

**STATE OF VERMONT
DEPARTMENT OF BANKING, INSURANCE, SECURITIES
AND HEALTH CARE ADMINISTRATION**

IN RE: ALLIANZ LIFE INSURANCE)
COMPANY OF NORTH AMERICA) DOCKET NO. 09-066-I
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EXHIBIT 1

DEFINITIONS

1. “Annuity” shall mean any fixed interest or fixed index deferred annuity issued by Allianz Life Insurance Company of North America (the “Company”) with a deferral period of one (1) year or more. Annuity shall exclude any annuity sold through a broker-dealer who has contractually agreed that it (i) has established and maintains a system to supervise recommendations reasonably designed to meet the requirements of applicable laws and regulations; and (ii) will cooperate with any periodic review by the Company of its suitability system.
2. “Policyholder” shall mean the current or former owner of an Annuity who was a Vermont resident or domiciled in Vermont at the time the annuity was purchased. “Policyholder” includes the heirs and successors of the Annuity owner.
3. “Applicant” shall mean any Vermont resident who applies to purchase an Annuity.
4. The Company shall during the two-year period beginning on the date of execution of the Settlement Agreement and Consent Order (the “Relevant Period”) continue to utilize its existing Suitability Program (as may be modified from time to time as provided in paragraph 7), prior to issuing any Annuity. Under this program, it will review the suitability of a sale

by collecting the Applicant's suitability information on its Product Suitability Form and processing the Product Suitability Form through its automated system. (The current Product Suitability Form and Financial Inventory are attached at Tabs A and B.) The automated system will identify those applications for Elevated Review by its Suitability Team.

5. Under the Company's Suitability Program (as may be modified from time to time as provided in paragraph 7) the Company shall during the Relevant Period:
 - a. Obtain from producers and retain the Product Suitability Form for each application.
 - b. Require its producers to complete the Financial Inventory, or compile the same financial information in a substantially similar written manner and direct them to maintain this information in their files for at least five years following the application.
 - c. Process the information from the Product Suitability Form through its automated system to determine which applications shall be subject to Elevated Review.
 - d. For those applications subject to Elevated Review, conduct a review of the suitability information through trained company representatives who shall make a determination that there is sufficient information to reasonably conclude the sale is suitable before the Annuity is issued and document the basis for such determination.
 - e. Maintain the foregoing documentation for Annuities issued during the Relevant Period for at least five years following the termination of the Annuity, and maintain documentation sufficient to enable it to identify the representative who conducted the Elevated Review and the date of the Elevated Review in the event there is a question of suitability as a result of a regulatory exam.
6. Under the Company's Suitability Program (as may be modified from time to time as provided in paragraph 7) the Company's automated system shall during the Relevant Period

continue to include as threshold tests for Elevated Review those Annuities where the Applicants is 65 years or older on the date of application, and:

- a. has liquid assets, after purchase of the Annuity, of less than or equal to \$79,600; or
- b. answers yes to either question 6 or 10 of the current version of the Product Suitability Form or similar questions in future versions of such form; or
- c. the Annuity is more than 25% of net worth; or
- d. the Applicant's annual household income is less than or equal to \$21,500; or
- e. the premium paid for the Annuity is greater than four (4) times the annual income of the Applicant.

In the event of any inquiry into the suitability of an Annuity, the Company agrees that while none of the thresholds set forth in this paragraph 5 may be triggered with respect to the particular Applicant, there may be other facts that reflect the Annuity was not suitable.

7. The Company will during the Relevant Period continue to review the effectiveness and implementation of its Suitability Program and take other actions as it deems appropriate to conform its program to Vermont law, comply with other state law, or otherwise enhance its suitability program. If the Company determines that it is necessary to make material substantive modifications to its Suitability Program during the Relevant Period and that the modifications meet the requirements of Vermont law it may do so upon 30 days prior written notice to the Department.
8. During the Relevant Period, the Company will annually report to the Department regarding its ongoing implementation of its Suitability Program in Vermont, including (1) the total number of Vermont Annuity applications received during the previous twelve months; (2) the

number of Annuity applications triggered for Elevated Review during that period; and (3) the number of Annuity applications declined during that period.

9. During the Relevant Period, the Company will continue to provide or make available to producers education regarding the Company's annuity products and its suitability and other regulatory and internal compliance requirements.

TAB A



Product Suitability Form

Thank you for your interest in an Allianz annuity. Before we can process your application and issue your policy, we need to confirm that the annuity purchase suits your current financial situation and long-term goals. **Please complete this form in its entirety and submit with your application.**

Owner's name ¹	Age	Product name
Joint owner's name	Age	Premium amount
Annuity type <input type="checkbox"/> Qualified <input type="checkbox"/> Nonqualified		Are you actively employed? <input type="checkbox"/> Yes <input type="checkbox"/> No

Your privacy is a high priority to us. The information you provide is only used to confirm the suitability of your purchase. It will not be shared and is treated with the highest degree of confidentiality.

FINANCIAL STATUS

- Approximate gross monthly household income²** \$ _____/Month
 - Examples: salary, Social Security, pension/retirement benefits, investment and rental income
 - Exclude income currently earned on the money that will be used to purchase this annuity
- Approximate monthly household living expenses** \$ _____/Month
 - Examples: housing, transportation, insurance, food, healthcare and taxes (include property, income, and FICA taxes)
- Disposable income (line 1 minus line 2)** \$ _____/Month
- Does your monthly income exceed your monthly expenses?** Yes No
- Minimum number of years you must own this annuity to receive the maximum value** _____ Years
- Do you anticipate a significant increase in living expenses or decrease in household monthly income during the time period indicated in question 5?** Yes No
 - If yes, please explain (if possible, approximate when you expect changes in living expenses or income, and the amount)
 - Examples of increases in living expenses might be housing, medical, nursing home, assisted living, or travel expenses
 - Examples of decreases in household income might be retirement or a lower pension amount

7. **Federal income tax bracket** 0% 10% 15% 25% 28% 33% 35%

8. **Approximate household net worth** \$ _____

- Net worth = total assets less total debt
- Exclude primary residence, mortgage, and personal belongings

9. **Approximate household liquid assets** \$ _____

- Examples: checking, savings or money market accounts, short-term CDs, bonds, annuities without surrender charges, etc.
- Exclude assets used to fund this annuity, free withdrawals from this annuity, and personal belongings

10. **Do you anticipate any significant reduction in your liquid assets during the time period indicated in question 5?** Yes No

11. **Total value of all annuities you own** (include the purchase of this annuity) \$ _____

12. **Do you currently reside in a nursing home or assisted living facility?** Yes No

¹For trust and corporate owned contracts, see agent guide for instructions on completion of form

²Household means the owner and spouse/partner, if a member of the owner's household

Product Suitability Form

FINANCIAL OBJECTIVES

13. Financial objectives in purchasing this product (check all that apply)

- Income now Guarantees provided Growth potential Growth followed by income
 Tax-deferred growth Pass on to beneficiaries Other _____

14. Other financial products you own or have previously owned (check all that apply)

- None Certificates of deposit Fixed annuities Variable annuities Stocks/bonds/mutual funds

15. Source of this annuity's premium (check all that apply)

- Annuity Life insurance Certificates of deposit Other _____
 Reverse mortgage/home equity loan Savings/checking Stocks/bonds/mutual funds

16. Is this a replacement of an annuity or life contract? Yes No

If yes, what type? Fixed Fixed index Variable

If yes, is there a surrender charge? Yes No

If there is a charge, what is it on each contract being replaced? ___% ___% ___% ___%

ACCESSING YOUR MONEY

17. How do you anticipate taking distributions from this annuity? (check all that apply)

- Free/systematic withdrawals or income rider Annuitize Required minimum distribution Enhanced withdrawal benefit
 Lump sum Loans Leave to beneficiary Immediate income

18. When do you anticipate taking your first distribution from this annuity? (choose one)

- Less than one year Between one and five years Between six and nine years
 10 or more years None anticipated

19. I understand how my beneficiaries can receive the maximum contract value Yes No

NOTE: Please verify that all 19 questions were answered.

This form must be completed, signed, and dated so we can consider your application.

Owner acknowledgment

To the best of my knowledge and belief, the information above is true and complete. I understand that I should consult my tax advisor regarding possible tax implications of the purchase of an annuity or the exchange of an existing annuity or life insurance contract.

Owner's signature	Date
Joint owner's signature	Date

Agent acknowledgment

I believe this annuity is suitable for the financial needs and objectives of the owner(s). I base this belief on the information the owner(s) provided and on everything I know at this time.

Agent's signature	Agent number	Date
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TAB B

will have 60 days to submit the Review Request Form to the Company and that those who do not respond by the deadline will not be eligible to have their suitability information reviewed. No later than 30 days after the Effective Date, the Company will submit to BISHCA a form of the Policyholder Letter for approval by BISHCA. BISHCA shall approve the Policyholder Letter or work with the Company in making appropriate changes.

"Policyholder Information" refers to the following information for a policy: (i) the policy file maintained by the Company, (ii) the Review Request Form, (iii) any information obtained from the producer, and (iv) any other information submitted by or on behalf of a policyholder.

"Review Request Form" refers to the form included with the Policyholder Letter used to gather information needed to review the suitability of the purchase of the relevant policy. No later than 30 days after the Effective Date, the Company will submit to BISHCA a form of the Review Request Form for approval by BISHCA. BISHCA shall approve the Review Request Form or work with the Company in making appropriate changes.

"Reminder Letter" refers to the letter mailed by the Company to policyholders to whom the Policyholder Letter and Review Request Form was delivered and who have not submitted a Review Request Form within 40 days of the date of the Policyholder Letter. No later than 30 days after the Effective Date, the Company will submit to BISHCA a form of the Reminder Letter for approval by BISHCA. BISHCA shall approve the Reminder Letter or work with the Company in making appropriate changes.

"Settlement Agreement and Release Forms" refers to (i) the agreement and release form included with the Offer Letter which shall include non-waiver language with respect to the Company's *res-judicata* defense rights and (ii) the Settlement Summary Form. No later than 30 days after the Effective Date, the Company will submit templates of the Settlement Agreement and Release Forms for approval by BISHCA. BISHCA shall approve the Settlement Agreement and Release Forms or work with the Company in making appropriate changes.

"Settlement Amount" refers to the amount to be paid to or on behalf of a policyholder for whom it is determined that the sale of a fixed index annuity was unsuitable according to the process described in this Exhibit 2 and for whom a Settlement Agreement and Release Forms were properly completed. The Settlement Amount shall be equal to the positive difference between (i) policy inflows, including the amount that the policyholder paid in premiums and, if applicable, loan repayments, minus (ii) policy outflows, including the amounts received by the policyholder upon full surrender, withdrawals, required minimum distribution payments, loans, and partial surrenders. In calculating the Settlement Amount, interest on policy inflows and outflows shall be calculated at a rate of 3.5% compounded annually effective as of the date of each such inflow or outflow up to the date the Company processes the Settlement Check.

Identification of Policies and Approval of Forms

1. The Company will identify all of its deferred fixed index annuity policies (single-tiered and two-tiered) issued in Vermont from January 1, 2002 through June 30, 2005 (i) sold to policyholders 65 or older at the time of purchase; and (ii) that have been surrendered by the policyholder on or before the Effective Date.
2. The Company will review each policy file identified in Paragraph 1 above to determine if the cumulative amounts received by the policyholder through and including surrender are less than the amounts that the policyholder paid in premiums and loan repayments.

3. No later than 30 days after the Effective Date, the Company will submit to BISHCA its list of policies identified in Paragraphs 1 and 2 and an explanation of the procedure used to identify those policies, including how the Company determined that the policies met the above criteria and the data sources it relied on in making its determination.
4. No later than 14 days after receipt of the Company's list of policies and explanation of procedures, BISHCA will notify the Company of any additional supporting data or other information it needs to verify the process for selecting policies set forth in Paragraphs 1 and 2. The Company shall respond no later than 14 days after receipt of a reasonable request by BISHCA for such supporting data or other information.
5. No later than 30 days after the Company submits the list of policies as set forth in Paragraph 3, BISHCA shall approve the list or work with the Company in identifying the policyholders who will receive the Policyholder Letter.

Delivery of Policyholder Letter and Review Request Form

6. No later than 30 days after the Company and BISHCA have reached agreement on both (i) the list of policyholders who will receive the Policyholder Letter and Review Request Form (as set forth in Paragraph 5) and (ii) the form of the Policyholder Letter, Review Request Form, Reminder Letter, Outcome Letter, Offer Letter, and Settlement Agreement and Release Forms, the Company shall attempt delivery of the Policyholder Letter and Review Request Form to each listed policyholder's last known address via delivery service that requires a signed receipt and maintains a tracking number through which the status of the delivery may be ascertained.
7. If any Policyholder Letter and Review Request Form is returned to the Company as non-deliverable due to an incorrect address, the Company shall use reasonable measures approved by BISHCA to locate the policyholders' current address.
8. Forty (40) days after the date of the Policy Letter and Review Request Form, the Company shall provide a report to BISHCA with the following information: (i) the results of the delivery efforts, including the number of failed deliveries and reasons (if available) for failed deliveries, (ii) the tracking numbers provided by the delivery service, and (iii) identification of the policyholders to whom a Policy Letter and Review Request Form have been delivered but who have not returned a Review Request Form.
 - a. No later than 2 days after the date of the Report, the Company shall mail the Reminder Letter to policyholders to whom a Policy Letter and Review Request Form have been delivered but who have not returned a Review Request Form.
 - b. BISHCA shall have 30 days from the date of receipt of the Report in which to complete delivery of the Policyholder Letter and the Review Request Form to policyholders whose delivery cannot be confirmed due to any reason other than an incorrect address.
9. If, under Paragraphs 6, 7 and 8 above, the Company and BISHCA are unable to deliver the Policyholder Letter and Review Request Form within 70 days after the date of the Policyholder Letter, the policyholder shall no longer be eligible to participate in the remediation program set forth in this Exhibit 2.

Preliminary Evaluation of Review Request Form and Opportunity for Resubmission

10. The Company will review each Review Request Form it receives from a policyholder and determine if it is complete. No later than 14 days after the Company receives a Review Request Form that it determines is incomplete, the Company shall submit to BISHCA a proposed letter to the policyholder explaining the reasons the Review Request Form is deficient. No later than 14 days after BISHCA receives the proposed letter of explanation of deficiency, it shall approve the letter or work with the Company in making appropriate changes.
11. The submitting policyholder will have 30 days from the date of a letter explaining the deficiency to resubmit the Review Request Form. No later than 7 days after this resubmission deadline, the Company will notify BISHCA if the submitting policyholder failed to resubmit a properly completed Review Request Form. No later than 14 days after receipt of such notification, BISHCA will (i) follow up with the submitting policyholder to determine whether that policyholder desires to continue to participate in the Company review process, and (ii) notify the Company of any policyholders who intend to participate. Any such policyholder shall, no later than 60 days after the date of the letter explaining the deficiency in the Review Request Form, resubmit a properly completed Review Request Form or be deemed ineligible to participate in the program set forth in this Exhibit 2.

Company's Suitability Review and Determination

12. No later than 60 days after the Company receives a properly completed Review Request Form, the Company will review the Review Request Form and policy file to determine that the policy purchase was suitable. During this period, the Company may contact the producer to gather additional information. In determining whether the policy purchase was suitable or was not suitable, the Company shall be entitled to take into account whether the policyholder's surrender of the policy issued by the Company was exchanged into another deferred annuity and the terms of such other deferred annuity as indicia of the policyholder's understanding of annuities or that the policyholder had sufficient liquidity to purchase the Company's annuity.
 - a. If the Company determines that the policy purchase was not suitable, it shall make an offer of remediation to the policyholder in accordance with Paragraph 16 below.
 - b. If the Company determines that the policy purchase was suitable, the Company will submit a Policy Suitability Analysis Document and Policyholder Information to BISHCA within the 60 day period. BISHCA shall conduct a review of the Policyholder Information in accordance with Paragraph 13 below.

BISHCA's Suitability Review and Determination

13. No later than 60 days after BISHCA receives a Policyholder Information and Policy Suitability Analysis Document, BISHCA will review the Policyholder Information to determine whether it agrees with the Company's suitability determination.
 - a. If BISHCA agrees with the Company that no offer will be made, then no later than 10 days after receipt of BISHCA's agreement with the Company's suitability determination, the Company will mail the Outcome Letter to that policyholder.

- b. If BISHCA does not agree with the Company, BISHCA will provide a written statement to the Company articulating the basis for its disagreement. The Company and BISHCA will also confer to determine if an agreement can be reached. If BISHCA agrees with the Company, then no offer will be made and no later than 10 days after such agreement, the Company will mail the Outcome Letter to that policyholder. If the Company agrees with BISHCA, then an offer will be made in accordance with Paragraph 16 below. If no agreement can be reached, then the Arbitrator shall conduct a review in accordance with Paragraphs 14 and 15 below.

Arbitrator's Suitability Review and Determination

14. If the Company and BISHCA do not reach agreement under Paragraph 13 above, then the Company and BISHCA shall within 30 days send the Policyholder Information along with their respective rationale to the Arbitrator who shall make the final decision.
15. No later than 30 days after the Arbitrator receives the Policyholder Information and rationale from the Company and BISHCA, the Arbitrator will determine whether the policy purchase was suitable based on the materials provided to the Arbitrator.
 - a. If the Arbitrator determines the sale was suitable, then no offer will be made. No later than 10 days after receipt of notification of the Arbitrator's agreement with the Company's assessment, the Company will mail the Outcome Letter to that policyholder.
 - b. If the Arbitrator determines the sale was unsuitable, the Company shall make an offer of remediation to the policyholder in accordance with Paragraph 16 below.

Remediation Offer to Policyholder

16. For each sale determined to be unsuitable, no later than 30 days after the date of such determination, the Company shall mail an Offer Letter and Settlement Agreement and Release Forms to the respective policyholder. Each policyholder shall have 30 days from the date of the Offer Letter to provide properly completed and executed Settlement and Agreement and Release Forms to the Company. If a policyholder does not submit any Settlement Agreement and Release Forms within 30 days, the Company will notify BISHCA no later than 7 days after the deadline. No later than 14 days after receipt of such notification, BISHCA will follow up with the policyholder to determine whether that policyholder desires to submit such Settlement Agreement and Release Forms and notify the Company of the policyholder's decision. If a policyholder does not submit any Settlement Agreement and Release Forms within 60 days after the date of the Offer Letter, the Company shall have no obligation to provide remediation to the policyholder, and the Company will mail the Outcome Letter to that policyholder no later than 10 days after deadline for submitting executed Settlement Agreement and Release Forms passes.
17. No later than 10 days after the Company receives Settlement Agreement and Release Forms, the Company will review the Settlement Agreement and Release Forms and determine if they are properly completed and executed, and will return any Settlement Agreement and Release Forms that are incomplete or not executed to the submitter along with an explanation of the deficiency by mail. Such a policyholder will have 30 days from the date of the letter explaining the deficiency in the Settlement Agreement and Release Forms to resubmit any such deficient Settlement Agreement and Release Forms. Copies of such letters will be provided to BISHCA upon mailing.

18. If the Settlement Agreement and Release Forms are not resubmitted within the 30 day deadline set forth in Paragraph 17, the Company will notify BISHCA no later than 7 days after the deadline. No later than 14 days after receipt of such notification, BISHCA will follow up with the policyholder to determine whether that submitting policyholder desires to resubmit such Settlement Agreement and Release Forms and notify the Company of the policyholder's decision. Any such policyholder must resubmit the corrected Settlement Agreement and Release Forms within 30 days after the resubmission deadline in Paragraph 17. If such policyholder does not resubmit the properly completed and executed Settlement Agreement and Release Forms within 30 days after the resubmission deadline in Paragraph 17, the Company shall have no obligation to provide remediation to the policyholder, and the Company will mail the Outcome Letter to that policyholder no later than 10 days later.
19. No later than 20 days after the Company receives a properly completed and executed Settlement Agreement and Release Forms, the Company will mail the settlement check for the Settlement Amount to the submitting policyholder.

General

20. The Company shall maintain records of this remediation process for review by BISHCA, including documentation in support of calculations of the Settlement Amount, upon request.
21. The Company shall bear the burden of production and persuasion in all matters before the arbitrator.
22. The Company shall pay BISHCA's reasonable costs and expenses associated with this review and remediation plan.
23. The Company shall pay the Arbitrator's reasonable costs and expenses. Such fees and expenses shall not include travel, lodging, meals, car rental expenses or similar expenses unless justified and approved in advance by the Company and BISHCA.
24. All references to days shall mean calendar days, unless otherwise specified.
25. Any due date above falling on a weekend, national holiday or day on which the Company or BISHCA (as applicable to the due date) is not open for business shall be extended to the next following business day on which the Company or BISHCA (as applicable to the due date) is open for business.