to make free withdrawals?

We've just outlined six ways you can receive a portion of your annuitization value without a contract penalty. **If you take a partial surrender any other way**, the amount of your partial surrender will be deducted from your contract's cash surrender value. A proportionately larger deduction, equal to the amount of the partial surrender multiplied by the ratio of annuitization value divided by cash surrender value, will also be made from your contract's annuitization value. As a result, **you will lose a portion of the indexed interest and/or fixed interest your contract has earned, and you may lose some of your initial principal and premium increase.**

What happens if I cancel my contract?

That depends on when you cancel it. This contract is designed for people who are willing to allow their assets to build for at least five years, and then take annuitization payments over 10 years (or longer). As we've discussed, if you fully (or partially) surrender your contract at any point, you will receive its cash surrender value rather than its annuitization value. This could result in the loss of some or all of your premium increase, indexed interest, fixed interest, and a partial loss of principal. For information about possible tax consequences see "Are there any tax consequences if I withdraw money?"

Are there any tax consequences if I withdraw money?

Regardless of whether the distribution is contract-penalty-free or subject to a contract penalty, when you take money out of your annuity it may be taxed as ordinary income. In addition, any distribution you receive from an annuity prior to age 59½ may be subject to a 10% IRS penalty. These taxes and IRS penalties may result in a partial loss of principal. They may also reduce any indexed or fixed interest earned previously. Allianz does not provide legal counsel or tax advice, so please consult a tax or legal advisor.

Can I add money to my MasterDex 10® Annuity down the road?

Yes. Additional money (or premium) may be added to your annuity at any time within the first five contract years. The additional premium you pay during a contract year will automatically be credited with a 10% premium increase and then placed in an interim interest account where it will earn fixed interest – guaranteed to be at least 2% – until your next contract anniversary. It will then be distributed according to your premium allocation choices.

How will I know how my contract is doing?

You will receive an annual report following each contract anniversary. This report will show your contract's current annuitization value (including any premium increase, indexed interest and/or fixed interest earnings applied to it), along with its cash surrender value, premium payments, and withdrawals.

What happens if I die while my MasterDex 10 Annuity is still in deferral?

Your beneficiary(ies) may choose to receive annuity payments over the course of five years (or longer). If so, these payments will be based on your contract's annuitization value.

They may, on the other hand, want a lump-sum payment. If they choose this option, they will receive the contract's cash surrender value or the amount of premium paid minus withdrawals, whichever is greater.

Are there any other important points I should know about annuities like the MasterDex 10 Annuity?

If you are purchasing our MasterDex 10 Annuity to replace an annuity you currently own, compare the two products carefully. The benefits and guarantees offered by the two products may be different. Keep in mind that you may incur a surrender charge when you cancel your existing annuity to purchase your MasterDex 10 Annuity.

Purchasing the MasterDex 10 Annuity within an IRA or other qualified retirement plan that already provides tax deferral under the Internal Revenue Code results in no additional tax benefit to you. If you are considering the purchase of a MasterDex 10 Annuity in a qualified retirement plan, you should therefore base your decision on its other benefits and features as well as its risks and costs.

Can I see all the various values and factors that impact the value of my MasterDex 10® Annuity?

The following chart shows hypothetical values for a MasterDex 10 Annuity that was purchased with an initial premium of \$100,000 with 100% allocated to an index option and an assumed monthly cap of 2.6%. You can track the \$100,000 initial premium and 10% premium increase as it is impacted by hypothetical changes in the monthly index.

Assuming a 1% cap, which is the minimum that we guarantee, your annuitization value at the end of contract year 10 will be significantly lower than the annuitization value shown below.

End of contract year	Sum of monthly index rates	Annual index rate (cannot be negative)	Annual index adjustment (cannot be negative)	Annuitization value	Cash surrender value	Guaranteed minimum value
Issue				\$110,000	\$87,500	\$87,500
1	-8%	0%	-	=> \$110,000	\$88,813	\$88,375
2	16%	16%	+ \$17,600	=> \$127,600	\$90,145	\$89,259
3	12%	12%	+ \$15,312	=> \$142,912	\$91,497	\$90,151
4	4%	4%	+ \$5,716	=> \$148,628	\$92,869	\$91,053
5	-12%	0%	-	=> \$148,628	\$94,262	\$91,963
6	11%	11%	+ \$16,349	=> \$164,978	\$95,676	\$92,883
7	12%	12%	+ \$19,797	=> \$184,775	\$97,111	\$93,812
8	4%	4%	+ \$7,391	=> \$192,166	\$98,568	\$94,750
9	-10%	0%	-	=> \$192,166	\$100,047	\$95,697
10	13%	13%	+ \$24,982	=> \$217,147	\$101,547	\$96,654

I have read the information above. It has been explained to me by the agent. I have also received and read the MasterDex 10 Annuity consumer brochure. I understand that any values shown, other than guaranteed minimum values, are not guarantees, promises, or warranties. I understand that I may return my contract within the free look period (shown on the first page of my contract) if I am dissatisfied for any reason.

Owner _____ Date _____

I have presented and provided a signed copy of this disclosure to the owner. I have not made statements that differ from the disclosure form and no promises or assurances have been made about the future values of the contract.

Agent _____ Date _____

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