Ayalon Holdings:

Public issuance of shares and bonds

February 2018
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About Ayalon Holdings

Established in 1976 by Mr. Levy Rachmani, who is the Company’s controlling shareholder and holds 86% of its shares.

 Shares of Ayalon Holdings were first listed on the Tel Aviv Stock Exchange in July 1987.

The Company’s market cap is NIS 480 million.

The Company holds 100% of the shares of Ayalon Insurance Ltd.

The Company’s equity is NIS 549 million, accounting for 85% of its separate balance sheet.

The Group has 1,100 employees.

Other subsidiaries owned by the Company: an asset management company and insurance agencies.
Ayallon Holdings - management

Mr. Levy Yitzhak Rachmani
The Group’s controlling shareholder and founder. President and CEO of Ayallon Holdings. Has served Ayallon since 1976.
Career in the insurance industry began with a family insurance agency established by his father in 1949.

Mr. Shlomo Grofman
Chairman of the Board of Directors of Ayallon Holdings. Joined Ayallon in 2017. Previously served as CEO of Africa Israel, member of management of Bank Leumi and head of Financial Services and non-Banking Investments of Bank Leumi, as well as Chairman of the Board of Directors of Migdal Insurance. Is currently chairman of the Faire Fund, a real-estate investment fund.

Mr. Sharon Reich
Senior VP and CFO of the Company and Ayallon Insurance, with 24 years’ experience in the insurance sector. Has served Ayallon since 2007.
Held various senior positions in Harel Insurance Company (VP, Comptroller at Sahar Israel Insurance Company, Sahar Zion and Harel Insurance), director in Magen Pension Fund Management Company, Ayallon Financial Solutions and Ayallon Mutual Funds as well as Guard You Insurance Agency and Ayallon Blue Leasing. Previously also served as Chief Risk Officer in different companies in Ayalon Group.
About Ayalon Insurance

Established in 1976 and operates in all the insurance sectors. The company’s motto is **People Serving People** and its vision and values reflect the human side of the insurance business in which particular emphasis is placed on service.

The Company’s management has many years of experience in all sectors of the insurance industry. **920 employees.**

Ayalon Insurance Company is one of the **six largest insurance groups** in Israel (in terms of premiums).

Most of the company’s activity is in general (non-life) insurance and its profitability in this sector is among the **highest in the industry.** The company owns a pension agency as well as companies in the real-estate sector.

The group operates to further growth in the general insurance sectors, long-term savings and health insurance, emphasizing optimization of the portfolio and improved profitability.
About Ayalon Insurance

Solvency ratio of **111%**

EV at December 31, 2016 is **NIS 1.1 billion** (not including pensions and general insurance activity)

Equity – **NIS 579 million**

Total premiums in 2016 and 2017 were **NIS 2.7 billion and NIS 3.0 billion**, respectively

Ayalon Insurance has an **A2 rating** from **Midroog**
Management of Ayalon Insurance

**Mr. Israel David** Chairman of the Board of Directors of Ayalon Insurance  
Joined Ayalon in 2017. Served as CEO of Israel Credit Cards (CAL), Deputy CEO of Discount, Head of Marketing and Strategic Planning Division and area manager in Bank Leumi’s Banking Division.

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**Mr. Arik Yogev** CEO Ayalon Insurance  
Has 39 years of experience in the insurance industry. Joined Ayalon in 2016. Served as CEO of Psagot Insurance and CEO of Psagot Pension and Provident Funds, deputy CEO of Migdal Insurance and head of the customer and distribution channels division, CEO of Migdal Agencies.  
Chairman of the Board of Directors: Peltours, Shacham, Sagi Yogev, Ichud and Pilat.  
CEO of Mivtach Simon, Israel’s largest pension arrangements company, founder and CEO of Sagi Yogev Insurance Agency.
Mr. Giora Plonsker, Senior VP, General – Business Insurance Division

Has 43 years of insurance experience. Joined Ayalon in 2013.
Previous positions include: Head of General Insurance at Zion Insurance Company, Management Member of Insurance Companies Association and Head of General Insurance Division, Deputy CEO of Marsh Israel Insurance Agency.

Mr. Itamar Farbstein, Senior VP Long-term Savings Division

Has 26 years of insurance experience. Joined Ayalon in 2016.
Previous positions include: CEO Ayalon Pension & Provident, Senior VP and Head of Insurance at Psagot Insurance Company, CEO Migdal Claims Management, VP Life Assurance at Migdal Insurance Company.

Dr. Nava Niv-Srodio – Senior VP Health Insurance

Qualified dental surgeon. Previous positions include: Head of Health Insurance at Migdal Insurance Company and manager of health insurance at Mivtach Simon, a member of the Migdal Group.

Ms. Yael Yariv – Senior VP, Head of General Insurance Personal Lines Division

Previous positions include: Senior VP Southern Region Non-life Insurance (personal lines and business) and head of Personal Lines Insurance in Menorah Mivtachim Ltd.
Our success is thanks to:

- Improved profitability in life and health insurance
- Continuous profitable growth in general insurance and the development of unique products
- Introduction of digitalization and development of new products
- A strong, experienced management team
- Improved and personalized service
Since 2016, the Group has recruited senior executives who have many years of experience in all sectors of insurance.

In 2016 a strategic plan – Ayalon 2020 – was approved, which has been applied consistently and continuously.

The pension and provident fund activity was merged with the corresponding activity of Meitav Dash. Together, the merged activity manages NIS 50 billion of assets, of which the Company’s share is 20%.

The investment house activity was sold with the intention of focusing on the core business.
Acquisition of the life assurance activity of Psagot: The Group signed an agreement to acquire the life assurance activity of Psagot Investment House. This move will help the Group improve profitability in this sector, strengthen the insurance company’s equity and improve its Solvency II capital surplus.

Restructuring, including breaking up the general insurance division into two divisions: business division and personal lines division, with the purpose of focusing management resources and product development to generate additional business growth and increase profitability.

Credit activity (Blue Leasing) was transferred to the insurance company, with the intention of developing the credit sector.
The Company’s vision

Ayalon’s motto is “People Serving People” and it invests considerable resources in enhancing and preserving its human capital, and maintaining professional standards and level of service.
Ayalon places great emphasis on **fairness and respect** for its customers, business partners and employees.
The Company invests considerable resources to demonstrate innovation in its work and digital processes.
All these position the Company as a significant player in each of the operating segments, at the same time creating added value for its shareholders.
Value enhancement – shift from volume to profit

- Creating the ability to use **digital operations** in marketing, sales, underwriting, operations and claims management processes
- Increasing market share in the **health and life assurance sector**
- Gaining a dominant position in the personal lines and business sectors of general insurance, while focusing on **profitable niches**
- Enhancing the Company’s value by **maximizing profits** in all operating segments:
  - **Life and health assurance**
    - Portfolio optimization, shift to flat-rate commissions, moving away from loss-making group policies, focusing on profitable products, recruiting leading managers in this sector
  - **Acquisition of life assurance activity** - The company signed an agreement to acquire life assurance activity of Psagot Investment House. This will help the Company improve profitability in the sector and strengthen Solvency II equity.
  - **General (non-life) insurance**
    - Establishing a personal lines division, portfolio optimization, focusing on profitable niches, moving away from loss-making business.
  - **Expanding real-estate and credit activity**
Breakdown of premiums in general insurance

- Liabilities: 424 (33%)
- CASCO: 645 (24%)
- Statutory motor: 480 (21%)
- Other: 411 (22%)

Total breakdown: 1,961

Life insurance: 617 (21%)
Health insurance: 426 (14%)
General insurance: 1,961 (66%)

Total premiums: 3,003

1,961
• Ayalon Insurance operates in all sectors of general insurance
• Special expertise in professional indemnity insurance for professionals: e.g. lawyers, engineers, insurance agents, architects, and cyber insurance
• Substantial customer portfolio
• Broad lineup of well-established, loyal agents
• Profitability which is among the highest in the industry. In 2017 earned NIS 86 million
Life assurance

Earned premiums, gross (NIS million)

- The insurance company operates in all the life assurance sectors and it has a well-established, stable portfolio.
- The Company’s profitability is low relative to competitors in the sector. Management is working to improve profitability in the sector by:
  - Significantly increasing activity in the sector, mainly in the term insurance line of business which is considered particularly profitable.
  - Optimizing the group life assurance and work disability portfolio.
  - The company signed an agreement to acquire the life assurance activity of Psagot, which will increase profitability at a low marginal cost.
  - Maintaining a strong operating infrastructure and ability to grow in this sector at a low marginal cost.
Psagot transaction

The Company signed an agreement to acquire the life assurance activity of 
Psagot Investment House

Purpose of the transaction:

- **Profitability and increase market segment** – to increase value for the shareholders, increase revenues with a marginal increase in expenses
- **Strategy** – to perform a transaction that is consistent with Ayalon’s strategy to increase its activity in the life and health sectors
- **Solvency** – to improve the capital surplus and make a positive contribution to the solvency ratio under the Solvency II regime
- **Expansion of distribution channels** – to embark on activity with agents and agencies that worked with Psagot
- **Utilization of the acquired asset to the maximum** – to make cross sales with the help of Neemanim Agency and Hachi Bari
• Ayalon operates in most areas of health insurance, which is considered the most profitable sector in the industry.
• The Company’s profitability is low compared with its competitors. Management is working to boost profitability in this sector by optimizing the portfolio and moving away from loss-making group policies.
• In the past two years, the insurance company’s growth rate in this sector has been the highest in the industry.
• The Company recently gained profitable business and group policies.
• The Company intends to take advantage of its existing infrastructure and to achieve growth in its existing health sector products.
### Comparison of expenses as a percentage of premiums
2015-2017 (NIS million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Expenses as % of Gross premiums</th>
<th>General &amp; Administrative Expenses</th>
<th>Gross premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>14.2%</td>
<td>354</td>
<td>2,503</td>
</tr>
<tr>
<td>2016</td>
<td>11.3%</td>
<td>319</td>
<td>2,815</td>
</tr>
<tr>
<td>2017</td>
<td>11.4%</td>
<td>356</td>
<td>3,119</td>
</tr>
</tbody>
</table>

*In 2016 and 2017, expenses as a percentage of gross premiums for the six largest insurance companies were estimated at 14% on average.*
At a glance:

* In 2016, one-time effects for an LPT transaction and provision for increasing actuarial liabilities for third party and the Winograd Committee, were excluded in the total amount of NIS 132 million.
Profitability by operating segment (NIS million)

* The Psagot transaction is expected to increase VIF by a further NIS 107 million.
## Condensed balance sheet data (NIS thousand)

<table>
<thead>
<tr>
<th></th>
<th>31/12/2016</th>
<th>31/12/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total equity (including non-controlling interests)</strong></td>
<td>531,661</td>
<td>544,120</td>
</tr>
<tr>
<td>Liabilities for insurance contracts and non-yield-dependent investment contracts</td>
<td>4,933,613</td>
<td>5,561,488</td>
</tr>
<tr>
<td>Liabilities for insurance contracts and yield-dependent investment contracts</td>
<td>3,017,097</td>
<td>3,371,768</td>
</tr>
<tr>
<td>Financial liabilities</td>
<td>546,252</td>
<td>539,805</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>1,532,729</td>
<td>1,478,996</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>10,561,352</td>
<td>11,496,177</td>
</tr>
<tr>
<td>Financial investments for yield-dependent contracts</td>
<td>2,762,601</td>
<td>3,120,777</td>
</tr>
<tr>
<td>Total other financial investments</td>
<td>3,107,624</td>
<td>3,151,964</td>
</tr>
<tr>
<td>Other assets</td>
<td>4,691,127</td>
<td>5,223,436</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>10,561,352</td>
<td>11,496,177</td>
</tr>
</tbody>
</table>
## Condensed profit and loss data
(NIS thousand)

<table>
<thead>
<tr>
<th></th>
<th>1-12.2016</th>
<th>1-12.2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross premiums earned</td>
<td>2,747,298</td>
<td>3,010,522</td>
</tr>
<tr>
<td>Net profit from investments and financing income</td>
<td>215,422</td>
<td>335,492</td>
</tr>
<tr>
<td>Income from management fees, commissions and others</td>
<td>267,882</td>
<td>350,774</td>
</tr>
<tr>
<td>Payments and changes in liabilities for insurance contracts and investment contracts, gross</td>
<td>2,321,564</td>
<td>3,033,618</td>
</tr>
<tr>
<td>Commissions, marketing expenses and other acquisition costs</td>
<td>436,086</td>
<td>484,960</td>
</tr>
<tr>
<td>General &amp; administrative expenses</td>
<td>225,027</td>
<td>255,962</td>
</tr>
<tr>
<td>Financing expenses</td>
<td>24,516</td>
<td>18,144</td>
</tr>
<tr>
<td>Company's share in losses of equity accounted investees</td>
<td>-</td>
<td>(22,162)</td>
</tr>
<tr>
<td>(Loss) before tax</td>
<td>(21,973)</td>
<td>(30,511)</td>
</tr>
<tr>
<td>(Loss) from ongoing activity</td>
<td>(23,609)</td>
<td>(27,148)</td>
</tr>
<tr>
<td>Net loss from discontinued activity</td>
<td>(39,026)</td>
<td>-</td>
</tr>
<tr>
<td>(Loss) for period</td>
<td>(62,635)</td>
<td>(27,148)</td>
</tr>
<tr>
<td>Total other comprehensive income (loss), net, from ongoing activity</td>
<td>(4,479)</td>
<td>39,607</td>
</tr>
<tr>
<td>Other comprehensive income (loss), net, from discontinued activity</td>
<td>38</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive loss for period</strong></td>
<td>(67,076)</td>
<td>12,459</td>
</tr>
</tbody>
</table>

**Net of one-time effects:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Write down of investment in the associate Meitav Dash Provident &amp; Pension Funds Ltd.</td>
<td></td>
</tr>
<tr>
<td>Provision for increased actuarial liabilities in general insurance (Winograd)</td>
<td>60,702</td>
</tr>
<tr>
<td>Reinsurance transaction (LPT)</td>
<td>(19,292)</td>
</tr>
<tr>
<td>Provision for increased actuarial liabilities in third party general insurance</td>
<td>43,254</td>
</tr>
<tr>
<td><strong>Total comprehensive income (loss) for period</strong></td>
<td>17,588</td>
</tr>
</tbody>
</table>
The Company intends to work towards early implementation of the Solvency II regime.

At December 31, 2016, the insurance company has a capital surplus of 111%.

Acquisition of the Psagot activity is expected to increase the Company’s capital surplus.

Pursuant to the insurance circular, a dividend may be distributed when the Solvency regime is more than 100%, subject to a safety margin to be determined by the Board of Directors.

### Summary of the capital surplus and solvency under the full regime at December 31, 2016 (NIS million)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital requirement – SCR</td>
<td>1,156</td>
</tr>
<tr>
<td>Total present equity</td>
<td>1,280</td>
</tr>
<tr>
<td>Capital surplus</td>
<td>124</td>
</tr>
<tr>
<td>Solvency ratio %</td>
<td>111%</td>
</tr>
</tbody>
</table>
Development of AUM over time

- Additionally, until the end of 2016, the Company managed **NIS 7.5 billion** in the pension and provident fund company. In January 2017, the Company merged the pension and provident activity with the corresponding activity of Meitav Dash, which currently manages assets of **NIS 50 billion**. Ayalon Insurance holds **20%** of the merged company.

- The Company signed an agreement to acquire the Psagot portfolio will increase the AUM portfolio by **NIS 700 million**.
The Company has more than 12 years’ experience in holding and managing rental property in Israel and abroad.

- Real-estate assets that were held in Canada were sold for a profit of NIS 42 million.
- The Company currently holds 11 properties including, among others, 1,241 residential units and other properties in key areas all over Israel.
- The real-estate assets owned by the Company were financed exclusively from equity.
- The real-estate assets are managed by Eyal Zvi Ltd., a company fully owned by Ayalon Holdings.
- The Company intends to utilize its accumulated experience to continue to develop real-estate activity in the holding company as well.

<table>
<thead>
<tr>
<th>Yield</th>
<th>NOI</th>
<th>Fair value</th>
<th>Leased</th>
<th>Residental units</th>
<th>Real estate in Israel – Nostro</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.00%</td>
<td>5</td>
<td>72</td>
<td></td>
<td></td>
<td>Ayalon Insurance House in Ramat Gan*</td>
</tr>
<tr>
<td>5.07%</td>
<td>1</td>
<td>10</td>
<td></td>
<td></td>
<td>Beit Dakar, Tel Aviv</td>
</tr>
<tr>
<td>4.76%</td>
<td>1</td>
<td>12</td>
<td></td>
<td></td>
<td>Hanegev 2, Tel Aviv</td>
</tr>
<tr>
<td>7.46%</td>
<td>2</td>
<td>33</td>
<td></td>
<td></td>
<td>Sha’ar HaI r Parking Garage, Jerusalem</td>
</tr>
<tr>
<td>7.53%</td>
<td>6</td>
<td>81</td>
<td>210</td>
<td>210</td>
<td>Subsidized housing project, Kiryat Motzkin</td>
</tr>
<tr>
<td>7.51%</td>
<td>8</td>
<td>110</td>
<td>198</td>
<td>199</td>
<td>Subsidized housing project, Petach Tikva</td>
</tr>
<tr>
<td>8.45%</td>
<td>5</td>
<td>59</td>
<td>107</td>
<td>107</td>
<td>Beit Hachayal, Ramat Gan</td>
</tr>
<tr>
<td>6.77%</td>
<td>11</td>
<td>160</td>
<td>220</td>
<td>220</td>
<td>Subsidized housing project, Bat Yam</td>
</tr>
<tr>
<td>6.83%</td>
<td>3</td>
<td>45</td>
<td>112</td>
<td>112</td>
<td>Subsidized housing project, Bat Galim</td>
</tr>
<tr>
<td>6.08%</td>
<td>1</td>
<td>16</td>
<td>59</td>
<td>59</td>
<td>Chen Hotel, Jerusalem</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Yield</th>
<th>NOI</th>
<th>Fair value</th>
<th>Leased</th>
<th>Residental units</th>
<th>Real estate in Israel - Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.49%</td>
<td>2</td>
<td>23</td>
<td>196</td>
<td>198</td>
<td>Beit Daniel subsidized housing, Hadera</td>
</tr>
<tr>
<td>6.08%</td>
<td>2</td>
<td>38</td>
<td>136</td>
<td>136</td>
<td>Chen Hotel, Jerusalem</td>
</tr>
</tbody>
</table>

- Total Ayalon: 1,241
- Total Nostro: 907
- Total Members: 61

* Total value of Ayalon House is estimated at NIS 226 million, of which NIS 72 million is classified as rental property and the balance of NIS 154 million is classified as fixed assets.
Looking to the future – Why Ayalon?

- In the past few years, senior, highly experienced managers in the different insurance sectors have been recruited.
- The Company has embarked on a business and strategic change in the past two years.
- The Company is ready for further growth and improved profitability in all the insurance segments.

- Infrastructure is in place in all operating segments which facilitates the expansion of activity at a relatively low marginal cost.
- Expansion of real estate and credit activity.
- Diverse, loyal and stable distribution and marketing system, strong insurance agencies.
- The insurance company is under the supervision of the Capital Market, Insurance and Savings Authority.
- Ayalon is one of the oldest insurance companies in Israel. Management takes a conservative, professional and transparent approach.
Thank you for your attention!